



Finanšu ministrija

NACIONĀLAIS  
ATTĪSTĪBAS  
PLĀNS 2020



**EIROPAS SAVIENĪBA**

Eiropas Savienības  
strukturfondu un  
Kohēzijas fonds

I E G U L D Ī J U M S T A V Ā N Ā K O T N Ē

**Ex-ante assessment of market failures to support the  
planning of the European Union funds for the programming  
period 2021-2027 in the form of financial instruments**

# ASSESSMENT REPORT

**Procurement identification No FM 2019/46**



## Abbreviations

Abbreviation	Explanation
AIF	Alternative investment funds
ALTUM	Development Finance Institution ALTUM
BoL	Bank of Latvia
CAP	Common agricultural policy
CEF	Connecting Europe Facility
CF	Cohesion Fund
CFCA	Central Finance and Contracting Agency
CIS	Commonwealth of Independent States
CLLD	Community-led local development
CoM	Cabinet of Ministers
COSME	EU Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises for the period 2014-2020 ( <i>Competitiveness of Enterprises and Small and Medium-sized Enterprises</i> )
CPR	Common Provision Regulation on common rules (Proposal) for a Regulation of the European Parliament and the Council laying down common rules on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund and the European Maritime and Fisheries Fund and financial regulations for them and the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument (com/2018/375 final - 2018/0196 COD)
CRPC	Consumer Rights Protection Centre
CSB	Central Statistical Bureau
CSCC	Cross-Sectoral Coordination Centre
DDoS	<i>Denial-of-service</i> attack
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EaSI	Employment and social innovation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EEoMAB	Energy Efficiency of Multi-Apartment Buildings
EFSF	European Fund for Structural Investments
EIB	European Investment Bank
EIF	Environmental Investment Fund
EMFF	European Maritime and Fisheries Fund
ERAF	European Regional Development Fund
ERDF	European Regional Development Fund
ERTMS	European Rail Traffic Management System
ESF	European Social Fund

ESF +	European Social Fund Plus
ESIF	European Structural and Investment Funds
ESKO	Energy service companies
EU	European Union
f	Forecast
FCMC	Financial and Capital Market Commission
FI	Financial instrument
Financial Regulation	Regulation (EU, Euratom) of the European Parliament and the Council of [...] on financial rules applicable to the general budget of the Union, such as Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on financial rules applicable to the general budget of the Union amending Regulations (EU) No 1296/2013 (EU) No 1301/1 2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014 and Decision NO 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012
<i>FinTech</i>	Financial Technologies
FVS	Food and Veterinary Service
GDP	Gross domestic product
GHG	Greenhouse gas (GHG) emissions
GIT	Geospatial information technologies
IAEA	Instrument for auctioning emission allowances
ICT	Information and communication technologies
IDA	Investment and Development Agency of Latvia
IF	Investment fund
IMC	Investment management companies
IMF	International Monetary Fund
INEA	Innovation and Networks Executive Agency
ISfMoCPF	Information system for the management of cohesion policy funds
JSC	Joint stock company
JTF	Just Transition Fund
LIFE	European Commission Financial Instrument for Sustainable and Innovative Environmental Quality and Climate Change
LLU	Latvia University of Agriculture
LTD	Limited liability company
LVM	JSC Latvia's State forests
MFF	Multiannual financial framework
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoE	Ministry of Economics
MEPRD	Ministry of Environmental Protection and Regional Development
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MoH	Ministry of Health
MoJ	Ministry of Justice
MoT	Ministry of Transport
MoW	Ministry of Welfare

n/f	No forecast
NDP2020	National Development Plan 2014-2020
NDP2027	National Development Plan 2021-2027
NECP 2030	National Energy and Climate Plan 2021-2030
NGO	Non-governmental organisation
NRP	National Reform Plan
NSAIS	National scientific activity information system
OECD	Organisation <i>for Economic</i> Co-operation and Development
OP	Operational programme
PO	Policy objective
PPP	Public-private partnership
PUC	Public Utilities Commission
R&D	Research and development
RCO	Regional Policy Common Output Indicator
RCR	Regional Policy Common Result Indicator
RES	Renewable energy sources
RIS3	Smart Specialisation Strategy
RRF	Recovery and Resilience Mechanism
RSS	Rural Support Service
SCh	State Chancellery
SE	Social enterprise
SIF	Society Integration Foundation
SJSC	State joint stock company
SMEs	Small and medium-sized enterprises
SO	Specific objective
TEN-T	Trans - European Transport Network
TFEU	Treaty on the Functioning of the European Union
TRL	Technology Readiness Level

## Concepts used in the assessment

Concept	Explanation
<b>Aid rate</b>	Rate of public contributions invested in the operation. In the case of financial instruments, it is the gross aid grant equivalent as defined in Article 2 (20) of Commission Regulation (EU) No 702/2014 <sup>1</sup>
<b>Beneficiary – in the context of financial instruments</b>	The implementing body of the holding fund or, failing that, the implementing body of the special fund or, if the managing authority manages the financial instrument, the managing source (Article 2) (following the draft CPR)
<b>Capital investment</b>	"Capital investment" means the provision of capital to an undertaking invested, directly or indirectly, in return for the acquisition of full or partial ownership of that undertaking, which may also assume certain management control functions and receive a share of the undertaking's profits. <sup>2</sup>
<b>Combined financial instrument</b>	Combining Grant and Loan
<b>Farm</b>	All units used for agricultural activities and managed by the farmer located in the territory of the same Member State <sup>3</sup>
<b>Farmer</b>	A natural or legal person or group, irrespective of the legal status conferred on such group and its members by national law, with the holding situated within the territorial scope of the Treaties, as defined in Article 52 of the Treaty on European Union (TEU), in conjunction with the Treaty on the Functioning of the European Union (TFEU) 349 and 355. Article, and carrying out an agricultural activity defined by the Member States <sup>4</sup>
<b>Financial instruments</b>	European Union measures for financial support granted from the budget as a supplement to one or more of the European Union's specific policy objectives. Such instruments may consist of loans, guarantees, capital investments or quasi-equity investments or other risk-sharing instruments and may, where appropriate, be combined with grants <sup>5</sup>  Structural by which the intermediate is to be by financial products (according to the CPR project)
<b>Financial product</b>	Capital or quasi-equity investments, loans and guarantees as defined in Regulation (EU, Euratom) [...] Article 2, ("the Financial Regulation")
<b>Financing bundling operation</b>	Actions supported by the EU budget, including within the framework of the financing consolidation mechanism referred to in Article 2(6) of the Financial Regulation, combining non-repayable forms of aid financed by the EU budget and/or financial instruments with repayable forms of aid from development or other public financial institutions, commercial financial institutions and investors <sup>6</sup>
<b>Guarantee</b>	Liability to cover the losses of a credit institution incurred if the merchant fails to fulfil his or her obligations regarding the financial service provided by the credit institution <sup>7</sup>  The guarantee is an agreement under which the guarantor agrees to pay the creditor if the debtor fails to fulfil his obligations. For the general government, a guarantee is a way of supporting economic activities and not requiring immediate monetary spending. Guarantees have a significant impact on the behaviour of economic agents as they change lending and borrowing conditions in financial markets
<b>Holding fund</b>	Fund set up by the managing authority under one or more programs to implement financial instruments through one or more specific funds (under the CPR)
<b>Large enterprises</b>	Undertakings employing more than 249 employees who have worked full-time in the implementation or secondment for the entire reference year concerned and/or whose annual turnover exceeds EUR 50 million and an annual balance sheet total exceeding EUR 43 million <sup>8</sup>

1 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=COM:2018:0392:FIN>

2 <https://eur-lex.europa.eu/legal-content/LV/ALL/?uri=CELEX:3A32012R0966>

3 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=COM:2018:0392:FIN>

4 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=COM:2018:0392:FIN>

5 <https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=CELEX:32012R0966&from=EN>

6 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0382>

7 <https://likumi.lv/ta/id/293402-rules-for-portfelong-siko-micro-small-and-video-merchant-loan-to-commercial-promotion->

8 [https://www.em.gov.lv/lv/nozares\\_politika/energoefektivitate\\_un\\_siltumapgade/energoefektivitate/lielie\\_uznemumi\\_un\\_lielie\\_el\\_ektroenergijas\\_pateretaji/](https://www.em.gov.lv/lv/nozares_politika/energoefektivitate_un_siltumapgade/energoefektivitate/lielie_uznemumi_un_lielie_el_ektroenergijas_pateretaji/)

<b>Leverage effect</b>	Amount of repayable funding allocated to final beneficiaries divided by the amount paid by the Funds (according to the draft CPR)
<b>Loans</b>	Remuneration transactions in which the lender, based on the written contract, transfers money to the borrower on the property and obliges the borrower to return the money to the lender within a specified time and procedure <sup>9</sup>  Loan -an agreement which obliges the lender to make available to the borrower for a specified period the amount of money agreed upon and under; the borrower is obliged to repay that amount within the specified time period <sup>10</sup>
<b>Long-term loans</b>	Long-term loans are loans with an initial maturity of more than one year. The interpretation of the concept is in line with Regulation (EU) No 549/2013 of the European Parliament and the Council of 21 May 2013 on the European system of national and regional accounts in the European Union and with the International Monetary Fund on Balance of Payments and the Manual of International Investment Balance 6. <sup>11</sup>
<b>Management cost</b>	Direct or indirect costs reimbursed on receipt of evidence of expenditure incurred in the implementation of financial instruments <sup>12</sup>
<b>Micro-enterprise</b>	Micro-enterprise of the SME category: an enterprise employing less than ten employees whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million
<b>Multi-apartment residential building</b>	A building which, as a residential house, is registered in the Real Estate State Cadastre Information System, if it contains at least three groups of residential spaces <sup>13</sup>
<b>Multiplier ratio</b>	In the context of guarantee instruments, a ratio between the value of the underlying new loan, equity or quasi-equity investment disbursed; the amount of program investment reserved under guarantee agreements to cover expected and unforeseen losses on these new loans, equity or quasi-equity investments (under the CPR project).
<b>Outcome indicator</b>	Indicator for assessing specific intervention deliverables (according to the draft CPR)
<b>Parallel loan</b>	Long-term investment loan with increased credit risk <sup>14</sup>
<b>Programme contribution</b>	Support from funds and public and private co-financing, if any, provided to the financial instrument (according to the draft CPR)
<b>Quasi-equity investment</b>	"Quasi-equity investment" means a type of financing that is classified between equity and debt and has a higher risk than older debt and lower risk than ordinary capital. Quasi-equity investments can be structured as debt, usually unsecured and subordinated and in some cases convertible into equity, or as preferential capital <sup>15</sup>
<b>Result indicator</b>	Indicator assessing the short-term results of the intervention supported, in particular for end-users, target population or infrastructure users (according to the draft CPR)
<b>Risk capital</b>	Venture capital provides funding for companies that are usually very small, are in the early stages of their corporate existence and have strong growth and expansion potential. <sup>16</sup>
<b>Short-term loans</b>	Short-term loans are loans with an initial maturity of up to 1 year (inclusive) <sup>17</sup>
<b>Small or medium-sized enterprises (SME)</b>	For SMEs <sup>18</sup> , undertakings with fewer than 250 employees with an annual turnover not exceeding EUR 50 million and/or a total yearly balance sheet not exceeding EUR 43 million
<b>Social enterprise</b>	Business with the main objective of tackling a major societal challenge by creating products and services with high social added value <sup>19</sup>  A social enterprise is a limited-liability society which has been granted the status of a social enterprise and which carries out beneficial social impact-generating economic activities (e.g. providing social services, building an inclusive civil society, promoting education,

9<https://www.bank.lv/statistika/informacija-statistics-used/statistics-used-sources>

10<https://eur-lex.europa.eu/legal-content/LV/ALL/?uri=CELEX%3A32012R0966>

11<https://www.bank.lv/statistika/informacija-statistics-used/statistics-used-sources>

12<https://eur-lex.europa.eu/legal-content/lv/TXT/?uri=COM%3A2018%3A375%3AFIN>

13<https://likumi.lv/ta/id/281323-operational-programme-growth-and-employment-4-2-1-specific-support-merinat-energy-efficiency-enhancing>

14<https://likumi.lv/ta/id/283610-rules-on-paralyzed-loans-for-economic-activity-to-concuretspee-improvement->

15<https://eur-lex.europa.eu/legal-content/LV/ALL/?uri=CELEX%3A32012R0966>

16<https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32013R0345>

17<https://www.bank.lv/statistika/informacija-statistics-used/statistics-used-sources>

18[https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32014R0651,Annex I, Article 2](https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32014R0651,AnnexI,Article2)

19<https://sua.lv/>

	supporting science, protecting the environment and preserving, protecting animals or ensuring cultural diversity) <sup>20</sup>
<b>Social innovation</b>	Actions which are social in terms of both their purpose and their means, and in particular activities related to the development and implementation of new ideas (relating to goods, services and models) that meet social needs and at the same time create new social relations or forms of cooperation, thereby bringing benefits to society and promoting its capacity to act <sup>21</sup>
<b>Special Fund</b>	Fund set up by the managing authority or holding fund to provide financial products to final beneficiaries (under the CPR project)
<b>Standard guarantees</b>	Standard guarantees provided through a derivative financial instrument, such as credit default swap. Such derivative instruments based on the risk of default arising from the reference financial asset and not linked to individual loans or debt securities.
<b>State aid</b>	<p>Article 107(1) of the Treaty on the Functioning of the European Union (TFEU) defines State aid as any aid granted by a Member State or through State resources in any form which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods, while such aid affects trade between the Member States<sup>22</sup></p> <p>State aid to the European Maritime and Fisheries Funds falls within the scope of Article 42 TFEU (Regulation (EU) No 508/2014 of the European Parliament and of the Council of 15 May 2014) on the European Maritime and Fisheries Fund (EU) No 508/2014 of the European Parliament and of the Council of 15 May 2014) repealing Council Regulations (EC) No 2328/2003, (EC) No 861/2006, (EC) No 1198/2006 and (EC) No 791/2007 and (EU) No 1255/2011 of the European Parliament and the Council (EMFF Regulation) Article 8(2)<sup>23</sup></p> <p>Under Articles 107, 108 and 109 TFEU, State aid under the European Agricultural Fund for Rural Development shall not apply to payments made by the Member States under this Regulation or to additional State financing covered by Article 42 TFEU (Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on aid for rural development European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 (EAFRD Regulation) Article 81(2))<sup>24</sup></p>
<b>Structure implementing the financial instrument</b>	Body governed by public or private law carrying out the tasks of a holding fund or a special fund (according to the draft CPR)
<b>Target value</b>	Provided predefined value at the end of the programming period with an indicator for a specific objective (according to the draft CPR)

<sup>20</sup><https://likumi.lv/ta/id/294484-social-awareness-rule>

<sup>21</sup>[file:///Users/dainabelicka/Downloads/1\\_LV\\_ACT\\_part1\\_v2.pdf](file:///Users/dainabelicka/Downloads/1_LV_ACT_part1_v2.pdf)

<sup>22</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3AC2012%2F326%2F01>

<sup>23</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:02014R0508-20200425>

<sup>24</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:02013R1305-20200626>



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## ANNOTATION

### Annotation for the "Ex-ante assessment of market failures to support the planning of the European Union funds 2021-2027 in the form of financial instruments."

#### Goal, tasks and main results of assessment

Ex-ante assessment of the the financial instrument deployment for the EU funds programming period 2021-2027 to identify areas where sub-optimal market conditions or market failures exist to ensure access to funding:

- for enterprises;
- for municipal capital companies;
- for State owned companies;
- for national or university scientific institutions;
- for enterprises providing energy-efficiency services for residential houses;
- undertakings providing district and local heating services;

and ensure the timely launch of the 2021-2027 programming period of the EU funds and reduce the likelihood of a gap in public funding.

Assessment tasks:

- to develop a methodology for assessing market failures;
- to prepare an initial assessment of the market failures of analysis and evidence-based financial instruments by setting out, as a result of the assessment:
  - the maximum amount of funding for financial instruments to be included in the Operational Programmes and the expected leverage effect for revenue-generating and cost-saving activities;
  - the types of financial instruments to be planned / proposed / continued and their objectives, including possible differences according to the scope / sector / regional breakdown of the beneficiaries, including an analysis of the likely divergent behaviour of investors;
  - the planned / expected contribution of financial instruments to the achievement of the specific support objectives included in the Operational Programmes.

#### The main topics covered in the evaluation:

Ex-ante assessment of market failures to support the planning of the European Union funds for the period 2021–2027 in the form of financial instruments

#### Client:

Ministry of Finance of the Republic of Latvia (MoF)

#### The performer of the study:

SIA "CSE COE"

#### Year of implementation of the study:

2019 – 2020

#### Amount of financing of the study and source of funding:

EUR 59,500, excluding VAT

The project is financed from the European Social Fund technical assistance project "Ensure the assessment of Cohesion Policy Funds to create an evidence base for planning and carrying out results-oriented and effective EU Funds investments in the economy of Latvia"

#### Classification of the study

12.2. In-depth expertise studies for policy or regulatory development, policy analysis and impact assessment

<p><b>Policy area, sector</b></p> <p>2. Budget and financial policy. 2.1. Investments in foreign financial instruments. 2.1.1. European Union funds and other foreign financial instruments</p>
<p><b>Geographical coverage of the study:</b></p> <p>Latvia</p>
<p><b>Target group(s) of the study (e.g. residents of Latvia in the working age):</b></p> <p>Enterprises, public authorities</p>
<p><b>Methods used in the assessment by type of information acquisition:</b></p>
<p>1) analysis of legal framework and policy planning documents</p>
<p>2) analysis of statistical data</p>
<p>3) analysis of secondary data</p>
<p>4) Conducting and analysing in-depth/expert interviews</p>
<p>5) review of good practice examples</p>
<p>6) conducting and analyzing data of a qualitative survey</p>
<p><b>Quantitative study methods (if applicable):</b></p>
<p>1) survey sampling method – SMEs, micro-enterprises, large enterprises, farms, fisheries enterprises, research institutions, municipalities owned companies, state owned companies</p>
<p>2) number of respondents / units – 3148 enterprises, 48 fisheries enterprises, 3403 farms, 209 specific aid measure participants, 83 municipality owned companies, 32 state owned companies, 58 social enterprises</p>
<p><b>Qualitative study methods (if applicable):</b></p>
<p>1) number of in-depth/ expert interviews – more than 70</p>
<p><b>Analysis groups used (sections):</b> Data extrapolation</p>
<p><b>Contact information of the client:</b></p> <p>Normunds Strautmanis, Deputy Head of the Evaluation Division of the European Union Funds Strategy Department of the MoF</p> <p>(phone +371 67083840, e-mail: Normunds.Strautmanis@fm.gov.lv)</p>
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## SUMMARY

**The purpose of the project** is to carry out an ex-ante assessment of market failures to support the planning of the EU funds for programming period 2021-2027 in the form of financial instruments. To identify areas where there are sub-optimal market conditions or market failures to ensure access to finance and to ensure timely implementation of EU funds in the EU funds programming period 2021 - 2027, as well as reduce the possibility of an interruption in the availability of public funding. The assessment covers five EU funds: the Cohesion Fund (CF), the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF).

The **assessment methodology** includes the analysis of the current situation, identification of the needs of the beneficiaries and the assessment of investments in financial instruments. The study includes the analysis of the economic situation and the availability of financial instruments, including their efficiency and effectiveness assessment and financing needs for beneficiaries. The primary data collection methods were questionnaires, interviews, analysis of secondary data, review of the experience of other countries, as well as a summary of the requirements of the regulatory framework.

The assessment report is structured by different groups of beneficiaries and eligible funds. The main report summarises the most important information provided in each technical annex about the financial instruments to be used during the EU funds programming period 2021-2027.

### **The assessment report includes the following technical annexes:**

- A - Analysis of the current economic situation in Latvia;
- B - Agriculture and forestry - EAFRD;
- C - Fisheries - EMFF;
- D - Social Entrepreneurship - ESF+;
- E - All social measures except social entrepreneurship - ESF+;
- F - Infrastructure - CF, ERDF;
- G - RES and energy efficiency ERDF, CF;
- H - Entrepreneurship - ERDF;
- I - Science, research and innovation - ERDF, EAFRD;
- J - State capital companies - ERDF.

The main report includes a summary of each technical annex which is included in the relevant fund chapter, with a separate section for different groups of beneficiaries. The technical annexes of the report have not only a more in-depth assessment of market failures, included in the form of surveys of beneficiaries but also an overview of other countries' experiences and estimates of funding needs. The evaluation of the market failure of financial instruments within the framework of the main report is provided to each EU fund, at the same time providing information on the planned financial products in the EU funds programming period 2021-2027.

### **Planned financial instruments and funding**

The table below contains information on the planned financial instruments, including the requirements of Article 52 (3) of the draft Common Provisions Regulation<sup>25</sup>: the amount proposed to be paid from the program into the financial instrument; expected leverage effect; the financial products proposed to be offered, including the possibility that different treatment of investors will be required; the proposed group of final beneficiaries; the expected contribution of financial instruments to the achievement of specific objectives. According to assessment there is no different treatment for investors. The contribution to the achievement of specific objectives is in accordance with the draft Operational Programme of the EU funds programming period 2021-2027<sup>26</sup>. It should be noted that the funding recommended is indicative and may change during the approval of the Operational Programme, as well as due to changes in the economic situation, policy priorities or the availability of the necessary funding from other financial sources.

<sup>25</sup> <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0375>

<sup>26</sup> [https://www.fm.gov.lv/lv/sabiedribas\\_lidzdaliba/sabiedribas\\_lidzdaliba\\_par\\_es\\_jautajumiem/](https://www.fm.gov.lv/lv/sabiedribas_lidzdaliba/sabiedribas_lidzdaliba_par_es_jautajumiem/)



Table 1. Financial instruments recommended under the assessment

Fund	Total planned funding (NDP2027), EUR	Funding to be allocated to FI, EUR	Planned financial instrument
<b>European Maritime and Fisheries Fund</b>	178 168 809	40 000 000	<p><b>Combined financial instrument</b> (loan and grant component) to ensure the competitiveness of the fisheries sectors.</p> <p>Recipients of funding - active commercial enterprises, new commercial enterprises.</p> <p>Leverage effect – 1</p> <p>Combining loans and grants will boost the competitiveness of the fisheries sector.</p>
		6 750 000	<p><b>Combined financial instrument</b> (loan and grant component) – implementation of community-led local development measures in the coastal area.</p> <p>Recipients of funding - natural persons, sole proprietors, fishermen's and farmers' farms, commercial enterprises.</p> <p>Leverage effect – 1</p> <p>Combining loans and grants will promote the development of local areas.</p>
<b>European Agricultural Fund for Rural Development</b>	1 196 814 201	60 000 000	<p><b>Combined financial instrument</b> (loan and grant component) for business development in rural areas.</p> <p>Beneficiaries of funding: a legal or natural person engaged in agricultural activity whose turnover in the last closed year at the level of a single undertaking ranges from EUR 15 000 to EUR 70 000, excluding State and European Union aid received.</p> <p>Leverage effect – 1</p> <p>Combining loans and grants will promote business development in rural areas.</p>
		5 000 000	<p><b>Risk capital</b> – Support for improving the competitiveness and productivity of enterprises.</p> <p>Beneficiaries – Legal entities engaged in agricultural activity.</p> <p>Leverage effect – 1.88 (same as risk capital fund of funds).</p> <p>Ensuring the availability of capital will promote entrepreneurship in rural areas.</p>
<b>European Social Fund Plus</b>	915 440 086	4 500 000	<p><b>Combined financial instrument</b> (loan and grant component) for the start-up of a social enterprise (SE).</p> <p>Financing recipient – SE, limited liability company.</p> <p>Leverage effect – 1.17.</p> <p>Combining loans and grants will facilitate the start-up of social entrepreneurship.</p>
		4 500 000	<p><b>Combined financial instrument</b> (loan and grant component) for the implementation of a SE business plan and social impact plan.</p> <p>Beneficiary of funding: economically active SE.</p>

			<p>Leverage effect – 1.17</p> <p>Combining loans and grants will facilitate the implementation of SE business plans.</p>
<b>Cohesion Fund</b>	1 373 505 174	20 000 000	<p><b>Combined financial Instrument</b> (loan and grant component) - for circular economy development.</p> <p>Beneficiaries – Enterprises.</p> <p>Leverage effect – 1.17</p> <p>Combining loans and grants will promote the implementation of circular economy principles in production and services, developing recyclable and closed material cycle technology, facilitating the transition to the use of recyclable and environmentally friendly raw materials in production.</p>
		20 000 000	<p><b>Combined financial instrument</b> (grant and loan component) - for the ports future development.</p> <p>Beneficiaries – Large and small port authorities.</p> <p>Leverage effect – 1.17</p> <p>Combining loans and grants will make optimal use of financial resources to further develop port infrastructure.</p>
<b>European Regional Development Fund</b>	3 211 967 887	131 250 000	<p><b>Combined financial instrument</b> (grant and loan component) – increasing energy efficiency in residential buildings.</p> <p>Beneficiaries – apartment owners.</p> <p>Leverage effect – 1.17</p> <p>Combining loans and grants will make optimal use of financial resources to increase energy efficiency in residential buildings.</p>
		27 500 000	<p><b>Combined financial instrument</b> (grant and loan component) - promoting the use of RES in electricity generation.</p> <p>Beneficiaries of funding - performers of economic activity, municipal capital companies, RES communities and energy communities.</p> <p>Leverage effect 1.17</p> <p>Combining loans and grants will promote the use of RES in electricity generation.</p>
		50 000 000	<p><b>Combined financial instrument</b> (grant and loan component) – Increasing the use of RES and energy efficiency in industry and economic operators.</p> <p>Beneficiaries – performers of economic activity.</p> <p>Leverage effect 1.17</p> <p>Combining loans and grants will promote the use of RES in industry and businesses.</p>
		55 000 000	<p><b>Combined financial instrument</b> (grant and loan component) – usage of RES and energy efficiency improvements in local and individual heating and cooling.</p> <p>Recipients of financing – performers of economic activity and municipal capital companies.</p> <p>Leverage effect 1.17</p>

			Combining loans and grants will promote energy efficiency in local and individual heating and cooling, as well as district heating and cooling.
		15 000 000	<p><b>Combined financial instrument</b> (grant and loan component) – Improving the energy efficiency of public buildings.</p> <p>Beneficiaries – owners of buildings of direct public administration.</p> <p>Leverage effect 1.17</p> <p>Combining loans and grants will promote the improvement of energy efficiency of public buildings.</p>
		25 000 000	<p><b>Combined financial instrument</b> (grant and loan component) – promotion of the production and use of biomethane.</p> <p>Financial beneficiaries – performers of economic activity producing biomethane.</p> <p>Leverage effect 1.17</p> <p>Combining loans and grants will promote the development of biomethane production.</p>
		80 000 000	<p><b>Fund of funds, loans:</b> EUR 200 million (80 million NDP2027 measure No. 81 and ALTUM EUR 120 million).</p> <p>Beneficiaries – performers of economic activity.</p> <p>Leverage effect 2.9</p> <p>Loans for introduction of new equipment and technologies and technology transfer, loans for research and development (technology development, prototyping) and loans for digitization.</p>
		45 000 000	<p><b>Fund of funds, a combined financial instrument</b> with a grant and loan component where the grant component is up to 50% to EUR 125 million (45 million NDP2027 measure No. 81 and ALTUM EUR 80 million).</p> <p>The objectives to be achieved through the grant component will be defined when planning the Operational Programme.</p> <p>Beneficiaries - performers of economic activity.</p> <p>Leverage effect 3.27</p> <p>Combined loans (with a grant element) will stimulate innovation activity, strengthen research and innovation capacity and the introduction of advanced technologies, thus creating a strategic and smart approach to ensuring the competitiveness of the whole economy and stronger GDP development. It is planned to provide a combined loan for digitization projects and introduction of innovative technologies.</p>
		50 000 000	<p><b>Fund of funds, guarantees</b> EUR 50 million (NDP2027 measure No. 81). The financing provided through guarantees amounts to around EUR 250 million.</p> <p>Beneficiaries - performers of economic activity.</p>

			<p>Leverage effect 5</p> <p>Individual guarantees to ensure the implementation of business digitization projects and the introduction of new technologies.</p>
		75 000 000	<p><b>Fund of funds, risk capital</b> EUR 120 million (EUR 75 million NDP2027 measure No. 81 and EUR 45 million private investment).</p> <p>Beneficiaries - performers of economic activity.</p> <p>Leverage effect 1.88</p> <p>Investments in the development of new innovative projects and investment projects at all stages of SME development.</p>

# 1. EX-ANTE ASSESSMENT METHODOLOGY AND REGULATORY FRAMEWORK

## 1.1. Ex-ante assessment methodology

### Purpose and scope of the ex-ante assessment

The objective of the project is the ex-ante evaluation of financial instruments for the European Union (EU) funds programming period 2021-2027, to identify areas where there are sub-optimal market conditions or market failures to ensure access to funding (hereinafter referred to as the market failure assessment) and to ensure the timely implementation of EU funds in the EU funds programming period 2021-2027, and to reduce the possibility of a gap in the availability of public funding.

Under the Common Provisions Regulation<sup>27</sup> (CPR)<sup>28</sup>, financial instruments will contribute significantly to both profit and cost reduction, and their implementing rules have been improved to ensure more straightforward and more efficient implementation of financial instruments. The supply of financial instrument measures and products should ensure complementarity and synergy with the funding sources and instruments on the market, the deployment of the most efficient and effective public funds in financial instrument investments in line with the overall development objectives of the economy, taking into account the specificities of the areas to be supported and avoiding distortions of market competition.

The scope of the ex-ante evaluation of the programming period for financial instruments for EU funds programming period 2021-2027 includes the following EU funds:

- The European Regional Development Fund (ERDF);
- The European Social Fund Plus (ESF +);
- The Cohesion Fund (CF);
- The European Maritime and Fisheries Fund (EMFF);
- The European Agricultural Fund for Rural Development (EAFRD).

One or more technical annexes have been drawn up for each of the EU funds covered by the ex-ante evaluation, broken down by the intervention area, as well as a summary information included in the main report.

### Theoretical framework and ex-ante evaluation results

The evaluation theoretical framework was based on EU funds programming period 2014-2020 regulatory basis, the technical specification of the ex-ante evaluation and the various materials of the European Commission<sup>29</sup> and FI Compass relating to the development of financial instruments.

The ex-ante evaluation covers the EU funds programming period 2021 – 2027, therefore the ex-ante evaluation took into account the publicly available draft regulations for EU funds management covered by the ex-ante evaluation (ERDF, CF<sup>30</sup>; ESF+<sup>31</sup>; EMFF<sup>32</sup>; EAFRD<sup>33</sup>) and the draft Regulation on common rules<sup>34</sup> for the EU funds programming period 2021 - 2027. The theoretical framework of the methodology applied is illustrated in a figure below.

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27 Regulation (EU) No 2018/0196 (COD) of the European Parliament and of the Council of 29 May 2018 laying down common rules for the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund and the European Maritime and Fisheries Fund and financial rules for them and for the Asylum and Migration Fund, the Internal Security Fund and Border Management and draft visa instruments (hereinafter referred to as Regulation No 2018/0196 (COD))

28 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A375%3AFIN>

29 <https://www.fi-compass.eu/publication/manuals/manual-ex-ante-assessment-guidance-vol-i-general-methodology>

30 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0372>

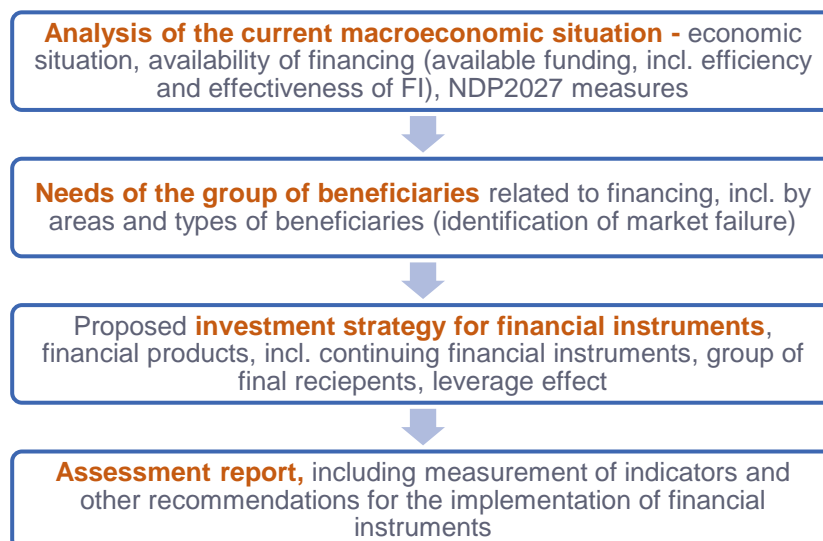
31 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0382>

32 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0390>

33 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0392>

34 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0375>

Figure 1. Theoretical framework of the methodology



**The analysis of the current economic situation** is based on the economic forecasts of the Bank of Latvia (BoL), the MoF and other institutions, including recent changes in the economy concerning COVID-19. Information on the availability of financial instruments on the market, broken down by different funding sources, as well as the analysis of beneficiary groups includes information on individual financial products for specific objectives.

As part of the evaluation, the **National Development Plan (NDP) 2021-2027** has been used to identify the **areas of intervention and the amount of funding planned** for the EU funds programming period 2021-2027. The assessment of the measures of NDP 2027 takes into account the measure objective, the beneficiaries and the planned activities. To assess whether the measure could be financed through financial instruments, a group of beneficiaries, such as economic operators, municipalities, public authorities, were evaluated. The main criterion for determining or exploiting financial instruments is an increase in revenue or a reduction in expenditure as a result of project implementation. The focus also is on complex projects where only part of the project's activities can lead to an increase in revenue or a cost reduction and an assessment of the possibility of using combined financial instruments, including the grant and loan components.

The evaluation of the NDP2027 measures also takes into account the relevant priorities identified in the national programming documents, the objectives set out in EU policies and draft regulations. At the end of the ex-ante evaluation, the draft Operational Programme was available, which was used to compare the measures evaluated in NDP2027 with the priorities included in the draft Operational Programme.

Following an evaluation of the measures of NDP2027, **beneficiary groups** were identified for which financial instruments could be used to implement specific measures of NDP2027. Each of the beneficiary groups has been assessed to determine the need for the use of financial instruments and potential market failures. The evaluation of the beneficiary group included the characteristics of the group, such as number, turnover, funding available for the EU funds programming period 2014-2020, as well as other information.

The analysis of the current situation regarding access to funding and identifying needs for different groups of beneficiaries is based on interviews with industry associations, surveys to beneficiaries (10 different questionnaires and almost 7000 respondents), literature analysis, evaluation of ALTUM financial products and information on the financial products offered by commercial banks. Based on the existing data on the amount of unsecured funding, the data was extrapolated and the market failure/**market gap** was calculated.

The evaluation of the efficiency and effectiveness of ALTUM financial products is based on ALTUM loan, guarantee and risk capital portfolio data, the rules of Cabinet of Ministers (CoM) regulations, and the results of the beneficiaries surveys, thus comparing demand with supply for **financial products**.

**The identification of beneficiaries needs for funding** is based on both an analysis of the current situation and on survey results (over 7000 respondents), where respondents indicated the amount of

funding needed for the next three to five years, the activities to be financed and the priorities for development. In addition to individual groups of beneficiaries, a literature analysis has been carried out to identify priorities for funding and the amount of funding needed.

**The strategy for investing in financial instruments** is based on the principles of creating financial instruments included in the draft regulations, practices of other countries in creating and implementing financial instruments, FI Compass and DG REGIO reports on implementation of financial instruments, evaluation of efficiency and effectiveness of financial instruments administered by ALTUM, consultations with line ministries, analysis of the needs of the group of beneficiaries.

The results of the ex-ante evaluation shall be used to determine the amount of publicly funded (including EU funds) financial instruments intervention to ensure the availability of funding to beneficiaries in areas where sub-optimal market conditions or market failures exist. Ensuring both complementarity and synergy with market-based financing sources and instruments, as well as the most efficient and effective allocation of public funds for investments in financial instruments in accordance with the common development objectives of the economy, taking into account the specifics of supported areas and avoiding market distortions.

The result of the ex-ante evaluation is the maximum planned amount of funding for financial instruments to be allocated in the Operational Programme, broken down by EU funds and NDP2027 measures, proposed financial products, target group of beneficiaries, expected leverage.

### **Structure of the ex-ante evaluation report**

The ex-ante evaluation covers five EU funds and different groups of beneficiaries. The report includes detailed information of the survey results, the calculation of the required funding and the description of the proposed financial products. The report contains several technical annexes - one or more for each EU fund covered by the evaluation. The main report includes a financial products summary for all funds included in the ex-ante evaluation.

Following Article 52(3) of the draft CPR, the ex-ante assessment shall include the amount proposed to contribute from the programme to the financial instrument and the expected leverage effect; the financial product proposed to be offered; the target group of final beneficiaries; the anticipated contribution of the financial instrument to the specific objectives.

The technical annexes to the report contain information on the priorities of the area concerned, relevant NDP2027 measures, as well as an assessment of measures relating to the possibilities for using financial products, priorities identified in the draft regulations, the nature of the group of beneficiaries, the availability of funding from the group of beneficiaries, taking into account survey results, a description of the best practices of other countries, the calculation of the funding required and the proposed financial products.

The assessment report includes the following technical annexes:

- A - Analysis of the current economic situation in Latvia;
- B - Agriculture and forestry - EAFRD;
- C - Fisheries - EMFF;
- D - Social entrepreneurship - ESF +;
- E - All social measures except social entrepreneurship - ESF +;
- F - Infrastructure - CF, ERDF;
- G - RES and energy efficiency - ERDF, CF;
- H - Entrepreneurship - ERDF;
- I - Science, research and innovation - ERDF, EAFRD;
- J - State capital companies - ERDF.

The abbreviations used in the ex-ante evaluation including the technical annexes are included in the main report, while the list of data sources used is included in each technical annex.

### **Ex-ante evaluation assumptions and limitations**

The ex-ante evaluation is based on the measures and planned funding included in NDP2027, draft Operational Programme and discussions with line ministries. Detailed information on the purpose of the



intervention, the justification, the nature of the group of beneficiaries and the expected results of intervention is not available in the sufficient detail in the NDP2027 measures descriptions, so that part of the necessary information was obtained during interviews. It is assumed that no substantial changes are planned to the measures and funding set out in NDP2027, and no significant changes will be made to EU funds implementing model during the EU funds programming period for 2021-2027.

The ex-ante evaluation report is based on the draft EU funds regulations available at the time of the ex-ante evaluation for the EU funds programming period 2021-2027, and requirements included in Article 52 of the draft CPR. The European Commission's guidelines and clarifications regarding the implementation of the financial instruments and the State aid framework for the EU funds programming period 2021-2027 are not available at the time of the ex-ante evaluation, so the financial products proposed should be clarified if necessary, taking into account the European Commission's guidelines as well as consultations with the EC.

The report includes recommendations on financial instruments in cases where market failures are identified for the relevant NDP2027 measures. Still, it should be noted that the final decision on financial product development and funding depends on further development and coordination of line ministries and the European Commission.

## 1.2. Ex-ante assessment regulatory framework

The ex-ante evaluation takes into account the draft regulations for the EU funds programming period 2021-2027. The draft regulations were published in May 2018, with the latest changes to the draft regulations in May 2020.

### Draft Regulations for the EU funds programming period 2021-2027

One of the essential draft regulations to be taken into account in the programming of financial instruments is the **Common Provisions Regulation**, a REGULATION of the EUROPEAN PARLIAMENT AND the COUNCIL laying down common rules on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund and the European Maritime and Fisheries Fund and the financial rules for them and the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument<sup>35</sup>, as well as the latest changes published on 28 May 2020 (DG REGIO)<sup>36</sup>.

The Common Provisions Regulation lays down common rules for the ERDF, the ESF+, the CF, the EMFF financial rules and the funds. The policy objectives, management capabilities and overall programming frameworks are also defined. One of the major amendments made on 28.05.2020 is the replacement of Article 21(1) by "The Member States may require a total of up to 5% of the initial national allocation in each fund to be transferred to any other instrument subject to direct or indirect management. Member States may also require a total of up to 5% of the initial national allocation in each fund to be transferred to another fund or fund in a partnership agreement or request to amend the programme. Member States may require that an additional 5% of the initial national allocation under each fund be transferred between the ERDF, the ESF+ and the Cohesion Fund, up to the total resources of the Member State for the Investment for Jobs and Growth objective."

The ex-ante evaluation also takes into account the Proposal FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND THE COUNCIL on the **European Regional Development Fund and the Cohesion Fund**<sup>37</sup> and the current amendments made on 28 May 2020<sup>38</sup>. The draft regulation sets out the specific objectives and scope of support from the ERDF and the Cohesion Fund for the Investment for Jobs and Growth Objective (ERDF — also "European Territorial Cooperation"). The amendment to the draft regulation clarifies the recovery effects from the impacts of the COVID-19 pandemic, the promotion of economic and common prosperity.

The draft Regulation OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the **European Social Fund Plus** (ESF+)<sup>39</sup> and the current amendments<sup>40</sup>, related to the consequences of preventing the COVID-19 pandemic, as well as the implementation of the ESF+, are also taken into account. The

35 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0375>

36 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52020PC0450>

37 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=COM:2018:372:FIN>

38 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52020PC0452>

39 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0382>

40 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52020PC0447>

draft regulation sets out the objectives of the ESF+, the budget for the future programming period, the implementation methods, the form of funding and the rules.

The draft Regulations relating to agriculture and fisheries are also considered - REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on **the European Maritime and Fisheries Fund** and repealing Regulation (EU) No 508/2014 of the European Parliament and of the Council<sup>41</sup>. Draft Regulation: REGULATION of the<sup>42</sup> EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing rules on support for strategic plans to be drawn up by the Member States under the Common Agricultural Policy (CAP strategic plans) and financed by the **European Agricultural Guarantee Fund (EAGF)** and the **European Agricultural Fund** for Rural Development (EAFRD) and repealing the Regulation of the European Parliament and the Council (EU) No 1305/2013 and Regulation (EU) No 1307/2013 of the European Parliament and the Council. REGULATION of the<sup>43</sup> EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down certain transitional rules for **European Agricultural Fund support** for Rural Development (EAFRD) and the European Agricultural Guarantee Fund (EAGF) 2021 and amending Regulations (EU) No 228/2013, (EU) No 229/2013, (EU) No 1308/2013 as regards the funds and their allocation for 2021, and amending Regulations (EU) No 1305/2013, (EU) No 1306/2013 and (EU) No 1307/2013 as regards the funds and application in 2021.

The draft regulation on the EMFF sets out the priorities for the EMFF, the budget for the EU funds programming period 2021-2027, the types of Union funding and the specific rules for the allocation of such funding, which complement the general rules applicable to the EMFF under the Common Provision Regulation. The draft regulation on the EAFRD defines the structure of the common agricultural policy budget and the main directions for policy implementation. It determines the information included in the strategic plans of the common agricultural policy and other applicable rules, while the draft regulation on transitional provisions the eligible actions, funding and other issues, including the application of the rules.

Essential objectives and rules for simplification, flexibility, coherence of EU funds programming period 2021-2027 are set out in the Proposal for a Regulation of the European Parliament and the Council establishing the InvestEU programme<sup>44</sup>. The Regulation establishes a fund for InvestEU, which provides an EU guarantee for financing and investment activities carried out by the implementing partners in support of the Union's internal policies, as well as a mechanism to support the development and access to finance of investable projects and to ensure related capacity building ("InvestEU Advisory Hub"). A database is also provided, giving visibility to projects for which project promoters seek funding and providing investors with information on investment opportunities ("InvestEU portal"). The Regulation sets out the objectives, budget and EU guarantee amount of the InvestEU programme for the period 2021-2027, the form of Union funding and the rules for providing such financing.

### **EU Funds programming period 2014-2020 regulatory framework**

The ex-ante evaluation also takes into account the regulations of the EU funds programming period 2014-2020.

- Regulation (EU) No 1303/2013 of the European Parliament and the Council of 17 December 2013 laying down common rules on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and general rules on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No<sup>45</sup> 1083/2006;
- Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and specific provisions for the investment for growth and jobs objective and repealing Regulation (EC) No 1080/2006<sup>46</sup>;
- Regulation (EU) No 1300/2013 of the European Parliament and of the Council of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006<sup>47</sup>;

41 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0390>

42 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=COM:2018:0392:FIN>

43 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52019PC0581>

44 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0439>

45 <https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421583712511&uri=CELEX:32013R1303>

46 <https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421585111648&uri=CELEX:32013R1301>

47 <https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421585242439&uri=CELEX:32013R1300>

- Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006<sup>48</sup>;
- Regulation (EU) No 508/2014 of the European Parliament and the Council of 15 May 2014 on the European Maritime and Fisheries Fund and repealing Council Regulations (EC) No 2328/2003, (EC) No 861/2006, (EC) No 1198/2006 and (EC) No 791/2007 and (EU) No 1255/2011 of the European Parliament and the Council<sup>49</sup>;
- Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005<sup>50</sup>.

### State aid legislation

The assessment takes into account the State aid regulatory framework, including:

- Commission Regulation (EU) No 651/2014<sup>51</sup> declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty;
- Commission Regulation (EU) No 1407/2013 of 18 December 2013<sup>52</sup> on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid;
- Commission Regulation (EU) 2020/972<sup>53</sup> of 2 July 2020 amending Regulation (EU) No 182/2011 1407/2013 as regards its extension and amending Regulation (EU) No 651/2014 as regards its extension and corresponding adjustments;
- Commission Regulation (EU) No 360/2012<sup>54</sup> of 25 April 2012 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid granted to undertakings providing services of general economic interest;
- State aid temporary framework<sup>55</sup>, issued in the context of COVID-19, covering business grants, state guarantee credits, short-term export credit guarantees and other issues;
- Regulation (EU) No 182/2011 of the European Parliament and of the Council Regulation (EU) No 508/2014 of the European Parliament and of the Council of 15 May 2014 on the European Maritime and Fisheries Fund and repealing Council Regulations (EC) No 2328/2003, (EC) No 861/2006, (EC) No 1198/2006 and (EC) No Regulation (EU) No 791/2007 of the European Parliament and of the Council 1255/2011<sup>56</sup>;
- Commission Regulation (EU) No 1408/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid in the agriculture sector<sup>57</sup>.

### 1.3. European Commission financial initiatives to promote the economy

To ensure the successful implementation of financial instruments during the EU funds programming period 2021-2027, as well as the harmonisation of the planning and use of financial resources and synergies between the various programmes it should be noted that although the amount of Cohesion Policy funding from the EU funds programming period 2021-2027 has increased relatively with the initial offer (around 373 billion<sup>58</sup> EUR, the multiannual financial framework currently adopted grants EUR 378 billion)<sup>59</sup>; Latvia's initial allocation of EUR 4.262 billion<sup>60</sup>; funding for Cohesion Policy priorities can also

48 <https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421584799618&uri=CELEX:32013R1304>

49 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32014R0508>

50 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32013R1305>

51 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A32014R0651>

52 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A32013R1407>

53 <https://eur-lex.europa.eu/legal-content/lv/TXT/?uri=CELEX:32020R0972>

54 <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32012R0360&from=LV>

55 [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_1221](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1221)

56 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A32014R0508>

57 <https://eur-lex.europa.eu/eli/reg/2013/1408/oj?locale=LV>

58 [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_18\\_3885](https://ec.europa.eu/commission/presscorner/detail/en/IP_18_3885)

59 <https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>

60 <https://www.esfondi.lv/es-Funds-2021---2027>

be provided through newly created programmes to support the economy following the COVID-19 pandemic.

**The Next Generation EU** is an emergency recovery instrument to help the EU recover from the COVID-19 pandemic, and to encourage investment in green and digital redeployment. Under this Recovery Fund, the EC will be able to borrow up to EUR 750 billion (EUR 390 billion in grants, EUR 360 billion in loans) through compensatory loans and expenditure to be redirected through the multiannual financial framework programmes. Funds raised in the financial markets within the Next Generation EU are expected to be channeled into seven separate programs in three pillars<sup>61</sup>.

Table 2. Planned funding Next Generation EU

	<b>Helping the Member States to recover and emerge stronger from the crisis</b>	<b>Recovery and Resilience Fund:</b> EUR 672,5 billion (loans EUR 360 billion, grants EUR 312.5 billion)	Mechanism: grants and loans in the implementation of Member States' recovery and sustainability plans established in line with the objectives of the European Semester (including those relating to green redeployment, digitalization and sustainability of the national economy)
		<b>'REACT-EU'</b> - Recovery aid for cohesion and European territories: EUR 47.5 billion	Mechanism: grants of flexible Cohesion Policy to municipalities, hospitals, businesses through the Managing Authorities of the Member States. No need for national co-financing
		<b>Just Transition Fund (JTF):</b> EUR 10 billion	
		<b>Rural development:</b> EUR 7.5 billion	
	<b>Stimulating the economy and supporting private investment</b>	<b>"Investment EU":</b> EUR 5.6 billion	Mechanism: providing an EU budget guarantee to finance investment projects from the EIB Group and national promotional banks
	<b>Learning from the crisis and tackling Europe's strategic challenges</b>	<b>'rescEU':</b> EUR 1.9 billion	Mechanism: Grants and procurement managed by the European Commission
		<b>Horizon Europe:</b> EUR 5 billion	

Funds under the Recovery and Resilience Facility will be channeled to the countries and sectors most affected by the crisis, with 70% provided in 2021-2022 and 30% in 2023. Under this mechanism, it is planned to allocate EUR 2 170 million to Latvia, but within the framework of the Just Transition Fund - EUR 299 million.

61 [https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe\\_lv](https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_lv)

## 2. PRINCIPLES FOR DEVELOPMENT OF FINANCIAL INSTRUMENTS



### Principles for development of financial instruments

- **Guarantees** – to use portfolio guarantee in order to ensure efficient and effective use of EU funding as well as an active cooperation with commercial banks.
- **Loans** – to differentiate the administration mechanisms based on the loan amount in order to ensure that financial resources are managed as efficiently as possible.
- **Risk capital** – to address market failures not only for specific groups of beneficiaries but also contributing to the growth of the risk capital market.
- **Combined financial instruments** – to ensure the implementation of complex projects that achieve policy objectives. Project activities that do not increase revenue or reduce expenditure to finance via grant component but other project activities via loan component.

### 2.1. Regulatory framework for financial instruments development

#### Development and administration of financial instruments under the CPR project

The development of financial instruments takes into account the Proposal for a Regulation of the European Parliament and the Council on the European Regional Development Proposal for a Regulation of the European Parliament and the Council; lays down common rules on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund and the European Maritime and Fisheries Fund and the financial rules: the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument (com/2018/375 final - 2018/0196 (COD)62) (draft CPR). Under the draft proposal<sup>63</sup>, the EUROPEAN PARLIAMENT AND the COUNCIL REGULATION establishing rules on support for strategic plans to be drawn up by the Member States under the common agricultural policy (CAP strategic plans) and financed by the **European Agricultural Guarantee Fund (EAGF)** and the **European Agricultural Fund for Rural Development (EAFRD)** and repealing the European Parliament and the Council Article 74 of Council Regulation (EU) No 1305/2013, Regulation (EU) No 1307/2013 of the European Parliament and the Council as regards financial instruments shall comply with Articles 2 and 52 of the draft CPR.

FI are designed also by taking into account the experience of FI management during the EU funds programming period 2014-2020, including loans, guarantees, capital market instruments. Particular attention is paid to the changes in the regulatory framework between programming periods and the possibilities for creating new financial instruments, such as the combined FI.

According to the Annex to the draft CPR (Table 2), the following types of support are available **through financial instruments: equity or quasi-equity, loan, guarantee and ancillary support** (additional support combined with the financial instrument).

According to Article 52(2) of the draft CPR, financial instruments provide support to final beneficiaries only for new investments deemed financially viable, such as those that will generate revenue or savings, and for which insufficient funding from market sources has not been found.

Article 52(5) of the draft CPR provides that the financial instruments may be combined with additional support from the programme in the form of grants as a single financial instrument operation in a single financing agreement, provided that the two different types of aid are provided by the body implementing the financial instruments. In such a case, the rules applicable to the financial instruments shall apply to that single financial instrument operation. The following information on the possibilities of financial products under the draft CPR is provided:

<sup>62</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0375>

<sup>63</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=COM:2018:0392:FIN>



Article 52 5. **Financial instruments may be combined with ancillary programme support in the form of grants** as a single financial instrument operation, within a single funding agreement, where both distinct forms of support shall be provided by the body implementing the financial instrument. In such case the rules applicable to financial instruments shall apply to that single financial instrument operation

Article 52 7. The sum of all forms of combined support shall not exceed the total amount of the expenditure item concerned. **Grants shall not be used to reimburse support received from financial instruments.** Financial instruments shall not be used to pre-finance grants.

The combined financial instrument involves grant and loan in one financing agreement, where both types of support are provided by the body implementing the financial instruments. In the case financial instrument containing restrictions on the part of the grant component, a combined financial instrument other than one financing agreement may be used, while parts of the grant and loan are administered separately.

The financial products proposed should be consulted with the European Commission (EC), including the question of the proportion of the grant and loan component, as well as the eligibility of costs for the grant and loan component.

FIs with a loan component is not offered, where, upon achieving business and policy objectives, part of the loan is repaid. Following Article 52 (7) of the draft CPR, grants cannot be used to reimburse support received from FIs and FIs cannot be used to prefinance grants. During the preparation of the ex-ante evaluation, the MoF has started consultations with the EC on the development of a FI with a loan component, taking into account that the possible grant amount does not exceed 49% of the project amount.

According to Article 62(3) of the draft CPR, **management fees** are based on performance; management costs are subject to a threshold **of up to 5% of the total amount of programme contributions** paid to final recipients in the form of loans, capital or quasi-equity investments or reserved under guarantee contracts.

Following Article 97(6) of the draft CPR, the bodies implementing the financial instrument shall **reimburse to the Member States the contribution** of the programme affected by the irregularities. Bodies are not reimbursed if the following conditions are satisfied cumulatively: the infringement has occurred at the level of the final beneficiary; the bodies have exercised their obligations according to the law; have taken all applicable contractual and legal measures.

### **EC guidelines for the introduction of financial products during the EU funds programming period 2014 - 2020**

The development of financial instruments takes into account the EC guidelines (**Guidance to the Member States on the definition and use of repayable assistance compared to financial instruments and grants**)<sup>64</sup> to repayable aid. It should be noted that the draft CPR does not provide repayable aid as a means of financing during the EU funds programming period 2021-2027.

As mentioned in the guidelines, Article 66 of the CPR<sup>65</sup> lists four different forms of the Funds support: **grants, prizes, repayable aid and FI**. Thus, the legislator distinguishes repayable aid as such from grants, prizes and FI. Articles 67 to 69 of the CPR cover both grants and repayable aid. The fact that grants and repayable aid are subject to the same rules means that both types of aid can be considered similar. The main difference between grants is the nature of the aid to be repaid and not the unbalanced nature of the grant.

In Article 2(k) of the CPR, the loan is defined as an arrangement. The lender is obliged to transfer a specified amount of money to the borrower for a specified period. The borrower is obliged to repay that amount within the specified time limit. The amount and the repayment time are not linked to the implementing conditions in the context of the loan. If the amount or duration changes, the loan agreement must be changed. The loan agreement does not provide for the possibility of automatically converting the part of the loan into a grant if certain implementing conditions are fulfilled. Aid granted

<sup>64</sup>[https://ec.europa.eu/regional\\_policy/en/information/publications/guidelines/2015/guidance-for-member-states-on-definition-and-use-of-repayable-assistance-in-comparison-to-financial-instrument-and-gravel](https://ec.europa.eu/regional_policy/en/information/publications/guidelines/2015/guidance-for-member-states-on-definition-and-use-of-repayable-assistance-in-comparison-to-financial-instrument-and-gravel)

<sup>65</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=celex%3A32013R1303>

through repayment assistance shall be subject to the implementing conditions relating to repayment obligations. Financial products which include an unconditional commitment to repay with an exact repayment period should not be considered as a repayable aid. Actions that can be supported by repayable assistance are operations for which it is not possible to identify an appropriate combination of grants and loans in the initial assessment, as it depends on the conditions for implementation.

The planning of financial instruments also takes into account the EC guidelines (Guidance to the Member States on the application of Article 37 (7) to (9) of the CPR: **combining financial instrument support with other types of aid**)<sup>66</sup> concerning the combination of financial instruments with other types of aid.

Financial instruments and other types of aid (including **technical support, interest rate subsidies and guarantee fee subsidies**) may be combined according to Article 37(7) of the CPR in the operation of one financial instrument. Other aid, together with the financial instrument, must be directly linked to the financial instrument. Such support should aim at facilitating and improving the implementation of the financial instrument.

The total contribution of the EFSI programme to the financial instrument (including other types of support, together with the financial instrument) and its future cost to final beneficiaries or in favour of final beneficiaries, the eligible management costs and fees are the operations of one financial instrument ("FI operation").

The other types of aid (including technical support, interest rate subsidies and guarantee fee subsidies) and the financial instrument are part of the same activity co-financed by the Fund under the priority axis of the EFSI programme (or the EAFRD measure).

Technical support, interest rate subsidies and guarantee fee subsidies are in line with the rules applicable to financial instruments (e.g. management structure, the justification for expenditure, co-financing rate, payments, management costs and fees, reporting).

According to Article 37(9) of the CPR, grants may not be used to reimburse aid received from financial instruments, or financial instruments may not be used to prefinance grants.

## Commission Staff Working Documents for the EU funds programming period 2014-2020

The development of financial instruments takes into account the "Guidelines on State aid for the financial instruments of the European Structural and Investment Funds (ESIF) for the 2014-2020 programming period"<sup>67</sup>. Based on Article 107(1) TFEU, the presence of State aid includes the following requirements: the aid comes from State resources and is imputable to the State; the beneficiary is an undertaking; the aid confers an advantage on an undertaking; the aid distorts competition and affects trade between the Member States.

The EC has developed standard rules and conditions for specific types of financial instruments: Risk-sharing loan to support SMEs; Restricted portfolio guarantee; Renovation loan for energy efficiency and renewable energy measures in residential buildings; Urban Development Fund; Capital co-investment facility.

## 2.2. The InvestEU Programme

The development of the FI also takes into account initiatives at EU level regarding the provision of funding, including The InvestEU Programme. The InvestEU Programme was established under the Proposal for a Regulation of the European Parliament and the Council establishing the InvestEU Programme (COM/2018/439 final)<sup>68</sup>. As a policy instrument, it aims to support the Union's policy objectives by attracting public and private investment in the EU, thereby addressing market failures and investment gaps that hamper the achievement of the EU's goals on sustainability, competitiveness and inclusive growth.

In addition to the EU guarantee at Union level, the proposal provides for the possibility for the Member States to use part of shared management funds under the InvestEU Fund to pursue the same

<sup>66</sup><https://www.fi-compass.eu/sites/default/files/publications/GN0144%20-%20Article%2037%20%287-9%29%20CPR%20-%20Combination%20of%20support.pdf>

<sup>67</sup>[https://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/guidance\\_state\\_aid\\_financial\\_instruments\\_lv.pdf](https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_state_aid_financial_instruments_lv.pdf)

<sup>68</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0439>



objectives when there are market failures or under optimal investment situations at the national or regional level.

Following the CPR draft Regulation, the specific provisions relating to the Member State's partition provide for a contribution agreement between the Commission and the Member State concerned and define the main elements of the contribution, such as the amount, the security rate and contingent liabilities. The common rules regulation and other relevant legal instruments will contain the necessary provisions. Once the transfer to the InvestEU Fund has taken place, the implementation of the Member State's division will take place following the rules of the InvestEU Fund. The Commission will choose an implementing partner based on a proposal from a Member State and sign a guarantee agreement with the Member State concerned.

The programme brings together 14 different EU funds for the FI 2014-2020 programming period, which are both guarantees and risk capital and equity instruments<sup>69</sup>:

Figure 2. Financial instruments for the 2014-2020 programming period of the EU Funds



Principles for the operation of the InvestEU Programme<sup>70 71</sup>:

- one Fund to ensure uniform Regulation and one contract with project promoters;
- the EU guarantee is available to several organisations implementing the same project;
- a common thematic approach to different policy areas;
- budget guarantee;
- harmonised rules for the combination of instruments;
- complementarity between InvestEU and EFSI;
- simple and flexible instrument.

The InvestEU programme will consist of 4 elements:

- the InvestEU Fund, which will provide the EU guarantee;
- InvestmentEU Advisory Hub, which will provide technical assistance related to project development;
- InvestmentEU portal, which will provide an easily accessible database for funding opportunities;

<sup>69</sup>[https://ec.europa.eu/commission/sites/beta-political/files/budget-june2018-what-is-investeu\\_lv.pdf](https://ec.europa.eu/commission/sites/beta-political/files/budget-june2018-what-is-investeu_lv.pdf)

<sup>70</sup> [https://www.fi-compass.eu/sites/default/files/publications/Merete\\_Clausen\\_Invest%20EU%202021-2027.pdf](https://www.fi-compass.eu/sites/default/files/publications/Merete_Clausen_Invest%20EU%202021-2027.pdf)

<sup>71</sup> <http://vienna-initiative.com/resources/themes/vienna/wp-content/uploads/2018/06/KRZYZANOWSKA-Anna.pdf>

- different mechanisms for combining funding.

The InvestEU Fund is composed of an EU budget guarantee providing financial products offered by the implementing partners and attracting private demanded investment. The envisaged total guarantee funding<sup>72</sup> is EUR 47.5 billion, represented by an EU budget guarantee of EUR 38 billion and EUR 9,5 billion of resources from financial partners. The expected multiplier in private and public investments – 13.7, resulting in a total investment of EUR 650 billion.

#### Planned funding for the policy areas of the Fund <sup>73</sup>:

Table 3. Planned funding per fund policy area

Policy Area	EU budget guarantee, EUR billion
Sustainable infrastructure	11,50
Research, innovation and digitisation	11,25
SME	11,25
Social investment and skills	4,00
<b>Total</b>	<b>38,00</b>

Source: [https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_19\\_2135](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_19_2135)

The InvestEU Fund operates in four policy areas:

- **Sustainable infrastructure:** includes sustainable investment in areas such as transport, energy, digital connectivity, raw material supply and recycling, space, oceans and water, waste, nature and other environmental infrastructure, equipment, mobile assets and the deployment of innovative technologies that contribute to the Union's environmental or social sustainability objectives, or both, in areas or complying with Union;
- **Research, innovation and digital:** includes research and innovation activities, market transfer of research results, demonstration and deployment of innovative solutions and support for the growth of innovative non-SME enterprises and the digitisation of the Union industry;
- **SME:** access to finance and access to finance for SMEs and, in justified cases, small medium-capitalisation companies;
- **Social investment and skills:** includes microfinance, social entrepreneurship financing and the social economy; skills, education, training and related services; social infrastructure (including social and student housing); social innovation; health care and long-term care; inclusion and accessibility; cultural activities with a social aim; integration of third-country nationals.

The Fund provides an EU guarantee for financial products provided by organisations such as the EIB Group (around 75% of funding), **national development / promotion banks** and organisations, other international financial institutions (EBRD, World Bank Group, Council of Europe Development Bank) and other organisations under the terms of the Regulation. The EU guarantee may be used to cover the risk of financing the following types:

- loans, guarantees, counter-guarantees, capital market instruments, any other type of financing or improvement in credit quality, including underlying debt, participation in capital or quasi-equity provided directly or indirectly through financial intermediaries, funds, investment platforms or other methods to direct them to final beneficiaries;
- the financing or guarantees of the implementing partner to another financial institution so that it can carry out the financing activities referred to in point (a).

The policy sections of the InvestEU are in line with the priorities of the EU funds programming period 2021-2027 so that the use of EU guarantees and standard financial products provided by InvestEU is assessed. Following Article 10 of the draft CPR, the amount to be paid from the ERDF, the ESF+, the Cohesion Fund and the EMFF shall not exceed 5% of the total allocation of each Fund, except in duly justified cases. It is a decision of the Member State, whether and how much to contribute to InvestEU, but as an example, NDP2027 measure No 81, which includes EUR 250 million for the development of fund of funds, can be mentioned.

<sup>72</sup>[https://www.fi-compass.eu/sites/default/files/publications/10.%20Filippo%20Munisteri\\_The%20InvestEU%20Programme\\_%20an%20instrument%20to%20support%20investment%20in%20the%20next%20MFF.pdf](https://www.fi-compass.eu/sites/default/files/publications/10.%20Filippo%20Munisteri_The%20InvestEU%20Programme_%20an%20instrument%20to%20support%20investment%20in%20the%20next%20MFF.pdf)

<sup>73</sup> [https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_19\\_2135](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_19_2135)

## 2.3. Principles for the management of financial instruments

Considering the planned approach to increase the usage of the financial instruments by introducing new financial products, increasing the amount of funding allocated to the FI, improving the efficiency of the financial products management and attracting new players in the administration of the financial product, through an EU-wide FI, a description and a schematic representation of the principles of FI management is included below. Each institution that will use the FI for intervention purposes may assess the most appropriate implementation mechanisms, as well as the proposed financial product implementation mechanism shall be developed for each of proposed financial products.

Flexibility and the ability to re-programme financial resources according to the needs of the economy and to ensure the productivity and jobs of enterprises are essential for the planning of the Operational Programme, the creation and administration of financial instruments, as demonstrated by the experience gained in managing the consequences of COVID-19.

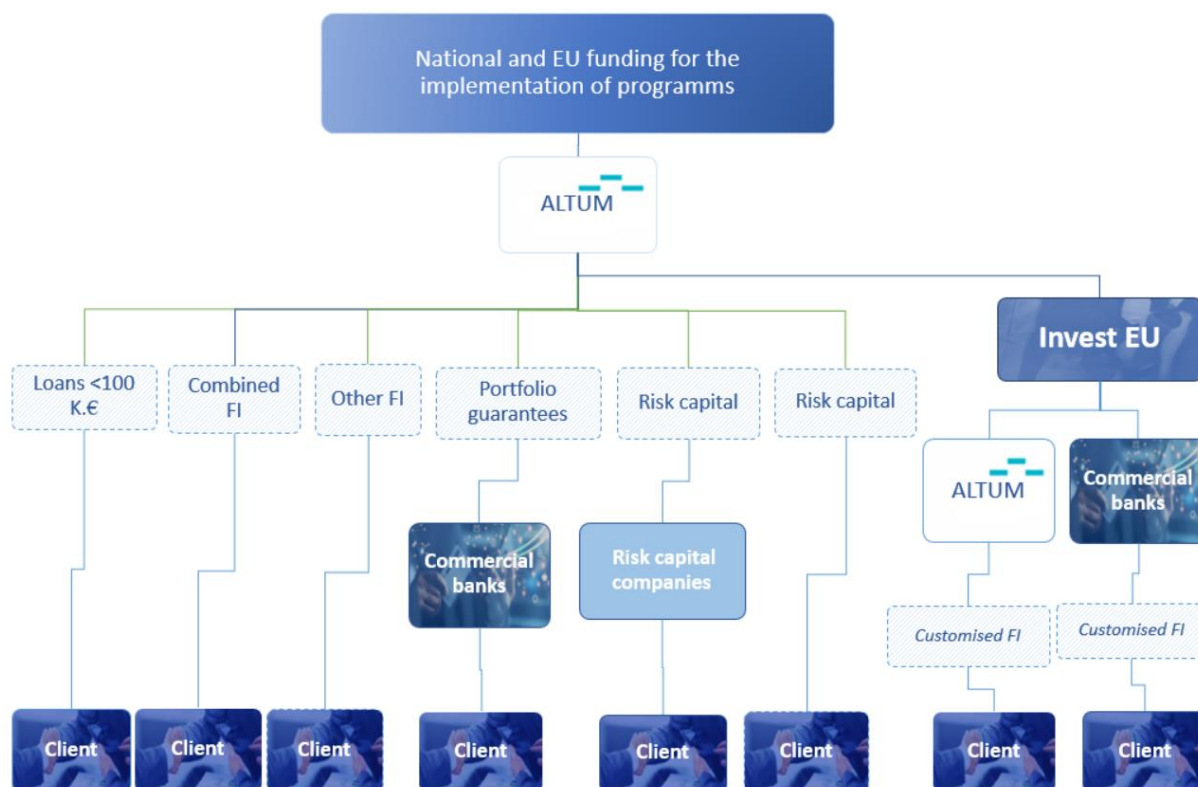
In view of the objective of increasing the amount of funding to be allocated to FI, to consider the possibility of channelling part of the funding to **InvestEU**, where ALTUM and/or commercial banks would act as Implementing Bodies. Before the introduction of this model, standard financial products proposed by InvestEU should be assessed, their compliance with the needs of market failures, the possibility of changing the standard FI, the implementation mechanisms, as well as other factors.

**In the case of combined financial instruments** consisting of a grant and loan component, it may be necessary to verify the eligibility of the grant component costs and an assessment against the policy objectives reached. It should be noted that no guidelines for the implementation of the combined FI have yet been established at the time of the ex-ante evaluation.

In view of the market failure to make financing available up to EUR 50 000 per enterprise and the capacity required to administer loans of this size, to consider the possibility of entrusting the administration of loans to **FinTech companies that might be related to commercial banks**. FinTech enterprises can be considered in cases when it is planned to use various IT solutions in order to provide the required financing as efficiently as possible. The use of FinTech enterprises should be considered only as an additional alternative and not the only implementation model and by FinTech companies the financial service providers using modern technologies are understood.

To encourage investments in risk capital, it is suggested to consider the possibility for ALTUM to make **risk capital investments in addition to risk capital companies**.

Figure 3. Financial instruments administration for the EU programming period 2021-2027



Source: by CSE COE

The proposed financial instruments deployment mechanisms are recommendations, and each EU fund implementing body should assess the optimal implementation approach, taking into account the competences and capacity to implement the financial instruments.

### Follow-up:

Taking into account the results of the ex-ante assessment, all parties involved, including line ministries, ALTUM, Finance Latvia Association, should consider the possibility of taking further steps listed below in order to ensure the successful implementation and management of financial instruments during the EU funds programming period 2021-2027.

- When planning implementation of Next Generation EU, use results of the assessment where possible, including the survey results on the financing needed to overcome the impact of Covid-19. Assess synergies between the Next Generation EU and proposed financial instruments and, if necessary, update the amount of funding to be allocated, taking into account the economic situation and other available funding to implement economic recovery measures.
- When developing specific financial products, to ensure that they are complementary in sectors which are actively financed by the financial institutions. When planning specific financial products, take into account the results of the survey on the amount of funding needed, the areas to be financed, and other information included in surveys results.
- Line ministries, in cooperation with ALTUM, to develop financial products that will provided the required funding for business (approximately 175 000 economically active enterprises, CSB data). According to Finance Latvia Association, there are 20 000 – 25 000 enterprises that theoretically meet bank financing criteria in Latvia, or about 15% of all enterprises. According to the Finance Latvia Association, ~ 100 000 enterprises that are registered as economically active enterprises do not carry out active economic activity, so the Finance Latvia Association estimates that there are around 75 000 economically active enterprises in Latvia and members of Finance Latvia Association will provide services to approximately 33% of those enterprises.

- Continue cooperation of the Finance Latvia Association with ALTUM and line ministries to promote the use of EU funding to address market failures in terms of access to funding, as well as the financial sector to provide refinancing when beneficiaries no longer need funding under the State aid programme.
- Continue the implementation of business environment improvement measures, including the diminishing of the shadow economy.

### 3. MACROECONOMIC SITUATION

#### 3.1. Summary and main conclusions

The economic situation was assessed before the declaration of an emergency situation in Latvia on 12 March 2020<sup>74</sup>. Still, the report takes into account economic forecasts until the end of June 2020. Due to the uncertainty of the situation of the COVID-19 crisis, it is still difficult to predict changes in the economy, the impact on the economy and national plans to improve the situation.

Table 4. Assessment of the current economic situation

<b>Macroeconomic situation</b>	<ul style="list-style-type: none"> <li>In the reporting period (2014-2019), Latvia's economic growth has been faster (2.9%) than the EU average (1.9%), inflation has remained stable, but the unemployment rate has decreased significantly.</li> <li>In 2019, there was a decrease in GDP growth, which is determined by both internal developments in the economy, incl. restructuring in the banking sector, weak corporate lending, growing consumer and investor caution, as well as external factors, incl. uncertainty in the global economy, declining growth in EU countries, expected changes due to the withdrawal of the United Kingdom from the EU or <i>Brexit</i>.</li> <li>About one-fifth of all investments in Latvia are public investments.</li> </ul>
<b>Economic sectors</b>	<ul style="list-style-type: none"> <li>In terms of economic sectors, the most significant contribution to economic growth in the reporting period was made by construction, information and communication services, manufacturing and other industries, agriculture and forestry, transport and storage, and trade.</li> </ul>
<b>Economic development forecasts</b>	<ul style="list-style-type: none"> <li><b>The forecasts for 2020, as well as future economic development, will be affected by the ability of Latvia and the whole world to recover from the effects of the COVID-19 crisis.</b></li> <li>Latvia's GDP is projected to decline by -7.5% in 2020, with a gradual resumption of economic growth in the coming years (provided that the economic recovery begins in the second half of the year).</li> <li>The COVID-19 pandemic will have a significant impact on all sectors of the economy, but will have the most significant impact on the accommodation and catering sector; the leisure and entertainment services sector; the transport sector; manufacturing, trade; real estate and construction industries.</li> <li>The economic recovery and further development are significantly influenced by the financing, incl. the availability of loans to address both: short-term and long-term challenges that need to be taken into account when designing financial instruments for the next programming period.</li> </ul>
<b>National Development Plan</b>	<ul style="list-style-type: none"> <li>The priority areas and measures of the EU funds programming period 2021-2027 are defined in the National Development Plan for 2021-2027 (NDP2027). The NDP2027 and the measures set out in it, together with the sources of funding, is the main planning document to identify the areas for the development where financial instruments to be used.</li> <li>The implementation of the NDP2027 is connected with the available financial resources planned for Latvia's development in the period 2021- 2027 in the total amounting to approximately EUR 14.5 billion from the state budget development part, EU funds and other financial sources. An indicative set of 369 measures has been developed for the implementation of NDP2027.</li> </ul>

<sup>74</sup> <https://likumi.lv/ta/id/313191-par-arkartejas-situacijas-izsludinasanu>



<p><b>National Energy and Climate Plan</b></p>	<ul style="list-style-type: none"> <li>• The National Energy and Climate Plan (NECP2030) has been developed for the implementation of long-term energy and climate policy.</li> <li>• Latvia's priorities and actions in the field of energy and climate are also related to the implementation of NECP2030, attracting EU funds programming period 2021-2027 funding. The main sources of financing for NECP2030 are EU Multi-annual Financial Framework 2021-2027 (including ERDF, CF, InvestEU, LIFE, EAFRD, EMFF, other), climate financing (Innovation Fund, emission allowance auctions, modernization fund), state and local government budget, as well as the attracted private funding.</li> <li>• Initially, it is planned to allocate 25% of the total funding of various EU funds to climate change activities in the EU Multi-annual Financial Framework 2021-2027.</li> </ul>
<p><b>Strategy for Latvia to reduce the consequences of the COVID-19 crisis</b></p>	<ul style="list-style-type: none"> <li>• The direction set by the Strategy adopted by the Government of Latvia - "Access to Finance" envisages ensuring the development of financial instruments and increased lending. In the medium term to eliminate market failures of at least 1.3 billion euros in lending and guarantees, at least 700 million euros in capital investments, providing at least 3 times larger private sector "shoulder".</li> </ul>
<p><b>European Recovery Plan</b></p>	<ul style="list-style-type: none"> <li>• Within the framework of the European Recovery Plan, almost 10.5 billion euros could be available to Latvia from the EU budget in the next 7 years, which could be invested in strategically important areas for economic development and growth. In its turn, the financing of the European Recovery and Sustainability Mechanism could be provided in the form of grants and loans, using financial instruments, for which Latvia could have around 2.1 billion euros.</li> </ul>
<p><b>Financing EU funds programming period 2014-2020</b></p>	<ul style="list-style-type: none"> <li>• A total of around EUR 6.1 billion (6,157,330,483) of EU funds programming period 2014-2020 funding is available for Latvia. Including the ERDF, CF and ESF funding 4 418 233 214 EUR, EAFRD funding 1,533,499,587 EUR, the EMFF funding 183 585 859 EUR. The largest share of EU funds is from the ERDF (38%), EAFRD (25%) and CF (22%), ESF (11%), EMFF (3%).</li> <li>• In the EU programming period 2014-2020, FI investments in final beneficiaries started in 2017 and are planned until 2023. In total, the EU funding (ERDF) available in the contract for the Operational Program is 119,710,050 EUR, incl. EUR 101 000 000<sup>75</sup> (PV 3) and 18,710,050 (PV 4).</li> <li>• According to the information provided by the MoF, at the end of 2017, reimbursements received from the use of FI in previous periods was EUR 134 288 569.<sup>76</sup></li> <li>• It is planned that FI cumulative investments, including EU funds (ERDF) financing, financial inter-institutional co-financing, incl. ALTUM, as well as, taking into account the guarantee multiplier, the final beneficiaries in EU funds programming period 2014-2020 will reach 330,938,085 EUR.</li> <li>• Increasing the use of financial instruments in the EU funds programming period 2021-2027 would help to ensure the access to finance for SMEs, incl. providing loans to start-ups, guarantees, as well as facilitating the availability of risk capital instruments, increasing the use and introduction of financial instruments in other areas, such as loans and guarantees for agriculture and projects implemented by municipalities and their municipality owned companies. The availability</li> </ul>

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the amount is the total amount of the contract concluded with ALTUM minus the performance reserve. The funding for each instrument is shown without deducting a margin, so the total amount by instrument differs from the total amount of the agreement.

76 <https://www.esfondi.lv/2017.gads-un-ieprieks> (data on 27.06.2018.)



	<p>and use of FIs is also particularly crucial for overcoming the COVID19 crisis and restoring economic growth.</p> <ul style="list-style-type: none"> <li>The use of financial instruments in EEO MAB and other areas should be continued and expanded, starting with the use of financial instruments for other specific support purposes. At the same time, the complementarity of state support programs with the resources of InvestEU and other programs must be ensured.</li> </ul>
<b>Financial sources</b>	<ul style="list-style-type: none"> <li>Most enterprises (94%) used only internal sources of financing between 2015 – 2017. Those who have not used only their own resources have mainly used financing provided by commercial banks or lease companies.</li> <li>The main reasons why enterprises do not use financing provided by the commercial banks are insufficient cash flow (33%), lack of collateral (31%), insufficient equity (26%), low profitability (16%), lack of owner's guarantee (11), new or start-up company (9%) or enterprise operating less than 5 years.</li> </ul>
<b>The capacity and willingness of enterprises to borrow, the willingness and capacity of commercial banks to provide financing</b>	<ul style="list-style-type: none"> <li>Although the capacity and willingness of entrepreneurs to borrow has increased, the capacity and willingness of commercial banks to lend have declined slightly. Due to unwillingness to take on additional risks related to poor credit portfolios, corporate ability to invest, disorderly or insufficient cash flow, too weak financial performance.</li> <li>The gap between commercial bank lending and the ability of enterprises to attract external financial resources to the market has only widened since the financial and economic crisis, which may have negative consequences for business development as well as for the country's economic situation as a whole.</li> </ul>
<b>Financing provided by commercial banks</b>	<ul style="list-style-type: none"> <li>In 2011- 2019, the lending by commercial banks to enterprises has decreased by about 62%, especially in 2019, compared to 2018, the amount of new loans has declined - by 23.8%.</li> <li>The total amount of loans granted to economic sectors is about 6 billion EUR with the largest part granted to such sectors as real estate operations (29.7% or 1.8 million EUR ), trade (13% or 0.8 million EUR ), manufacturing. (12.6% or EUR 0.7 million), agriculture, forestry and fishing (11.4% or EUR 0.7 million) and transport and storage (10.3% or EUR 0.6 million).</li> <li>Business borrowing conditions are affected by both the capacity and willingness of commercial banks to lend and the capacity and willingness of companies to borrow, especially in the case of small and medium-sized enterprises.</li> <li>The decline in commercial bank lending to non-financial corporations, especially SMEs, in most sectors of the economy is not only a sign of declining funding, but also of uneven access to it, which weakens companies' ability to develop competitively.</li> <li>Loan interest rates in Latvia (3.6% on average) remain high, which limits the ability of entrepreneurs to borrow. In connection with the structural restructuring of the banking sector in 2019 and stricter requirements for borrowers, the process of internal reorganization in companies is taking place in parallel, which could improve the ability of companies to borrow in the future.</li> <li>Given the current trends, no rapid growth in business lending is expected. The gap in the availability of financing also arises due to the needs of entrepreneurs for relatively small amounts of money in most cases, which commercial banks are not interested in offering.</li> </ul>
<b>Alternative funding providers</b>	<ul style="list-style-type: none"> <li>As of 30 June, 2019, the loan portfolio administered by non-bank lenders reached EUR 732.71 million.</li> </ul>

	<ul style="list-style-type: none"> <li>• The complementary role of alternative sources of financing, as well as co-financing platforms, in the provision of both banking and traditional capital market instruments, is expected to increase, as has already happened in recent years.</li> <li>• Investment service providers, alternative investment funds, primarily Venture Capital and Private Equity Funds, play an essential role in the implementation of financial instruments, they actively cooperate with ALTUM and will continue to be essential partners in the future. Consequently, the development of alternative financial markets and the improvement of their regulation is an essential condition for the improvement of the Latvian business environment and competitiveness, as well as for the wider use of financial instruments.</li> <li>• Non-bank financial service providers have good knowledge and experience in issuing online or distance loans, and they plan to take advantage of new financial technology opportunities that could further activate the activities of non-bank creditors in the market.</li> <li>• The development and application of financial technologies play an essential role not only in promoting corporate lending but also in increasing the availability of financial resources in all regions, which is also crucial for ensuring the availability of financial instruments throughout Latvia.</li> </ul>
<p><b>Development Finance Institution ALTUM</b></p>	<ul style="list-style-type: none"> <li>• Development Finance Institution ALTUM operates in accordance with the Law on Development Finance Institution, implementing support and development programs, which are fully or partially implemented in the form of financial instruments or grants. Financial instruments - loans, risk capital, guarantees and support for farmers. ALTUM is the only institution involved in the administration of EU funds financial instruments in Latvia.</li> <li>• In issuing loans and guarantees, ALTUM actively cooperates mainly with commercial banks, as well as alternative investment and venture capital funds, ensuring the best possible conditions for borrowers. At the same time ensuring that ALTUM does not compete with commercial banks in areas where the private market can operate effectively.</li> <li>• .The financial products used in the EU funds programming period 2014-2020 are risk capital, loans and guarantees, including portfolio guarantees.</li> <li>• When introducing new financial instruments, experience in cooperation with banks must be taken into account, as well as ALTUM must be provided with adequate capacity to introduce and administer new financial products. It is also important to take into account the role of ALTUM branches (21) - regional centers and consulting offices in all regions of Latvia, where the impact of ALTUM on the availability and development of financing is even more significant than in Riga.</li> <li>• An important aspect of performance improvement is the automation of processes and the implementation of digital solutions, as well as the use of financial technologies to ensure faster and more efficient evaluation of funding applications.</li> </ul>

### 3.2. Analysis of Latvia's macroeconomic situation

In the EU funds programming period 2014-2020 until the end of 2019, stable economic growth continued in Latvia. Average GDP growth between 2014 and 2019 has been around 2.9% per year, which is higher

than the EU average (~ 1.9%) according to European Commission statistics and forecasts <sup>77</sup> during this period.

Table 5. Economic situation of Latvia

Indicator	2014	2015	2016	2017	2018	2019	2020 <sup>f</sup>
<b>GDP growth (% of previous year)</b>	1,9	3,3	1,8	3,8	4,3	2,2	-7,5
<b>Inflation (% of previous year, consumer prices)</b>	0,6	0,2	0,1	2,9	2,5	2,8	0,0
<b>Unemployment (% of economically active population, 15-74 years)</b>	10,8	9,9	9,6	8,7	7,4	6,3	9,6
<b>Budget deficit (% of GDP)</b>	-1,4	-1,4	0,1	-0,5	-0,3	-0,6	-7,3
<b>General government debt (% of GDP)</b>	40,9	36,7	40,3	38,6	36,5	36,9	49,9
<b>Exports of goods and services (% change, current prices)</b>	6,5	2,9	4,0	6,4	4,0	2,0	-8,1
<b>Imports of goods and services (% change, at current prices)</b>	3,0	1,7	3,8	8,4	6,4	2,3	-8,4
<b>Current account (% of GDP)</b>	-2,3	-0,9	1,4	1,0	-0,7	-0,5	3,4

f - forecast

Source: CSB, MoF<sup>78</sup>, BoL<sup>79</sup>

Economic growth picked up particularly in 2017 and 2018, when GDP grew by 3.8% and 4.3% respectively. During this period, EU structural funds investment increased, as did employment and private consumption. In 2019, GDP decreased to 2.2%, which was determined by both domestic developments in the economy, incl. structural restructuring in the banking sector, weak corporate lending, declining investment rates of EU funds, growing consumer and investor caution, as well as external factors, incl. uncertainty in the global economy, declining growth in EU countries, expected changes due to the withdrawal of the United Kingdom from the EU and others.

### 3.3. Analysis of economic sectors

In terms of sectors, the structure of the Latvia economy has remained similar over the last 6 years (2014-2019). More than 70% (75% in 2019) of the gross domestic product value added came from the services sector (i.e. trade, accommodation, transport and storage, other commercial services and public services); about 20% (20.7% in 2019) industry (i.e. manufacturing and other industry, construction); about 4% (4.3% in 2019) - agriculture (agriculture, forestry and fisheries).

Overall, in EU funds programming period 2014-2020 the most significant contribution to economic growth was made by construction, information and communication services, manufacturing and other industries, transport and storage, as well as trade and agriculture and forestry.

Table 6. Distribution of value added by economic sectors, 2014-2019, actual prices,%

Industry	2014	2015	2016	2017	2018	2019
Agriculture, forestry and fisheries	3,7	4,0	3,5	4,0	4,1	<b>4,3</b>
- <b>agriculture and forestry</b>	3,6	3,9	3,3	3,9	-	-
- fisheries <sup>80</sup>	0,1	0,1	0,2	0,1	-	-
<b>Manufacturing</b>	12,2	11,9	11,8	12,1	12,0	<b>11,7</b>
<b>Mining and quarrying</b>	15,5	15,6	16,0	16,1	15,6	<b>15,2</b>

<sup>77</sup> <https://www.statista.com/statistics/1070317/growth-rate-in-gdp-in-european-union/>  
7878

[https://www.fm.gov.lv/lv/sadala/tautsaimniecibas\\_analize/tautsaimniecibas\\_analize/galvenie\\_makroekonomiskie\\_raditaji\\_un\\_pr\\_ognozes](https://www.fm.gov.lv/lv/sadala/tautsaimniecibas_analize/tautsaimniecibas_analize/galvenie_makroekonomiskie_raditaji_un_pr_ognozes)

<sup>79</sup> <https://www.makroekonomika.lv/lapa/par-latvijas-bankas-makroekonomiskajam-prognozēm> (05.06.2020.)

<sup>80</sup> Given the importance of the allocation of fisheries in this report, as it is financed by a separate fund, the EMFF, it is allocated separately. Statistical data for 2018 and 2019 were not yet available in March 2020.

<b>Energy</b> (electricity, gas, steam and air conditioning supply)	2,0	2,4	2,9	2,7	2,3	<b>2,2</b>
<b>Construction</b>	6,8	6,5	5,4	5,9	6,7	<b>6,8</b>
<b>Trade</b>	26,3	25,7	25,6	25,3	24,9	<b>24,3</b>
<b>Transport and storage</b>	10,0	9,0	9,1	8,9	8,9	<b>8,2</b>
<b>Information and communication services</b>	4,4	4,6	4,9	5,2	5,7	<b>5,8</b>
<b>Accommodation and food services</b>	1,8	1,9	1,9	2,0	1,9	<b>2,0</b>
<b>Financial and insurance activities</b>	4,6	4,8	4,8	3,9	3,6	<b>3,2</b>
<b>Real estate activities</b>	13,3	12,5	12,8	12,4	12,4	<b>12,4</b>
<b>Other commercial services</b>	7,0	7,5	7,7	7,7	7,8	<b>8,3</b>
<b>Public administration and defence; compulsory social security</b>	7,6	7,7	7,9	7,9	7,7	<b>7,8</b>
<b>Education</b>	4,7	4,8	4,8	4,9	4,8	<b>4,8</b>
<b>Health and social care</b>	3,2	3,4	3,4	3,6	3,8	<b>4,0</b>
<b>Arts, entertainment and recreation</b>	2,9	2,9	3,0	3,2	3,0	<b>3,1</b>

Source: CSB

The development trends of the economic sectors with the largest contribution to economic growth according to statistical indicators, as well as the information provided in the Latvian Economic Development Report 2019 and the BoL December 2019 Macroeconomic Developments Report are described in the sections below.

### 3.4. Economic development forecasts

The forecasts for 2020, as well as future economic development, will be affected by the ability of Latvia and the whole world to recover from the effects of the COVID-19 crisis. International studies, such as International Monetary Fund (IMF) reports<sup>81</sup>, show a slowdown in economic development due to a slowdown in economic activity, which depends on when the COVID-19 pandemic can be stopped. The IMF has acknowledged that the COVID-19 pandemic has caused an unprecedented economic crisis and warns that this situation, comparable to a state of war, could last for several quarters. The IMF forecasts a larger decline in global economic growth in 2020 - by - 4.9% and the beginning of economic recovery in 2021 with 5.4% growth in the global economy, incl. forecasting the decline of the Eurozone economy in 2020 by -10.2%, but growth in 2021 - by 6.0%<sup>82</sup>.

In turn, the international rating agency Fitch Ratings (Fitch) forecasts a decline in GDP in the EU - 8.0%, which is higher than in 2009 - 4.3%, but growth in 2021 - 4.5%<sup>83</sup>.

According to the forecasts of the MoF, in the Stability Programme of Latvia for 2020-2023, the GDP at current prices in 2020 will decrease by -7.4% and will continue to rise gradually in the coming years. Inflation is forecast at 0.2% in 2020, and the unemployment rate at 10.5%, which is lower than in 2010 (19.5%), when unemployment was historically highest. In 2020, a significant decline in exports (-14.8%) and imports (-16.3%) is expected.<sup>84/85</sup>

Table 7. Main macroeconomic indicators and forecasts of the MoF (18.06.2020)

Indicators	2020*	2021*	2022*	2023*
Gross Domestic Product (GDP)				
At current prices (million EUR and increase, %)	-7,4	6,5	5,3	5,2

81 IMF, World Economic Outlook, April 2020: The Great Lockdown:

<https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020> un IMF, World Economic Outlook Update, June 2020: IMF, A Crisis Like No Other, An Uncertain Recovery, June 2020:

<https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

82 <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

83 <https://www.fitchratings.com/research/sovereigns/global-economic-outlook-datasheet-june-2020-coronavirus-disruption-easing-30-06-2020>

84 BoL Macroeconomic Forecasts (March 26, 2020) <https://www.macroekonomics.lv/page/macroeconomic-forecasts-latvijas-banka>

81m%20prognoz%C4%93m.html

85 [https://www.fm.gov.lv/sadalas/tautsaimniecibas\\_analize/tautsaimniecibas\\_analize/galvenie\\_makroekonomiskie\\_raditaji\\_un\\_prognozes/](https://www.fm.gov.lv/sadalas/tautsaimniecibas_analize/tautsaimniecibas_analize/galvenie_makroekonomiskie_raditaji_un_prognozes/)

At constant prices (million euros and increase, %)	-7,0	5,1	3,1	3,1
GDP deflator (year on year),%	-0,5	1,3	2,0	2,0
Consumer price index (year on year),%	0,2	1,2	2,0	2,0
Average gross monthly earnings, euro and increase in current prices, %	-1,0	3,0	5,0	5,0
Employment, thous. population and growth, %	-4,4	0,6	1,0	-0,1
Unemployment rate (annual average), %	10,5	9,8	8,1	7,3
Exports of goods and services				
At current prices (million euros and increase, %)	-14,8	7,7	4,6	5,7
At constant prices (million euros and increase, %)	-10,3	6,5	3,0	4,0
Imports of goods and services				
At current prices (million euros and increase, %)	-16,3	9,0	6,3	6,5
At constant prices (million euros and increase, %)	-11,5	6,8	3,2	3,4

\* The forecasts take into account the negative impact of COVID-19 on Latvia's economic growth and the support measures introduced by the Latvian government to reduce the impact of the crisis.

Source: MoF

The COVID-19 pandemic will have a significant impact on all sectors of the economy. The largest declines are projected in the accommodation and food service activities and in the leisure and entertainment services sectors, where value added is projected to decline by around 30% overall in 2020. A 20% reduction is expected in the transport sector. The decline is also expected in manufacturing due to the initial disruption of supply chains and declining demand, as well as in trade due to declining household income and consumption, as well as wholesale development problems due to the decline in container freight and aggregate demand. In turn, investor caution will negatively affect the real estate and construction industries.<sup>86</sup>

Extensive support for the Eurosystem's monetary policy and government fiscal policy not only mitigates the negative effects of the COVID-19 pandemic in the worst of the crisis, but also provides a strong stimulus to growth in the post-crisis economic recovery. The support is significantly complemented by the European Commission's updated proposal for the next Multiannual Financial Framework of the EU and the recovery instrument, which will attract additional funding to stimulate Member States' economies and improve future prospects for investors. According to the BoL, in such a scenario, the decrease in the prevalence of COVID-19 in Europe and the easing of precautionary measures implemented so far both domestically and abroad would make households more optimistic and allow limited consumption to recover more quickly by reducing precautionary savings. Rapid and successful containment of the COVID-19 pandemic on a global scale, as well as the use of effective support instruments, would allow for a worse-case scenario of lower GDP decline in 2020 (-6.3%) and a rapid economic recovery in the coming years<sup>87</sup>.

The economic recovery and further development will also be affected by the financing, incl. the availability of credit for both short-term and long-term problems to be taken into account when designing financial instruments for EU funds programming period 2014-2020. To alleviate the crisis, the European Commission has decided to ease fiscal conditions so that national governments can manage budget finances efficiently and flexibly and support businesses. Measures limiting the COVID-19 pandemic, as well as stimulating the economy, are being implemented effectively and immediately in Latvia as well. Support is provided both to reduce costs for entrepreneurs and to support workers and the unemployed, which helps to stabilize the situation and could help the economy to recover more quickly in the post-crisis period.

<sup>86</sup> Macroeconomic Forecasts of the BoL (March 26, 2020) file <https://www.macroekonomika.lv/page/macroeconomic-forecasts-latvijas-banka>

<sup>87</sup> <https://www.makroekonomika.lv/lapa/par-latvijas-bankas-makroekonomiskajam-prognozēm>



### 3.5. National Development Plan

National Development Plan 2021-2027 (NDP2027)<sup>88</sup>, approved by the Parliament of the Republic of Latvia on 2 July 2020, is the main medium-term planning document developed by taking into account Latvia's Sustainable Development Strategy until 2030 (Latvia 2030), the UN Sustainable Development Goals, as well as the EC and EU Council recommendations and policy objectives for the next EU funds programming period 2021-2027.

Although the NDP2027 was largely developed before the start of the COVID-19 pandemic, the additional resources planned to halt and overcome the resulting crisis and their use for socio-economic purposes will be linked to the strategic objectives and lines of action of the NDP2027.

In accordance with the NDP2027, Latvia's investment needs are planned in accordance with the scope of investments proposed in the Cohesion Policy Regulation for EU funds programming period 2021-2027. For the EU funds 2014 – 2020 programming period, formulating action lines in six priority areas: *Strong families, healthy and active people; Knowledge and skills for personal and national growth; Business competitiveness and material well-being; Quality living environment and territorial development; Culture and sport for an active and fulfilling life and - A united, secure and open society*. Each of the priorities sets out a number of actions in key priority areas, specific challenges and results to be achieved by 2027<sup>89</sup>.

In total, the implementation of NDP2027 is linked to the available financial resources planned for Latvia's development in the period from 2021 to 2027 in the total amount of approximately EUR 14.5 billion from the state budget development part, EU funds and other financial sources. An indicative set of investment measures with 369 measures has been developed for the implementation of NDP2027<sup>90</sup>.

The ex-ante evaluation is focusing on 2 priorities and 7 directions of measures set by NDP2027, which are related to the scope of ex-ante evaluation and should be evaluated in the context of the use of financial instruments:

- Priority "Competitiveness of enterprises and material well-being"
  - Action line "Productivity, innovation and exports".
  - Action direction "Work and income".
  - Action line "Capital and business environment".
- Priority "Quality living environment and territorial development"
  - Action line "Nature and environment - Green deal".
  - Action line "Technological environment and services".
  - Action line "Balanced regional development".
  - Action line "Housing".

### 3.6. Implementation of energy and climate policy objectives

The National Energy and Climate Plan for 2021-2030 (NECP2030), which was approved by the Cabinet of Ministers on 28 January 2020, is also related to the scope of assessment. This plan was drawn up in accordance with the regulation on the governance of the Energy Union<sup>91</sup>, to plan policies to achieve the targets set by Latvia and their implementation measures in the following sectors or activities - reduction of greenhouse gas emissions and increase of carbon sequestration, increase of renewable energy sources, improvement of energy efficiency, ensuring energy security, maintenance and improvement of energy market infrastructure; also improving innovation, research and competitiveness. The plan includes a list of 104 measures divided into 12 strands, improving the energy performance of buildings, promoting the use of non-emission technologies in electricity generation, improving energy efficiency and promoting the use of renewable energy technologies in heating and cooling, industry and transport, promoting energy self-generation and consumption, energy security and independence, full integration of energy markets, infrastructure modernization, waste and infrastructure improving efficiency and reducing greenhouse gas (GHG) emissions, resource efficiency and reduction of GHG emissions in

88 <https://likumi.lv/ta/id/315879-par-latvijas-nacionalo-attistibas-planu-20212027-gadam-nap2027>

89 <https://likumi.lv/ta/id/315879-par-latvijas-nacionalo-attistibas-planu-20212027-gadam-nap2027>

90 <https://www.pkc.gov.lv/lv/nap2027>

91 [https://em.gov.lv/lv/nozares\\_politika/nacionalais\\_energetikas\\_un\\_klimata\\_plans/](https://em.gov.lv/lv/nozares_politika/nacionalais_energetikas_un_klimata_plans/)



agriculture, sustainable use of resources, reduction of GHG emissions and increasing CO2 sequestration in forestry<sup>92</sup>.

In line with the European Commission's plans for the Multiannual Financial Framework 2021-2027 it is estimated that 25 % of spending will be on climate goals. As a result, funding for the climate goals in the EU funds programming period 2021-2027 will be around EUR 320 billion, which also includes the integration of various EU funding instruments<sup>93</sup>.

### 3.7. Summary of EU funding for the EU funds programming period 2014-2020



#### EU and ALTUM funding

- Total funding from EU funds 2014-2020 – **EUR 6,1 billion.**
- Investments in financial instruments – **EUR 119,710,050.**
- Repayments – **EUR 134,288,569.**
- Financial instruments administrated by ALTUM – **risk capital, loans, guarantees.**

The investment strategy of Latvia's EU funds is aimed at promoting the potential for economic development and growth, implementing the objectives of the NDP 2020, as well as fulfilling the recommendations and commitments of the EC and the EU Council. In the EU funds programming period 2014-2020, the Latvian Operational Programme "Growth and Employment" determines the investment of three funds - ERDF, ESF and CF funding in nine priority axis and related specific support objectives (SO).

In EU funds programming period 2014-2020 Latvia received a total of 4.4 billion EUR (4 418 233 214 EUR), or about 3000 EUR per capita from the ERDF, ESF and CF, which was less than in EU funds programming period 2007 - 2013 (EUR 4.53 billion EUR)<sup>94</sup>. The table below provides information on the priority directions and planned investments.

Table 8. Priority axis of EU funds (ERDF, ESF, CF) investments and financing (January 2020)

Priority axis	EU funding (EUR million)	Support objective
<b>1. Research, technological development and innovation</b>	467.5	Support for research and development (R&D) innovation capacity building.
<b>2. ICT accessibility, e-government and services</b>	172.8	Support for the promotion of balanced development of the entire territory of Latvia by improving the availability of electronic communications infrastructure in rural areas, at the same time developing an environment conducive to economic activity with public and private sector integrated ICT solutions and promoting Latvia's integration into the European digital single market.
<b>3. Competitiveness of small and medium-sized enterprises</b>	314.3	Support for the establishment of new enterprises, growth of existing enterprises and increase of the share of manufacturing.
<b>4. Transition to a low-carbon economy in all sectors</b>	480.6	Support for the reduction of primary energy consumption and the promotion of efficient, sustainable use of energy resources in various sectors.
<b>5. Environmental protection and resource efficiency</b>	623.1	Support for measures to adapt to climate change by reducing the risk of floods and coastal erosion, and measures to reduce the amount of waste going to landfill and increase the reuse, recycling and recovery of different types of waste.

<sup>92</sup> <https://likumi.lv/ta/id/312423-par-latvijas-nacionalo-energetikas-un-klimata-planu-2021-2030-gadam>

<sup>93</sup> [https://ec.europa.eu/clima/policies/budget/mainstreaming\\_en](https://ec.europa.eu/clima/policies/budget/mainstreaming_en)

<sup>94</sup> <https://www.esfondi.lv/2007.-2013.g.-planosanas-periods>

<b>6. Sustainable transport system</b>	1,159.8	Support for the provision of co-modal, high-quality and competitive transport infrastructure.
<b>7. Employment and labor mobility</b>	135.4	Support for the unemployed and persons at risk of unemployment, incl. increasing the competitiveness of young people in the labor market.
<b>8. Social inclusion and the fight against poverty</b>	418.5	Support for activating disadvantaged people and reducing barriers to participation in the labor market and society.
<b>9. Education, skills and lifelong learning</b>	516	Support for the provision of quality and inclusive education for personal development at all levels of education.
<b>Technical support</b>	101.3	Ensuring investment management and implementation of EU funds

Source: <https://www.esfondi.lv/es-fondi-2014--2020>

EU funding allocated to Latvia for the European Agricultural Fund for Rural Development (EAFRD) in the EU funds programming period 2014-2020 is 1,533,499,587 EUR and intended for financing the priorities of the Latvian Rural Development Program for 2014-2020<sup>95</sup>.

In its turn, the EU funding allocated to Latvia from the European Maritime and Fisheries Fund (EMFF) in the EU funds programming period 2014-2020 programming period is 183,585,859 EUR provided for in the Latvian Operational Program for Fisheries Development 2014-2020<sup>96</sup>.

The largest share of EU funds comes from the ERDF (38%), EAFRD (25%) and CF (22%). The fourth largest fund is the ESF (11%) and the smallest EMFF (3%).

A total of approximately EUR 6.1 billion (6,157,330,483) is available to Latvia for the entire EU funds (ESF, ERDF, CF, EAFRD, EMFF) in the 2014-2020 programming period, which applies to all groups of beneficiaries.

### 3.8. Financing for the Latvia's economy provided by financial institutions and non-bank financiers



#### Financing provided by financial institutions and non-bank financiers

- **50%** of enterprises do not apply for a bank loan due to additional risks.
- **94%** of enterprises use internal sources of financing.
- **72% of** enterprises that had applied for funding, received the required funding.
- Funding provided by commercial banks to economic sectors - about **EUR 6 billion**.
- Non-bank lenders - around **EUR 733 million**.

#### 3.8.1. Financing provided by the banking sector

The banking sector lending, which decreased in Latvia during the global financial crisis (2007-2010), can still be assessed as insufficient, especially in the business sector, where lending can be described as uneven.

Lending by commercial banks has been low in the post-crisis period and has been on a declining trend. According to the data of the BoL, in the period from 2011 to 2019, the volumes of loans to enterprises have decreased by approximately 62%<sup>97</sup>. Although the volume of deposits in banks is increasing and, consequently, the capacity to finance business, as the resources of banks increase, the

<sup>95</sup> <https://www.zm.gov.lv/zemkopibas-ministrija/statiskas-lapas/2014-2020-gada-planosanas-periods?id=7433#jump>

<sup>96</sup> <https://www.zm.gov.lv/statiskas-lapas/es-atbalsts-zivsaimniecibai?id=2248#jump>

<sup>97</sup> <https://www.makroekonomika.lv/uznemejdarbibas-kreditesana-gads-nosledzies-uz-pesimistiskas-nots>

gap between the lending potential and the prudence and reluctance of lenders / borrowers to take potential risks is becoming more and more pronounced.

As a result, the domestic loan portfolio in Latvia is the lowest in both the EU and the euro area in absolute terms, and also accounts for less than 40% of the gross domestic product (87% on average in the EU), surpassing only Romania and Hungary. Lending support would be much more necessary for the growth of the Latvia economy, however, it could not be expected in the near future, as uncertainty remains. The table below includes information on the financing of the economy as of 31.12.2018 and 31.12.2019.

Table 9. Domestic loans. Loan portfolio of domestic non-financial corporations by economic sector (19) (gross book value in thousands of EUR)

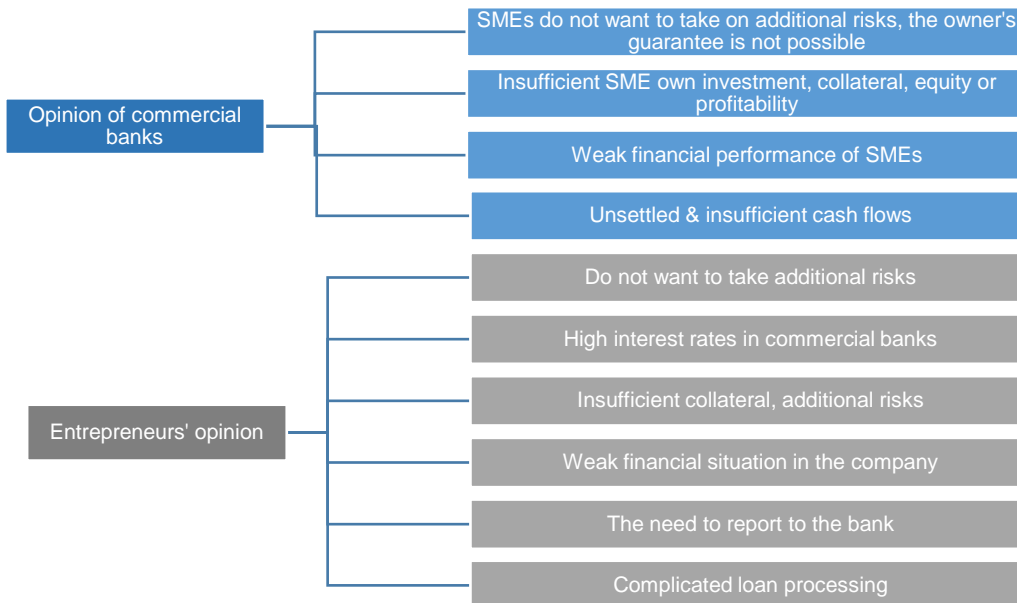
Economic sectors	12/31/2018	12/31/2019	Distribution (%) on 31.12.2019
<b>Economic sectors, total</b>	<b>6,430,319</b>	<b>5,979,886</b>	<b>100%</b>
Agriculture, forestry and fisheries	729,449	685,053	11.4
Mining and quarrying	20,593	15,656	0.3
Manufacturing	839,944	709,905	12.0
Electricity, gas and heat supply	580,451	513,323	8.6
Water supply and waste management	84,398	87,657	1.5
Construction	152,526	153,392	2.6
Wholesale and retail trade	910,131	765,392	13.0
Transport and storage	702,717	617,051	10.3
Accommodation and food services	117,326	219,966	3.7
Information and communication services	135,353	126,124	2.1
Financial and insurance services	3,037	5,920	0.1
Real estate activities	1,689,101	1,774,350	29.7
Professional, scientific and technical services	84,185	33,613	0.6
Administrative and support service activities	113,439	69,131	1.2
Public administration and defence	29,317	17,875	0.3
Education	10,611	12,854	0.2
Health and social care	43,279	45,963	0.8
Arts, entertainment and recreation	19,984	13,930	0.2
Other services	104,480	112,294	1.9

Source: <https://www.fktk.lv/statistika/kreditiestades/ceturksna-parskati/>, autoru aprēķini

### 3.8.2. Loan availability and rates

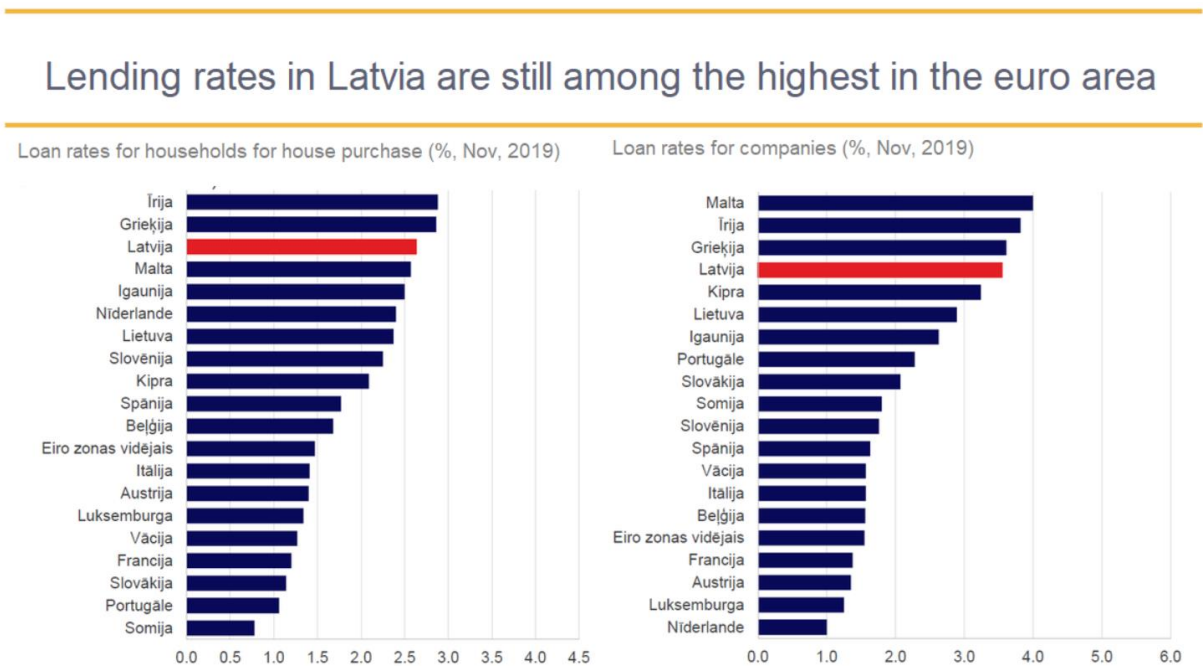
Although non-bank lending periodically shows positive trends, lending to SMEs is still about half of pre-crisis levels. Problems in lending to SMEs are caused by their relatively weak financial situation, low level of financial competence, internal disorder and higher risks related to loan repayment. Since 2019, there has been an active process of streamlining SMEs to make their funding flows more transparent and traceable than before. In this case, commercial banks have a semi-educational role, helping enterprises to organize themselves internally, which could reduce potential risks.

Figure 4. Summary of opinions of commercial banks and entrepreneurs on the main factors limiting lending



According to the data of the European Central Bank, lending rates for enterprises in Latvia are the fourth highest among the Eurozone countries immediately after Malta, Ireland and Greece and well above the Eurozone average. According to the European Central Bank, in November 2019, the average credit rate for enterprises in Latvia was 3.6%. Although corporate lending rates have fallen over the last decade, they are still high compared to the rest of the EU.

Figure 5. Comparison of loan interest rates in EU countries, 2019 November (%)



Source: European Central Bank, presentation by the BoL, 29.01.2020

### 3.8.3. Non-bank financiers

According to the FCMC data on the operation of investment companies in Latvia, as of 31.12.2019. eleven licensed ISPs managed 24 open IFs. Total number of investment certificates issued<sup>98</sup> on 30.09.2019. was EUR 12 162 036 (31.12.2018 – EUR 12 207 847). During the year, the total ISP assets decreased slightly and amounted to EUR 45.9 million as of 31.12.2019 (31.9.2018 - EUR 49.9 million). At the end of 2019, compared to the end of 2018, the total IF assets increased by approximately 11.2% to EUR 226.8 million (31 December 2018 - EUR 203 million<sup>99</sup>).

There are also 28 alternative financiers (AIF) operating in Latvia under the supervision of the FCMC, which have a total of 20 managers, incl. 1 licensed investment management company. At the end of 2019, the total assets of AIF increased by 11.2% compared to the end of 2018 to EUR 193.3 million (31 December 2018 - EUR 173.8 million)<sup>100</sup>.

Table 10. Key performance indicators of alternative financiers - investment management companies and alternative investment funds

Position name	12.31.2018	12.31.2019
<b>Number of investment companies (ISP)</b>	11	11
<b>Total assets of ISP, million EUR</b>	49.9	45.9
<b>Number of investment funds (IF)</b>	23	24
<b>IF total assets, EUR million</b>	203.0	226.8
<b>Number of investment certificates</b>	12,207,847	12,062,036
<b>Number of AIF</b>	30	28
<b>Total assets of AIF, EUR million</b>	173.8	193.3

Source: FCMC, <https://www.fktk.lv/statistika/finansu-instrumentu-tirgus/ceturksna-gada-parskati/>

### 3.8.4. Development Finance Institution ALTUM

Development Finance Institution ALTUM plays an important role in the economic development, as it provides financing to sectors where financial institutions do not provide financing. ALTUM manages EIB funding (COSME, EaSI), bond funding and other funding. ALTUM is the only institution involved in the administration of EU funds financial instruments in Latvia. According to the Law on Development Finance Institution, the main activity of ALTUM is the provision of the State support program in the form of financial instruments - loans, risk capital, guarantees and support to farmers. Pursuant to Article 16 of the Law on Development Finance Institution, ALTUM does not make payments for the use of state capital. ALTUM operates in accordance with EC Decision 09.06.2015 C (2015) 3896 final on State aid SA.36904 (2014 / N) - Latvia, the Development Division of the Mortgage and Land Bank and the establishment of the Latvian Development Financial Institution.

In addition to EU funding, ALTUM attracts state budget financing, repaid financing of financial instruments, as well as other financial sources, such as State Treasury, international financial institutions.

Table 11. Available EU funding financial instruments managed by ALTUM, 2014-2020 (EUR)

ALTUM programme	EU funding (ERDF), EUR	Public reimbursement, EUR	Other sources of funding	Attracted (public) funding, EUR	Total, EUR
<b>RISK CAPITAL</b>					
<b>Start-up capital, seed capital and growth capital funds <sup>101</sup> (SO 3.1.2.)</b>	32,200,000	27,800,000	NA	3,000,000	63,000,000
<b>Acceleration funds <sup>102</sup></b>		2,000,000	NA	NA	15,000,000

98 Securities representing the investor's participation in an investment fund, incl. participation in a money market fund and the rights arising from that participation.

99 <https://www.fktk.lv/statistika/finansu-instrumentu-tirgus/ceturksna-gada-parskati/>

100 <https://www.fktk.lv/statistika/finansu-instrumentu-tirgus/ceturksna-gada-parskati/>

101 Cabinet of Ministers Regulations No. of 2 August 2016. 518 "Regulations on Seed Capital, Seed Capital and Growth Capital Funds for the Promotion of the Establishment, Development and Competitiveness of Economic Operators"

102 Cabinet of Ministers Regulations No. of 12 April 2016. 226 "Regulations on Acceleration Funds for the Promotion of the Establishment, Development and Competitiveness of Economic Operators"

	13,000,000				
<b>Business Angels Co-Investment Fund (SO 3.1.1)</b>	NA	NA	NA <sup>103</sup>	3,000,000	3,000,000
<b>TOTAL:</b>					<b>81,000,000</b>
<b>LOANS</b>					
<b>Parallel loans (Parallel loan, Parallel cumulation loan)<sup>104</sup> (SO 3.1.1.)</b>	7,000,000	2,000,000	NA	20,000,000	29,000,000
<b>Working capital loans to farmers<sup>105</sup></b>	NA	NA	NA	25,611,693	25,611,693
<b>Agricultural land purchase loan<sup>106</sup></b>	NA	NA	NA	100,000,000 <sup>107</sup>	100,000,000
<b>Small loans in rural areas<sup>108</sup></b>	NA	7,810,000	NA	6,000,000	13,810,000
<b>Microcredit and loans for beginners (Start-up cumulation loan; Start-up loan; Micro loan)<sup>109</sup> (SO 3.1.1.)</b>	4,000,000	4,500,000	NA	23,000,000	31,500,000
<b>SME Growth Loan Program (SME Growth; SME Growth Loan for Energy Efficiency Measures)<sup>110</sup></b>	NA	8,772,360	195,275,437	NA	204,047,797
<b>Microcredit Program (Micro Switzerland)<sup>111</sup></b>	NA	NA	1,314,000	5,877,052 <sup>112</sup>	7,191,052
<b>TOTAL:</b>					<b>411,160,542</b>
<b>GUARANTEES</b>					
<b>Loan guarantees (SME credit guarantee; Cumulation guarantee; Guarantee for large economic operators; EEO MAB guarantee)<sup>113</sup> (SO 3.1.1.)</b>	44,800,000	7,500,000	1,158,426	NA	53,458,426
<b>Portfolio guarantee programme<sup>114</sup></b>	NA	7,800,000	NA	NA	7,800,000
<b>Guarantee for agricultural and rural development loans (Farmers' guarantee)<sup>115</sup></b>	NA	NA	NA	5,400,000	5,400,000

103 Based on the cooperation agreement between ALTUM and the association "Latvian Business Angels Network"

104 Regulations of the Cabinet of Ministers of 15 July 2016 No. 469 "Regulations on Parallel Loans to Economic Operators for Improving Competitiveness"

105 Regulations of the Cabinet of Ministers of 3 December 2019 "Procedures for Implementing the State Support Program for Granting Loans for the Purchase of Working Capital in the Agricultural, Forestry, Fisheries and Aquaculture Sectors"; Regulations of the Cabinet of Ministers of 27 April, 2010 No. 403 "Procedures for Granting State Aid for the Acquisition of Working Capital for the Production of Agricultural Products"

106 Regulations of the Cabinet of Ministers of 22 May 2018 "Procedure for Granting State Aid for the Acquisition of Agricultural Land for the Production of Agricultural Products"

107 Total amount of intervention

108 Regulations of the Cabinet of Ministers of 24 July 2018 "Regulations on the Loan Program for Agricultural, Rural and Fisheries Economic Operators"

109 Regulations of the Cabinet of Ministers of 31 May 2016 No. 328 "Regulations on microloans and start-up loans"

110 Cabinet Regulation No. 1065 of 15 September 2009 "Regulations on Loans for Promotion of the Development of Small (Micro), Small and Medium-Sized Economic Operators and Agricultural and Forestry Service Cooperative Societies"

111 Cabinet 2011 6 September Regulations Nr.698 "Regulations on micro-loans and grants Latvian and Swiss cooperation programs in the individual project" Micro-lending program "within the framework"

112 Latvian-Swiss Cooperation Program, incl. EUR 1 314 400 from ALTUM resources

113 Cabinet Regulation No. 248 of 24 April 2018 "Amendments to Cabinet Regulation No. 997 of 26 October 2010 "Regulations on Guarantees for Improving the Competitiveness of Merchants and Relevant Agricultural Service Cooperative Societies""; Cabinet of Ministers of 26 October 2010 Regulations Nr.997 "Regulations on guarantees for entrepreneurs and adequate farmers' unions in competitiveness"

114 Cabinet Regulation No. 537 of 5 September 2017 "Regulations on Portfolio Guarantees for the Promotion of Lending to Small (Micro), Small and Medium-Sized Enterprises"

115 Cabinet Regulation No. 638 of 27 September 2016 "Regulations on Guaranteeing Agricultural and Rural Development Loans" (01.05.2015-11.01.2019); Cabinet Regulation No. 9 of 8 January 2019 "Regulations of the Agricultural, Fisheries and Rural Development Guarantee Program (11.01.2019-30.06.2021)"



<b>Export credit guarantees (incl. Medium and long-term)<sup>116</sup></b>	NA	5,000,000	NA	NA	5,000,000
<b>EEO MAB financial instrument<sup>117</sup></b>	171,243,317	NA	NA	30,219,403	201,462,726
<b>Total:</b>	<b>273,121,152</b>				

Source: CoM (see footnotes)

In issuing loans and guarantees, ALTUM actively cooperates with commercial banks, alternative investment and venture capital funds, trying to achieve the best possible conditions for borrowers and at the same time ensure that ALTUM does not compete with commercial banks in areas where the private market can operate effectively.

Commercial banks are important partners of ALTUM and the most important areas of cooperation with commercial banks so far have been credit guarantees, portfolio guarantees and parallel loans, followed by export guarantees and other products, as evidenced by the ALTUM study at the end of 2019 representatives of commercial banks'. The study mentions the lack of collateral as the primary indicator of attracting credit guarantees, but in general the use of credit guarantee potential is decreasing, as well as the amount of structured parallel loans has slightly decreased.

To prevent this, it is necessary to reduce costs for customers and simplify the receipt process. Process automation and the implementation of digital solutions were mentioned as important aspects of performance improvement. In the process of cooperation between ALTUM and commercial banks, communication, clarity of exactly what documents must be submitted are equally appreciated, but banks are critical of the existence of bureaucracy, speed of filling in the document form, lack of understanding of how the loan guarantee price is formed. Overall, the results of the study prove that commercial banks consider ALTUM to be a respectable partner and would like to cooperate in the future as well<sup>118</sup>.

116 Cabinet Regulation No. 290 of 30 May 2017 "Regulations for Issuance of Medium and Long-Term Export Credit Guarantees to Economic Operators "

117 Cabinet Regulation No. of 15 March 2016. 160 Operational Program "Growth and Employment" 4.2.1. of the specific support objective "To promote the increase of energy efficiency in public and residential buildings" 4.2.1.1. Rules for the Implementation of the Specific Support Objective Measure "Promoting Energy Efficiency in Residential Buildings"

118 ALTUM (2019) "Study of cooperation aspects between ALTUM and representatives of commercial banks", presented in February 2020 at ALTUM, Riga.

## 4. EUROPEAN MARITIME AND FISHERIES FUND

### 4.1. Summary and main conclusions

According to NDP2027<sup>119</sup>, development priority of Latvia is the integration of biodiversity conservation measures into economic sectors. Notably, in the agricultural, forestry and **fisheries sectors**, through sustainable management of natural resources and the use of green infrastructure, while ensuring the protection and enhancement of biological and landscape diversity, contributing to sustainable tourism development. Within the assessment framework, according to the explanation of the Ministry of Agriculture (MoA) the fishing industry means fisheries, aquaculture and fish processing.

Table 12. Assessment of the fisheries sector

<b>Policy priorities</b>	<ul style="list-style-type: none"> <li>• Support for the development of fisheries products in the global market.</li> <li>• Measures to boost the competitiveness of the fisheries sector.</li> <li>• Sustainable exploitation of fisheries and water biological resources.</li> <li>• Implementation of community-led local development (CLLD) measures in the coastal area.</li> </ul>
<b>Group of beneficiaries</b>	<ul style="list-style-type: none"> <li>• The information is compiled for the following subsectors: A03. “Fishing”, A0322 “Aquaculture for freshwater” and C1020 “Processing and preserving of fish crustaceans and molluscs”.</li> <li>• <b>201 fishing enterprises</b> (marine fisheries 139, freshwater fisheries 62), characterised with a small amount of funding required for the development of projects (up to EUR 100 000).</li> <li>• <b>94 economically active aquaculture enterprises</b> (marine aquaculture 4, freshwater aquaculture 90), most of them (72%) are enterprises with the funding required up to EUR 300 000 and in some cases funding required up to EUR 1 000 000 000.</li> <li>• <b>108 fish, crustacean and mollusc processing and canning enterprises</b>, most of which (around 80%) are commercial enterprises.</li> <li>• According to survey results about half of fisheries enterprises have attracted external funding from commercial banks and used EU funding for different projects. The funding was needed for acquisition of fixed assets, to finance construction projects and finance working capital.</li> </ul>
<b>Available financing</b>	<ul style="list-style-type: none"> <li>• During the EU funds programming period 2014-2020, funding from the EMFF was not used for financial instruments. Fisheries enterprises have been able to use ALTUM financial products, including loans to agriculture and fisheries sectors, as well as other financial products for entrepreneurship.</li> <li>• Only fish-processing enterprises used ALTUM financial products that have been set up for entrepreneurship development. Around 10% of fish processing enterprises have used financial products offered by ALTUM – loans up to EUR 40 000. Fish processing enterprises (7) have used ALTUM guarantees where the amount of the guarantee is between EUR 110 000 and EUR 2 400 000.</li> </ul>
<b>Challenges for the group of beneficiaries</b>	<ul style="list-style-type: none"> <li>• Low level of innovation.</li> <li>• The need to improve productivity.</li> <li>• Creating greater added value for fish products.</li> <li>• Promoting economic activity that can be achieved by investing in infrastructure.</li> </ul>

<sup>119</sup>[https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027\\_confirin%C4%81ts%20Saeim%C4%81\\_1.pdf](https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027_confirin%C4%81ts%20Saeim%C4%81_1.pdf)

<p><b>Market failure, investment needs</b></p>	<ul style="list-style-type: none"> <li>• The availability of funding to increase productivity, introducing new technologies and improving innovation. Given that part of the investment is long-term and will not be able to provide the necessary return in the short term, commercial banks are not always interested in financing this segment.</li> <li>• According to the survey results, commercial banks and ALTUM do not provide about 16.5% of the required funding.</li> </ul>
<p><b>Financial instruments</b></p>	<ul style="list-style-type: none"> <li>• Funding for fish processing enterprises can be provided from the EMFF funds allocated to financial instruments and financial instruments of entrepreneurship support.</li> <li>• NDP2027 sets out 4 measures for a total of EUR 178 million, which could be financed from EMFF public funding. Evaluating NDP2027 measures, the focus was on the measures that resulted in revenue increase or cost decrease. In total, for 2 NDP2027 measures for a total amount of EUR 137 million, the ex-ante evaluation recommended the partial use of financial instruments for a total amount of EUR 46 750 000.</li> <li>• <b>The combined financial instrument for the implementation of community led local development measures in the coastal area, amounting to EUR 6.75 million.</b> The combined financial instrument — loan and grant — for the start-up and promotion of small enterprises. The average project amount of EUR 100 000, including 10% co-financing by the beneficiary. Loan on average for 3-5 years, loan interest rate according to market conditions (not subsidised), no need for collateral. Specific objective of aid — small scale projects supporting the growth of the blue economy. Appraisal of the project applications and subsequent project implementation monitoring shall be carried out by one body implementing financial instruments, for instance, Rural Support Service (RSS), ALTUM or other body. The financial instrument development and management is financed by the EMFF at the fixed rate.</li> <li>• <b>A combined financial instrument to boost the competitiveness of the fisheries sector. The average project amount of EUR 1 000 000 000,</b> including 20% co-financing by the project promoter, not more than 40% grant and not less than 40% loan. <b>The total amount of funding to be allocated to FI is EUR 40 million.</b> The duration of the loan on average 10 - 15 years, the interest rate on loan according to market conditions (not subsidised). The specific objective of aid: support for the introduction of new or improved products, services, methods, productive investments in fisheries enterprises. The business plan should provide that at least 50% of the planned amount to be used for the purchase of fixed assets, which also serves as collateral for the loan. Appraisal of project applications and subsequent project implementation monitoring is carried out by one body implementing a financial instrument, such as RSS, ALTUM or other body. The development and implementation of a financial instrument is funded by the EMFF, at a fixed rate.</li> <li>• Combined financial product for the implementation of community-led local development measures in the coastal area, private co-financing by the project promoter 10% of the project amount. Planned leverage effect 1.</li> <li>• Combined financial product to promote the competitiveness of the fisheries sector, private co-financing by the project promoter 20% of the project amount. Planned leverage effect 1.</li> </ul>
<p><b>State aid</b></p>	<ul style="list-style-type: none"> <li>• The EMFF grants should not be subject to the harmonisation of State aid procedure and subject to de minimis requirements. It is assumed that similar conditions will also apply to EMFF financial instruments if they are implemented in fisheries sector.</li> <li>• It is advisable to carry out an assessment of whether activities of the blue economy outside fisheries will have to be subject to the general de minimis requirements. The evaluation will be carried out once the State</li> </ul>

	<p>aid regulations for the EU funds programming period 2021-2027 have been published.</p> <ul style="list-style-type: none"> <li>• In addition, other State aid regulations may be taken into account.</li> </ul>
<b>Expected benefits</b>	<ul style="list-style-type: none"> <li>• The implementation of the measure will contribute to the development of fisheries sector, the blue economy and entrepreneurship. The use of combined financial instruments for the development of the blue economy will ensure the gradual use of financial instruments for enterprises in the fishery sector while maintaining the grant component. Linking grant with the blue economy, climate and business goals will help enterprises to focus on complex performance targets and help ensure the sustainability of entrepreneurship activities. The implementation of the measures will result in achieving the objectives set out in the Action Programme.</li> </ul>

## 4.2. Assessment of market failures

### 4.2.1. Common Fisheries Policy



#### Summary of political priorities included in the planning documents

- Supporting the development of fish products **in the global market.**
- Measures **to boost the competitiveness** of the fisheries sector.
- **Sustainable exploitation** of fisheries and water biological resources.
- **Implementation** of community led local development measures in the coastal area.

The analysis of the sector's funding needs is based on the sectorial expert working documents in planning the objectives and priorities of the European Maritime and Fisheries Fund for the EU funds programming period 2021-2027<sup>120</sup>. The main objectives and priorities related to the need for funding are listed in the table below.

Table 13. Fisheries priorities for the EU funds programming period 2021-2027


Scope	Priorities
<b>Fishing</b>	<p>Development of innovations, promotion of cooperation between science and entrepreneurship.</p> <p>Investments in fishing vessels related to health, safety and hygiene issues.</p> <p>Fishing gear selectivity.</p> <p>Development of services and infrastructure needed by fishermen in ports.</p> <p>Aid for attracting young fishermen to purchase a first fishing vessel.</p> <p>Environmentally sustainable, resource-efficient, innovative, competitive and knowledge-based fisheries.</p>
<b>Aquaculture</b>	<p>Productive investment in aquaculture.</p> <p>Promoting cooperation between science and aquaculture enterprises for the development of innovations.</p> <p>Promotion of higher value-added products.</p> <p>Development of organic aquaculture.</p> <p>Export promotion of aquaculture products.</p> <p>Diversification of pond farming activities.</p>

<sup>120</sup>[http://www.laukutikls.lv/sites/laukutikls.lv/files/article\\_attachments/2\\_e.kublina\\_zm\\_ejzf\\_pec\\_2020\\_konference\\_271119.pdf](http://www.laukutikls.lv/sites/laukutikls.lv/files/article_attachments/2_e.kublina_zm_ejzf_pec_2020_konference_271119.pdf)

	<p>Environmentally sustainable, resource-efficient, innovative, competitive and knowledge-based aquaculture.</p> <p>Marketing and processing promotion.</p> <p>Promoting the implementation of the Integrated Maritime Policy.</p>
<b>The processing of fishery and aquaculture products</b>	<p>Investments in the development of innovations, new products, processes, the introduction of new technologies.</p> <p>Investments for efficient use of resources (energy efficiency, etc.).</p> <p>Export promotion.</p> <p>Development of new markets.</p> <p>Support for home producers and family enterprises.</p>
<b>Local initiative measures in the area of importance for fisheries – Baltic Sea coast</b>	<p>Creating added value for fish products.</p> <p>Economic activity promotion.</p> <p>Diversification of activities in fisheries and other sectors of the blue economy.</p> <p>Development of environmental services.</p> <p>Climate change mitigation.</p> <p>Exploitation of fisheries and maritime heritage.</p> <p>Increasing employment and territorial cohesion.</p> <p>Development of tourism in the coastal zone.</p>

Source: Working materials of the MoA

#### 4.2.2. National Development Plan 2021-2027



**NDP2027 measures**

- **4 measures financed by the EMFF amounting to EUR 178 168 808.**
- Financial instruments proposed for NDP2027 measure No 42 “Measures to boost the competitiveness of the fishing sector” — total amount **EUR 121 942 515.**
- Financial instruments proposed for NDP2027 measure No 61 “Implementation of community led local development measures in the coastal area” — total amount **EUR 15 000 000.**

NDP2027 identifies sector priorities, as well as recommends the amount of funding and its sources for the implementation of sector priorities. The evaluation analysed all NDP2027 measures with a possible source of funding EMFF. The table below sets out the rationale for financing NDP2027 measures through financial instruments. **Source of funding – EMFF.** The indicated funding is the total amount, including both the planned EU investment and the national co-financing, which will depend on the specific measure and aid intensity.

Table 14. Planned funding for fisheries sector NDP 2027 measures

No.	Description of the measure	Funding, EUR	Justification
42	<p><b>Measures to boost the competitiveness of the fisheries sector</b></p> <p>Supporting productivity - enhancing activities in the private sector for high-tech applications also outside RIS3 sectors for industrial transformation</p> <p><u>Targeting:</u> Fisheries companies and public institutions.</p> <p><u>Place of implementation:</u> Latvia</p> <p><u>Activities:</u> introduction of new or improved products, services, methods, productive</p>	121 942 515	<p>Targets of the measure are fisheries enterprises.</p> <p><b>Potential financial products - loans (reduced interest rate), combined financial instrument (grant and loan), combined financial instrument (loan with grant component), portfolio guarantees.</b></p> <p><b>Given that the planned activities are related to the introduction of new technologies and the improvement of productivity, not all activities will</b></p>

	investments in fisheries, technical assistance.		<p><b>result in revenue increase, therefore, a combined financial instrument (grant and loan) is recommended.</b></p> <p>Taking into account the planned amount and the public institutions included in the group of beneficiaries, only a part of the planned funding will be allocated to financial instruments.</p> <p>Evaluate the need to indicate specific objectives of aid for the financial instrument - new or developed products, services – methods, productivity-enhancing investments in fisheries.</p>
61	<p><b>Implementation of community led local development (CLLD) measures in the coastal area</b></p> <p>Establishing a business-friendly public infrastructure based on the specialisation of areas identified in the area development planning documents and the ongoing demand of private investors to motivate the development of new products and services in the regions, increase productivity, diversify entrepreneurship, take advantage of innovation and capacity transfer opportunities and attract a skilled workforce</p> <p><u>Target area:</u> local inhabitants</p> <p><u>Area of implementation:</u> coastal area of the Baltic Sea</p> <p><u>Activities:</u> small-scale projects supporting the growth of the blue economy</p>	15 000 000	<p>The target audience of the measure is local inhabitants. The measure can promote people's focus on entrepreneurship and the development of existing businesses. Coastal enterprises and all forms of entrepreneurship are supported.</p> <p><b>Potential financial instruments: a combined financial instrument (grant and loan), a combined financial instrument (loan with a grant component), a grant for business promotion and a loan for sustainable business.</b></p> <p>In cases when the project business plan does not meet the grant conditions, only loan can be granted. In those cases financial products for entrepreneurship could be used and no EMFF funding allocated.</p> <p>The specific objective of aid - small-scale projects promoting the growth of the blue economy.</p> <p>Given the total amount of the measure and the fact that other projects are also planned under the measure, such as public benefit projects that will be implemented through grants, only 50% of measure funding to be used for FI.</p>

Source: NDP2027, <https://www.pkc.gov.lv/lv/nap2027>

#### 4.2.3. Group of beneficiaries — fisheries and processing enterprises



##### Description of the group of beneficiaries

- **295 fisheries enterprises** (sea fishery - 139, freshwater fishery - 62, marine aquaculture - 4, freshwater aquaculture - 90), including 146 enterprises and 149 micro-enterprises
- **108 processing and preserving enterprises for fish, crustaceans and molluscs processing**



According to CSB, 295 fisheries enterprises were operating in Latvia in 2018, 146 of which operated as commercial enterprises while 149 operated as individual enterprises, farmers and fishing holdings, as well as economic operators (natural persons). In 2018, the Food and Veterinary Service (FVS) recognised 156 aquaculture enterprises with the right to farm fish. According to CSB, there are 94 economically active aquaculture enterprises in Latvia.

In March 2020, the FVS registered 112 fish products processing enterprises. According to the CSB, there are 108 economically active enterprises. Fish products processing enterprises mainly operate in the regions of Kurzeme and Pieriga (Riga surroundings).

The table below includes information on the number of fisheries enterprises and fish products processing enterprises by different sub-sectors and types.

Table 15. Fishery enterprises in 2018

	Total	Natural persons - performing economic activities	Enterprises and fishermen	Individual economic operators	Commercial enterprises
<b>A03 Fishing</b>	295	8	86	55	146
<b>A0311 Sea fisheries</b>	139	-	51	30	58
<b>A0312 Fishing of freshwater</b>	62	4	20	18	20
<b>A0321 Marine aquaculture</b>	4	-	-	-	4
<b>A0322 Aquaculture for freshwater</b>	90	4	15	7	64
<b>C1020 processing and preserving of fish, crustaceans and molluscs</b>	108	-	13	6	89

Source: CSB, [http://data.csb.gov.lv/pxweb/lv/uzn/uzn\\_\\_01\\_skaitis/SRG020.px/](http://data.csb.gov.lv/pxweb/lv/uzn/uzn__01_skaitis/SRG020.px/)

The majority of 92% of fisheries enterprises, has a small number of employees (up to 9 employees), as shown in the table below.

Table 16. Breakdown by the size of fisheries enterprises in 2018

<b>A03 Fishing</b>						
<b>A03 Fishing</b>	<b>0-9</b>	<b>10-19</b>	<b>20-49</b>	<b>50-249</b>	<b>250+</b>	<b>Total</b>
Number of employees in a fisheries enterprises	272	11	9	3	-	295
Turnover of fisheries enterprises	<b>43,3</b>					

Source: CSB <sup>121</sup>

Given that one of the NDP2027 measures relates to community led local development in the coastal area, the ex-ante evaluation includes information on the coastal area. According to the State long-term thematic plan for the development of the public infrastructure of the Baltic Sea coast<sup>122</sup>, the total area of the coastal planning area is 3859 km<sup>2</sup> (5.9% of the territory of Latvia), which includes different municipalities with a different socio-economic situation, potential, as well as the length of the coastline. There are 929 642 inhabitants on the coast (beginning of 2015), most of whom have been declared in the cities (Riga, Jurmala, Ventspils, Liepaja).

#### 4.2.4. Financing administered by ALTUM



##### Financing administered by ALTUM

➤ **6 loans** were issued to fish processing enterprises amounting to **EUR 257,900**

<sup>121</sup> [http://data.csb.gov.lv/pxweb/lv/uzn/uzn\\_\\_01\\_skaitis/SRG030.px/](http://data.csb.gov.lv/pxweb/lv/uzn/uzn__01_skaitis/SRG030.px/),  
[http://data.csb.gov.lv/pxweb/lv/uzn/uzn\\_\\_uznemfin\\_\\_ikgad/UFG030.px/](http://data.csb.gov.lv/pxweb/lv/uzn/uzn__uznemfin__ikgad/UFG030.px/)  
<sup>122</sup><http://polsis.mk.gov.lv/documents/5763>

- **7 guarantees** have been issued to fish processing enterprises amounting to **EUR 6 091 437**
- According to survey results, **13% of all respondents requested funding from ALTUM**, 50% of respondents who requested funding from ALTUM or 6.5% of all respondents did not receive it. The required project funding for one project is in the range of **EUR 10,000 - EUR 100,000**. Reasons for not receiving funding: insufficient collateral and insufficient cash flow.

Fisheries enterprises have access to different financial instruments administered by ALTUM during the EU funds programming period 2014-2020. The tables below contain information about financial products administered by ALTUM. One of the financial products is specifically designed for farmers and fishermen (financial product A1), as well as some financial products supporting entrepreneurship may also be used for fisheries enterprises and fish products processing enterprises.

### Loans administered by ALTUM

The table below includes information on ALTUM administrated loans which can be used by fisheries enterprises.

Table 17. ALTUM financial products - loans

Financial product	CoM rules	ALTUM loan portfolio at 31.12.2019, EUR	Funding allocated to fisheries enterprises for 2016-2019, EUR
A1 - Loan programme for agricultural, rural and fisheries economic operators	24.07.2018 CoM Regulation No 446	2 483 000	14 800
A3 – Micro loans and start-up loans (fund of funds loan)	31.05.2016 CoM Regulation No 328	11 318 000	150 000
A4 - Loans to promote the development of micro, small and medium-sized enterprises and agricultural co-operative societies	15.09.2009 CoM rules 1065	69 371 000	93 190
<b>Total</b>		<b>83 172 000</b>	<b>257 900</b>

Source: ALTUM, data on 31.12.2019

According to ALTUM on 31.12.2019 **in fisheries sector loans were granted only to fish processing enterprises** (NACE C1020). Loans were granted to 3 micro-enterprises (2 in Pierīga region, 1 in Vidzeme region) in two programmes: The *Start-up programme* (financial product A3) and the Agricultural and Fisheries Loan Programme (financial product A1). Two of the loans issued are to finance working capital and one loan to finance investments. The amount of the loan in the Agricultural and Fisheries Loan Programme (financial product A1) for both enterprises is up to 10 thousand EUR with a fixed interest rate of 6.5% and 8%. The loan in the *Start-up programme* - 3 (financial product A3) is EUR 150 thousand with the 3% fixed and 0.5% variable interest rate.

The financial product A1 is to finance agricultural, rural and fisheries enterprises, but only fish processing enterprises have used funding and only 0.6% of total funding has been used.

The SME Growth Programme (financial product A4) provides three loans to small enterprises from Rīga and Vidzeme. In one case, a loan to finance working capital was provided, in two other cases - loans for investment projects. Loans are granted from 25 thousand EUR up to 40 thousand EUR.

### Guarantees issued by ALTUM

The table below includes information on ALTUM guarantees used by fisheries enterprises.

Table 18. ALTUM financial products - guarantees

Support programme	Amount of the guarantee contract, EUR	Amount of the financing contract, EUR	Guarantees granted to fisheries enterprises, 2016-2019, EUR
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Guarantees	30 044 591	64 891 499	625 699
Credit guarantees to farmers	12 166 980	30 211 409	125 838
SME Credit Guarantees	98 374 524	159 569 856	5 339 900
<b>Total</b>	<b>161 929 216</b>	<b>286 495 884</b>	<b>6 091 437</b>

Source: ALTUM, data 31.12.2019

According to ALTUM on 31.12.2019 **for fisheries sector guarantees were issued only to fish processing enterprises** (NACE C1020). Guarantees have been issued to one micro-enterprise, three small and three medium-size enterprises. Type of financing: investment loan (4), credit line (2) and working capital loans (1).

The guarantee is mainly 80% (5 contracts) of the required amount, but in other cases guarantees can be issued at 29.15% and 46.66% of the required amount. The guarantee commission rate fluctuates from 0.25% (1 contract) to 1.9 (1), with a more frequent application of 0.8% and 1.2% (2 contracts), a rate of 1.6% (1 contract).

The amount of the guarantee up to 200 thousand EUR allocated in 2 cases; up to 500 thousand EUR - 2 cases, up to EUR 1 million – 1 case; above EUR 1 million - 2 cases. The total **amount of guarantee agreements: EUR 6,091,438.11**. Amount of financing agreement granted up to 200 thousand EUR (1), up to 500 thousand EUR (3) and above EUR 1 million (3).

#### 4.2.5. Financing provided by commercial banks



##### Financing provided by commercial banks

- The funding provided by commercial banks for the agricultural, forestry and fisheries sectors amounts to more than EUR 700 million.
- **25% of all respondents requested funding from commercial banks; 6.25% of all respondents did not** receive funding from commercial banks and **6.25% of all respondents partly received** funding from commercial banks. The required funding per project was **EUR 10 000 – EUR 100 000**. The main reasons for funding refusal: problems in the industry, insufficient collateral, insufficient cash flow, insufficient investment from the enterprises.

According to the analysis of the current situation, the loan portfolio for the agricultural, forestry and fisheries sectors was approximately EUR 700 million for September 2019. During the assessment, no detailed information was available from financial institutions on the breakdown of the loan portfolio and the size of the amount for fisheries and fish processing enterprises.

Table 19. Domestic loans. Loan portfolio of in the breakdown of economic sectors (gross amount in EUR thousand)

Economic sectors	30.09.2018, EUR	30.09.2019, EUR	Breakdown (%) on 30.09.2019
<b>Economic sectors</b>	<b>6 444 390</b>	<b>6 186 036</b>	<b>100%</b>
<b>A Agriculture, forestry and fisheries</b>	759 336	704 949	11,4

Source: FCMC, <https://www.fctk.lv/statistika/kreditiestades/ceturksna-parskati/>, author calculations

Commercial banks (Swedbank, Luminor, SEB Bank, Citadele) provide both general funding and specialised financing (for farmers). Commercial banks websites do not include information on special financial services for fisheries enterprises.

### 4.3. Calculation of the required funding and financial products

#### 4.3.1. Calculation of the required funding — for entrepreneurship development



##### Required financing for entrepreneurship development

- According to the survey results, the total weighted average of **required funding is approximately 40 - 43.5 million EUR** (considering the average value of the required funding amount range and the number of eligible enterprises).
- **Financing is needed** for construction, infrastructure development, the purchase of fixed assets, working capital financing and productivity improvements.
- Additional funding of around EUR 7 million is needed to fund various activities for enterprises, including working capital.

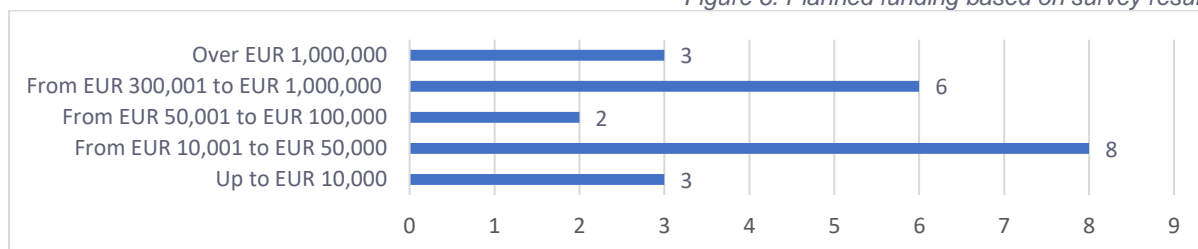
The calculation of the required financing has been carried out based on the survey results. The areas to be financed (the detailed survey results) and the structure of the enterprises in the industry (analytical data) were used to calculate the required funding by using different calculation methods.

##### Total funding needed

The calculation of the funding needed has been done based on the survey results of fisheries enterprises. Nearly half of the respondents - 22 out of 47 enterprises or 46.8% - expect the need for additional funding in the next 3-5 years, while 21.3% deny this need. Funding is mainly planned in the range of 10 - 50 thousand EUR, as well as between 100 and 300 thousand EUR. Up to EUR 300 000 funding is needed by 86% of respondents who require additional funding.

Funding is needed both in the short term for 1- 5 years (50% of respondents) and in the long term between 5 -20 years (50% of respondents).

Figure 6. Planned funding based on survey results

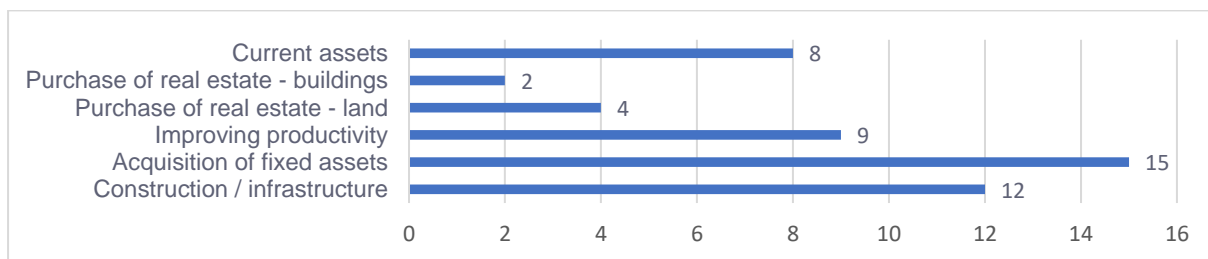


Source: Survey results

According to the survey results, the weighted average amount of funding needed, using the average values of the funding interval and the value of EUR 1 million as the highest value, is EUR 210 000. Funding is needed for 47% or 190 enterprises, so the total amount of funding needed is **approximately EUR 40 million**.

It is expected that funding will mainly be needed for similar actions already financed during the period 2016-2019, for instance, construction/infrastructure, purchase of fixed assets, working capital and for improving productivity. Part of the required funding should be provided as loans, such as land purchase, since EU funds cannot be used to finance land purchase; financing of working capital through commercial banks credit lines, as EU funds are planned to finance specific projects.

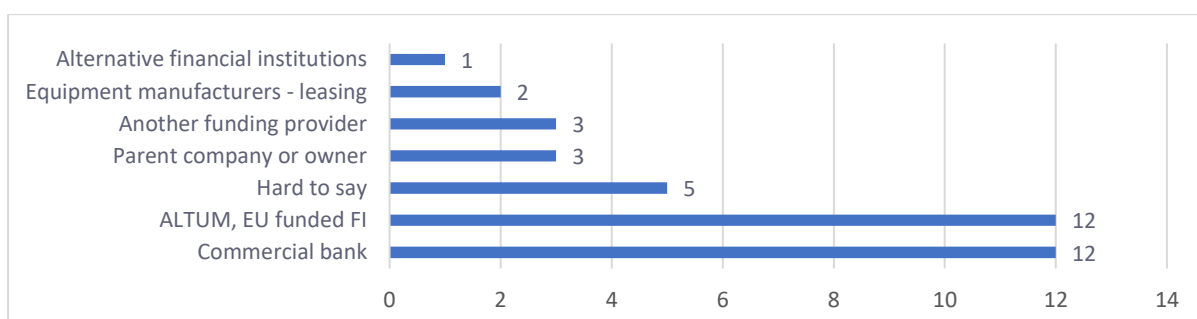
Figure 7. Areas to be financed



Source: Survey results

It is planned to require financing from commercial banks (11 replies), as well as ALTUM/EU financial instruments (11 replies), parent company or owner (3 replies), leasing (2 replies), as well as alternative financial institutions (1 answer). ALTUM can provide the combined financial instruments for the financing of specific projects, but commercial banks can finance working capital (including ALTUM portfolio guarantees).

Figure 8. Funding providers in the nearest five years



Source: Survey results

#### 4.3.2. Calculation of the required funding - NDP2027 measures



##### Required funding - NDP2027 measures

- NDP2027 measure No 61 implementation of community led local development measures in the coastal area: EUR 15 million available, of which **EUR 6,75 million to be used for combined financial instruments** (grant and loan)
- NDP2027 measure No 42 Promoting the competitiveness of the fishing industry: EUR 122 million available, of which **EUR 40 million to be used for combined financial instrument** (grant and loan)

NDP2027 measures are planned as initiatives with specific policy objectives and most of the funding is planned in the form of grant, therefore the planned funding should be assessed in addition to the funding required for entrepreneurship. The calculation of the required funding is based on the measures planned by the MoA and the analysis of the needs of the beneficiary groups. Financial instruments are planned to be used for two NDP2027 measures.

Table 20. Calculation of the required funding

Calculation of the required funding	EMFF and national financing, EUR
<b>NDP2027 measure No 61 Implementation of community led local development measures in the coastal area</b>	6 750 000
Based on the information provided by the MoA, the measure is planned to be implemented only in maritime coastal municipalities, similar to the EU fund programming	

<p>period 2014-2020, determined following CoM Regulation No 125 of 10 March 2015, Procedures for granting State and European Union aid for the preparation and implementation of community-led local development strategies. During the assessment, 143 CLLD measures have been supported in the EU funds programming period 2014-2020, with an average aid of EUR 83 500.</p> <p>According to estimates it is planned that there are 75 enterprises that need support, assuming that they are existing enterprises operating in the fisheries sector. Considering the results of the EU funds programming period 2014-2020 activities, the average amount of the project would be EUR 100 000. Based on the survey results (which relates to the need for funding in general and not specifically to CLLD) the total amount of funding needed is EUR 7 500 000. The total amount needed for the EMFF and national funding is EUR 6 750 000, as the project promoter must provide 10% of the project amount.</p> <p>Specific objective of aid — small scale projects supporting the growth of the blue economy.</p> <p>Given that grants have been made available to fishery enterprises so far, it is recommended to use a combined financial instrument (grant and loan) to ensure a gradual transition to entrepreneurship as well as to ensure more efficient use of financial resources.</p> <p>Overall, EUR 15 million has been planned for NDP2027 measure No 61 and EUR 6 750 000 of the planned funding to be used on combined financial instrument.</p>	
<p><b>NDP2027 measure No 42 to boost the competitiveness of the fishing sector</b></p> <p>According to CSB, there are 108 fish, crustacean and mollusc processing and preserving enterprises of which 89 are commercial. According to estimates, approximately half or 50 of the fish processing enterprises would need funding.</p> <p>Taking into account the experience of the EU Funds programming period 2014-2020 and the survey results, an average project funding of EUR 1 000 000 is planned (including both grant and loan components). A total of EUR 50 000 000 is required. The total amount required by the EMFF and national funding is EUR 40 000 000, as 20% of the project amount should be provided by the project promoter.</p> <p>Specific objective of aid: support for the introduction of new or improved products, services, methods, productive investments in fisheries.</p> <p>Given that grants have been made available to fisheries enterprises so far, it is recommended to use a combined financial instrument (grant and loan) to ensure a gradual transition to entrepreneurship and provide more efficient use of financial resources.</p> <p>NDP2027 measure No 42 includes planned financing EUR 122 million and it is proposed to use only part of the planned financing, or around EUR 40 million for combined financial instrument.</p>	40 000 000

Source: CSE COE calculations

In addition, fisheries and fish-processing enterprises can apply for a variety of financial products which have been set up to promote entrepreneurship, including entrepreneurship start-ups, guarantees and loans.

#### 4.3.3. Combined financial product - implementation of community led local development measures in the coastal area



##### Proposed financial product - development of the coastal territory

- **Combined financial instrument including loan and grant component:** a grant of not more than 50% and a loan of not less than 50% of public financing provided for the start-up enterprises and promotion of small entrepreneurs
- Enterprise **contribution** to the project: at least **10%**
- Beneficiaries - **natural person, traders, fisheries enterprises and farms, commercial enterprises**



Within the framework of the proposed financial instrument, combined loan and grant components, providing financing for the commencement and promotion of small business activities for natural persons, individual enterprises, farmers and fishing holdings, as well as commercial companies.

In the proposed financial instrument, the loan and grant components are combined, providing financing for the small enterprises' start-up and promotion - natural persons, individual enterprises, fisheries enterprises and farms, as well as commercial enterprises.

It is planned to finance 90% of the project amount with a financial instrument, with a loan component of at least 50% and a grant component of not more than 50%. Funding would be provided for a variety of objectives related to the growth of the blue economy for the implementation of small projects. If necessary, according to EC recommendations and regulation, the grant-loan ratio may be modified. It is recommended that the grant and loan components are implemented in a single financial agreement. If both components cannot be implemented through the single financing agreement, then the grant and the loan to be administrated separately.

The table below includes a description of the combined financial instrument (grant and loan), which may be specified when the policy objectives, aid intensity and assisted activities are more clearly known.

Table 21. Combined financial product for the implementation of measures in the coastal area

<b>Combined financial product</b>	
<b>Source of funding</b>	<b>EMFF — NDP2027 No.61 — implementation of community led local development measures in the coastal area</b>
<b>Funding</b>	EUR 6 750 000
<b>Leverage effect</b>	Leverage effect 1.17
<b>Beneficiaries of funding</b>	A natural person Individual economic operators Fishermen Enterprises
<b>Description of the financial instrument</b>	Combined financial instrument - loan and grant - for the start-up and promotion of small enterprises  The average project amount is EUR 100 000, maximum project amount - EUR 200 000, a minimum project amount - EUR 10 000  The project promoter must provide 10% co-financing  90% of the project is financed with a financial instrument - not more than 50% is a grant component, and not less than 50% is a loan component  Loan component does not require guarantee  Duration of the loan is 3 - 5 years; the interest rate of the loan is according to market conditions (not subsidised)  Specific objective of aid — small scale projects supporting the growth of the blue economy
<b>Investment Region</b>	Coastline (Latvia)
<b>Use of funding</b>	Financing the growth of the blue economy, including the purchase of fixed assets, financing of working capital  The European Commission specifies the eligible costs for the grant component
<b>Implementation model</b>	Monitoring of project applications and subsequent project implementation is carried out by one body implementing financial products, such as RSS, ALTUM or other.  Establishment and implementation of a financial product financed by the EMFF at the fixed rate  Only electronic submission and processing of documents

Source: CSE COE calculations

#### 4.3.4. Combined financial product to promote the competitiveness of the fisheries sectors



##### Proposed financial product - promoting the competitiveness of fisheries sectors

- **Loan-grant combined financial instrument:** a grant of not more than 50% and a loan of not less than 50% for the competitiveness of the fisheries sectors
- Project promoter's **contribution** to the project: at least **20%**
- Beneficiaries - **active commercial enterprises, new commercial enterprises**

As part of the proposed financial instrument, combined loan and grant components, providing funding to ensure the competitiveness of the fishing industry – active and new commercial enterprises. It is planned to finance 80% through financial instruments, where the loan component is at least 50%, and the grant component does not exceed 50%. If necessary, following the EC recommendations and regulation, the grant-loan ratio can be modified. It is recommended that the grant and loan components are implemented in a single financial agreement. When the two components cannot be introduced by means of a single financial agreement, administer the grant and the loan separately.

The table below includes a description of the combined financial product (grant and loan), which can be specified when the policy objectives, aid intensity and assisted activities are more clearly known.

Table 22. Combined financial product promoting the competitiveness of the fisheries sectors

Combined financial product	
Source of funding	EMFF — NDP2027 No 42 — promoting the competitiveness of fisheries sectors
Funding	EUR 40 000 000
Leverage effect	Leverage effect 1.17
Beneficiaries of funding	Active commercial enterprises New commercial enterprises
Description of the financial product	<p>Combined financial instrument - loan and grant - to ensure the competitiveness of the fishery sector</p> <p>Average project amount of EUR 1 000 000 000, minimum project amount - EUR 100 000, the maximum project amount - EUR 5 000 000</p> <p>The project promoter should provide 20% of the aid amount as co-financing.</p> <p>80% of the project is financed by the financial Instrument, where no more than 50% is a grant and not less than 50% is a loan. The business plan of the project must stipulate that at least 50% of the planned amount must be used for the purchase of fixed assets, as guarantee for the loan.</p> <p>Duration of the loan up to 10 - 15 years, the interest rate on loan according to market conditions (not subsidised).</p> <p>The specific objective of aid — the introduction of new or improved products, services, methods, productive investments in fisheries.</p> <p>Climate change objectives should also be included in the project application requirements.</p>
Investment Region	Latvia
Use of funding	<p>Financing may be used to finance current and fixed assets.</p> <p>The European Commission specifies the eligible costs for the grant component.</p>
Implementation model	Monitoring of project applications and subsequent project implementation shall be carried out by one body implementing financial products, such as RSS, ALTUM or other.

	Establishment and implementation of a financial product financed by the EMFF at the fixed rate.
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Source: CSE COE calculations

#### 4.3.5. State aid issues

The non-application of State aid rules relating to the financing of the EMFF for the undertakings in the fishery and aquaculture sector according to Article 42 TFEU and Article 8 of the EMFF Regulation. Following Article 8 of the EMFF Regulation, Articles 107, 108 and 109 TFEU State aid shall not apply to payments made by the Member States in conformity to the EMFF Regulation (Regulation (EU) No 508/2014).

It is assumed that similar conditions will apply to EMFF financial instruments if they are created for fisheries enterprises undertakings. It needs to be assessed whether the blue economy outside fisheries will need to be subject to general *de minimis* requirements. The assessment will be performed when the State aid regulations of the EU funds programming period 2021-2027 are published. In addition, other State aid regulations may be considered.

## 5. EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT

According to the NDP2027, strategic plans for 2021-2027 of Latvia within the Common Agricultural Policy include an increasing added value by cooperating and producing competitive products for local and export markets, increasing enterprises turnover to medium-sized enterprises, promoting knowledge-based entrepreneurship, thriving rural areas, preserving biodiversity and mitigating climate changes, and ensuring safe and high-quality local food.

### 5.1. Summary and main conclusions

Table 23. Summary on agriculture, rural development and forestry

<b>Policy priorities</b>	<ul style="list-style-type: none"> <li>• Support for entrepreneurship development in rural areas.</li> <li>• Community led local development - initiatives to strengthen the local economy.</li> <li>• Support for investment in agriculture and processing, and the promotion of co-operation between producers.</li> <li>• Promote the reduction of the impact of agricultural activities on water basins.</li> <li>• Improve the development of the agricultural sector, invest in environmental protection and climate change measures and improve the socio-economic environment in rural areas (micro and small agricultural operators).</li> </ul>
<b>Group of beneficiaries</b>	<ul style="list-style-type: none"> <li>• There is a significant number of farms in Latvia – over 68,000.</li> <li>• Most farms (approximately 44,000 or 65%) are very small farms with a standard output of less than EUR 4,000 per year.</li> <li>• Small farms (approximately 20,000 or 30%) with a standard output of less than EUR 50,000 per year.</li> <li>• Average farms (about 3,000 or 4.5%) with a standard output from EUR 50,000 to EUR 250,000 per year.</li> <li>• Large farms (about 740 or 1%) with a standard output of over EUR 250,000 per year.</li> <li>• About 26,000 of the enterprises are registered as limited liability companies and joint-stock companies.</li> <li>• According to statistics, most farms are very small or small but at the same time they make a significant contribution to the development of the sector, including organic farming, as well as promotion of rural landscapes, environmental protection and the socio-economic environment in rural areas.</li> </ul>
<b>Financing needed</b>	<ul style="list-style-type: none"> <li>• Very small farms need funding of up to EUR 10,000 (approximately 10% of all farms).</li> <li>• Small and medium-sized farms need funding up to EUR 100,000 for business development.</li> <li>• Large farms need funding to increase productivity and production.</li> </ul>
<b>Available financing</b>	<ul style="list-style-type: none"> <li>• In the EU funds programming period 2014-2020, EAFRD funding was not used for financial instruments to finance the agricultural, rural development and forestry sectors. The funding was provided via State Treasury loans and repayments from the Rural Development Program 2007-2013.</li> </ul>

	<ul style="list-style-type: none"> <li>On 31.12.2019, several loan programs have been developed and administrated by ALTUM amounting to EUR 86 million. The largest of the programs is the Land Loan program with 1 108 loans and an average loan amount of approximately EUR 48 000. The average loan amount of the Working Capital Loan is EUR 45 305 (628 loans) and the average loan amount of the Loans to Rural and Fisheries Enterprises is EUR 19 160 (140 loans).</li> <li>In total, economic operators working in the field of agriculture, rural development and forestry have used EUR 125 million in loans administered by ALTUM.</li> <li>About one tenth of the guarantees issued by ALTUM (EUR 15 million) is for the agricultural sector and the average amount of the guarantee is EUR 145 000; the average amount of financing is EUR 360 000. The received loans were used to finance investment projects.</li> <li>Commercial banks also provide financing for the agriculture, rural development and forestry sector, and the total loan portfolio issued in September 2019 in the agriculture, forestry and fisheries sector was more than EUR 700 million (the statistics also include the fisheries sector).</li> </ul>
<p><b>Market failure, investment needs</b></p>	<ul style="list-style-type: none"> <li>Most industry associations point to a market failure with funding required up to EUR 100,000. The main financing priorities identified are starting and developing entrepreneurship. The recommended financial instrument is portfolio guarantees, as entrepreneurs actively cooperate with commercial banks.</li> <li>Loan for development of small farms. Maximum loan amount up to 10,000 EUR. Beneficiary group - small farms about 64,000, funding about 10% of the beneficiary group (according to the industry association and survey results). The total amount is EUR 10 000 * 6 400 = EUR 64 000 000.</li> <li>Loan for medium-sized farms development. Loan amount from 10 0000 EUR to 100 000 EUR, the average loan amount 50 000 EUR (according to statistics, the average loan amount for agricultural economic operators at the time of preparation of the assessment is approximately 50 000 EUR). Beneficiary group – medium sized farms about 3,000, funding about 50% of the group of beneficiaries (according to the survey results, 50% of farms need funding). The total amount EUR 50 000 * 1 500 = EUR 75 000 000. Funding is provided within the framework of NDP2027 measure No 47.</li> <li>Support to improve the competitiveness and productivity of enterprises. Risk capital financial instrument of EUR 5 million.</li> <li>The total market failure, based on the extrapolation of the survey results, is 200 million EUR (funding not received from ALTUM and commercial banks).</li> </ul>
<p><b>Financial instruments r</b></p>	<ul style="list-style-type: none"> <li>NDP2027 measure No 47 Support to entrepreneurship development in rural areas - a combined financial instrument of EUR 60 million. Funding for legal or natural person engaged in agriculture sector, up to EUR 100,000. Grant component up to 40%, loan component at least 60%.</li> <li>NDP2027 measure No 41 Support to investments in agriculture and processing and promotion of producer co-operation - risk capital financial instrument EUR 5 million.</li> </ul>
<p><b>State aid</b></p>	<ul style="list-style-type: none"> <li>In the agriculture sector, the application of de minimis aid is governed by the Commission Regulation (EU) No 182/2011. Regulation (EU) No 1408/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the EU to de minimis aid in the</li> </ul>

	<p>agriculture sector<sup>123</sup> which states that the total <i>de minimis</i> aid granted by a Member State to any enterprise shall not exceed EUR 20 000 in any period of three fiscal years.</p> <ul style="list-style-type: none"> <li>• State aid is accounted in the form of <i>de minimis</i> aid following the Cabinet of Ministers Regulations No 715 of 21 November 2018 "Regulations on de minimis aid and accounting procedures for granting and de minimis aid accounting model forms"<sup>124</sup>.</li> <li>• In addition, other State aid regulations may be taken into account.</li> </ul>
<b>Expected benefits</b>	<ul style="list-style-type: none"> <li>• The use of combined financial instruments in agricultural sector development will ensure a gradual transition of farms from support in grants to support in loans, thus promoting entrepreneurship. Linking the grant component to the CAP, climate and business objectives will encourage farms to focus on complex operational objectives and ensure the sustainability of their operations.</li> </ul>

## 5.2. Assessment of market failures

### 5.2.1. Common agricultural policy



**Policy priorities - CAP SO No 2 "Strengthen market orientation and competitiveness, including a stronger focus on research, technology and digitalisation".**

- **Increasing the competitiveness of farms by purposeful support.**
- **Promoting the establishment of production infrastructure in agriculture and forestry.**
- **Investment in agriculture and forestry, encouraging environmental investment and change.**

The analysis of the sector's funding needs is based on the sectorial expert working documents in planning the objectives and priorities for agriculture enterprises for the EU funds programming period 2021-2027<sup>125</sup>, and goals and priorities set in the CAP for 2021-2027. The main objectives and priorities related to required financing (loans, guarantees and risk capital) are listed in the table below.

<sup>123</sup> <https://eur-lex.europa.eu/eli/reg/2013/1408/oj/?locale=LV>

<sup>124</sup> <https://likumi.lv/ta/id/303512>

<sup>125</sup> <https://www.zm.gov.lv/public/ck/files/Presentation%20%2005062018%20LATVISKI%20clean.pdf>




Table 24. Objectives and priorities of the Common Agricultural Policy, in accordance with the views of NGOs expressed in the working groups of the MoA

Scope	Priorities
<b>Production development, equipment replacement</b>	<p>To promote the creation of added value, increase of productivity, development of the value chain - primary producer and processing (incl. organic farming).</p> <p>To promote the increase of competitiveness and market orientation of farms by supporting small, medium-sized farms and new enterprises of rural economic activity.</p> <p>To promote the production of exportable high value-added products (including organic).</p> <p>Sustain investment co-operation, incl. incentive aid for the volume and type of processing, logistical and storage, aid for the delivery of products to points of sale, remote area ports for farms.</p> <p>To promote the creation of productive and sustainable forest.</p> <p>To promote the establishment (development) of production infrastructure in agriculture and forestry.</p> <p>To provide for the regionalisation principle to ensure equal regional development.</p>
<b>Housing funding in the countryside</b>	<p>To create opportunities for the construction and/or reconstruction of the housing in rural areas by providing support in targeted financial instruments.</p>
<b>Environmental investments</b>	<p>Use of precise technologies, incl. precise use of fertilisers, minimal tillage, no ploughing technology, etc.</p> <p>To reduce greenhouse gas or ammonia emissions when constructing buildings or introducing technologies, incl. constructing or rebuilding manure storage facilities suitable for environmental requirements.</p> <p>Promotion of biogas production on farms for own consumption (up to 500 cattle units), multidisciplinary - livestock and crop production, or joint projects.</p> <p>Introducing technologies for the use of alternative energy (RES - biofuels, hydropower, solar or wind energy).</p> <p>Purposeful management of liquid manure, incl. separating equipment, storage cover, etc.</p> <p>Machinery / equipment - application of natural organic fertiliser to the soil with an injector or belt spreader with hanging pipes, etc.</p> <p>Improving feed quality - feed preparation technologies.</p> <p>Grain dryers with a recuperation system and structures with a constant microclimate (temperature).</p> <p>Investing in lighting, production lines and other energy-efficient appliances or equipment to increase energy efficiency by at least 20%.</p>

Source: MoA, <https://www.zm.gov.lv/zemkopibas-ministrija/statiskas-lapas/klp-tematiskas-darba-grupas?id=17341#jump>

## 5.2.2. National Development Plan 2021-2027



### NDP2027 measures

- 14 NDP2027 measures are planned for the total amount of EUR 1.197 billion.
- Estimated possibility of using financial instruments for five NDP2027 measures for the total amount of EUR 936 935 692.
- Financial instruments are offered for NDP2027 measure No 47 Support for entrepreneurship development in rural areas through EUR 60 million - Combined financial instrument.
- Financial instruments are offered for NDP2027 measure No 41 Aid for investment in agriculture and processing and promotion of co-operation between producers by allocating **EUR 5 million** to risk capital.

NDP2027 sets out the industry priorities, as well as recommends the amount of funding and sources for the implementation of the industry priorities. At the same time, it must be taken into account that the

development of tourism is also one of the priorities of economic development - increasing the flow of tourists promotes the growth of various industries. In the evaluation all NDP measures were analysed and the table below includes information on NDP measures (5 measures in total) that could be financed with the help of financial instruments. **Source of funding - EAFRD**. The indicated funding is the total funding, including both the planned EU funding and the national co-financing, which will depend on the aid intensity.

Table 25. Planned funding for entrepreneurship NDP2027 measures

No.	Description of the measure	Funding, EUR	Justification
47	<p><b>Support for entrepreneurship development in rural areas</b></p> <p>To motivate the new entrepreneurs to get involved in the entrepreneurship (incl. employee financial participation and employee options)</p> <p><u>Target audience:</u> young farmers, small and medium-sized enterprises, SMEs</p> <p><u>Implementation territory:</u> Latvia, rural territory</p> <p><u>Activities:</u> support for business start-ups for young farmers, business development on small and medium-sized agricultural holdings, SMEs and diversification into non-agricultural activities.</p> <p><b>Responsible ministry: MoA</b></p>	135 714 440	<p>The target audience is new entrepreneurs. The measure may increase the revenue of enterprises as well as reduce costs.</p> <p>The measure could be implemented through financial instruments. Possible financial products - loans with subsidised interest payment and limited collateral, subsidised portfolio guarantees, combined financial instruments (grant and loan).</p> <p>It is planned to allocate EUR 60 million to financial instruments for entrepreneurship development, financing for investments and working capital.</p> <p>The remaining funding will be used as grants in the amount of EUR 15,000 per beneficiary for business start-up and development.</p>
41	<p><b>Support for investment in agriculture and processing and promotion of producer co-operation</b></p> <p>Supporting productivity-enhancing activities in the private sector for the application of high technology outside RIS3 sectors for industrial transformation</p> <p><u>Target audience:</u> farmers, processors of primary agricultural products</p> <p><u>Place of implementation:</u> Latvia</p> <p><u>Activities:</u></p> <p>1) support for investments in agricultural holdings and enterprises processing primary agricultural products to improve the competitiveness, productivity, efficiency and economic indicators of agricultural holdings and food enterprises, to reduce the negative impact of market fluctuations;</p> <p>2) support for the development of co-operation and co-operation between producers;</p> <p>3) ensuring the implementation and control of support instruments.</p> <p><b>Responsible ministry: MoA</b></p>	310 397 257	<p>The target audience is entrepreneurs, and the measure can increase the revenue of enterprises as well as reduce the costs. Some of the measure activities can be implemented through financial instruments, such as investments in agricultural holdings.</p> <p>Within the framework of the measure, it is planned to allocate EUR 5 million to risk capital to advance productivity promotion, application of high technologies and capitalisation of agricultural enterprises.</p> <p>The rest of the funding is planned to be redirected by the line ministry in the form of grants so that enterprises can make investments that meet environmental and climate challenges and do not always provide the required return on investment. As far as possible, grants will be combined with existing financial instruments, which are financed from repayments of previous EU funds programming periods.</p>

Source: NDP2027, <https://www.pkc.gov.lv/lv/nap2027>

### 5.2.3. Group of beneficiaries – farms



#### Description of the group of beneficiaries

- **There are about 68,000 farms in Latvia.**
- **26 401 farms** registered as limited liability enterprises or joint-stock companies.
- **65% of** agricultural farms are **very small** - with an average turnover of less than EUR 10,000.
- The share of the sector in the total economy in 2019 - **4.3%**.

The development of the agricultural, forestry and fisheries sectors and the share of total value added depends to a large extent on the increase in the workload of the agricultural industry and the effects of weather conditions. During the reporting period (2014-2019), the share of the industry has increased from 3.7% in 2014 to 4.3% in 2019. The growth of the industry is related to the growth of the forestry sector and high agricultural yields in some years. The table below provides information on the share of the agricultural sector in the total economy. COVID- 19 is expected to have a significant impact on the economy as a whole, including the availability of finance for agriculture, which must be taken into account when planning financial products.

Table 26. Distribution of value added by economic sectors by type of activity, 2014-2019, actual prices,%

Economic sector	2014	2015	2016	2017	2018	2019
<b>Agriculture, forestry and fisheries</b>	3.7	4.0	3.5	4.0	4.1	<b>4.3</b>
- Crop and animal production, hunting and related service activities	1.7	2.3	1.8	2.2		
- Forestry and logging	1.8	1.6	1.6	1.7	-	-
- Fisheries <sup>126</sup>	0.1	0.1	0.2	0.1	-	-

Source: [https://data.csb.gov.lv/pxweb/lv/ekfin/ekfin\\_\\_ikp\\_\\_IKP\\_\\_ikgad/IKG10\\_060.px/table/tableViewLayout1/](https://data.csb.gov.lv/pxweb/lv/ekfin/ekfin__ikp__IKP__ikgad/IKG10_060.px/table/tableViewLayout1/)

The description of farming and agricultural holdings was prepared by using the materials of the MoA, planning the objectives of the CAP<sup>127</sup>. In total, there are about 68,000 farms in Latvia, and their distribution by turnover is included in the table below. The table also includes standard output, which according to the CSB is a standardising measure of the economic activity of a holding, describing the economic size of the holding in monetary terms, i.e. the value of one hectare or livestock unit, valued at regional prices and expressed in EUR<sup>128</sup>. To determine the economical size of holdings, the CSB uses the standard output set by the Institute of Agricultural Resources and Economics.

Table 27. Numerical characteristics of the agricultural sector

Farms	Standard output, EUR	Number of farms in the group	Average net turnover, EUR	Average used agricultural land, ha	Employees (average)
<b>Very small</b>	<4000	44,000		7	
<b>Small</b>	4000 - 15000	10 008	6874	23	1.2
<b>Small</b>	15000 - 50000	10 363	14715	42	1.3
<b>Medium</b>	50000 - 100000	1 725	51 797	112	1.9
<b>Medium</b>	100000 - 250000	1193	128 680	222	3.0
<b>Large</b>	250000 - 500000	441	368674	458	7.0
<b>Large</b>	500,000 and more	300	1 601 918	1098	24.3
<b>Total</b>		<b>68030</b>			

Source: MoA, <https://www.zm.gov.lv/zemkopibas-ministrija/statiskas-lapas/klp-tematiskas-darba-grupas?id=17341#jump>

<sup>126</sup> Given the importance of the allocation of fisheries in this report, as it is financed by a separate fund, the EMFF, it is allocated separately. Statistical data for 2018 and 2019 still in 2020. were not yet available in March..

<sup>127</sup> <https://www.zm.gov.lv/zemkopibas-ministrija/statiskas-lapas/klp-tematiskas-darba-grupas?id=17341#jump>

<sup>128</sup> <https://www.csb.gov.lv/lv/statistika/statistikas-temas/lauksaimnieciba/lauksaimniecibas-skaitisana/tabulas/metadati-lauku-saimniecibu-strukturas>

Only a part of farms is registered as limited liability companies and joint-stock companies. According to the CSB, in 2018 there were 175 thousand economically active small and medium sized enterprises (up to 250 employees) in Latvia. The dominant NACE (Statistical Classification of Economic Activities in the European Community, 2nd edition) sector is A Agriculture, forestry and fishing (26 thousand enterprises).

The table below provides information on small and medium-sized agricultural, forestry and fisheries enterprises by a number of employees.

Table 28. Economically active small and medium sized enterprises in the market sector (by number of employees, 2018)

	0-9	10-19	20-49	50-249	TOTAL SMEs
<b>TOTAL</b>	163 293	6 051	3 548	1 649	174 792
<b>Agriculture, forestry and fishing</b>	25 757	356	194	62	26 372

Source: [https://data.csb.gov.lv/pxweb/lv/uzn/uzn\\_\\_01\\_skaits/SRG030.px](https://data.csb.gov.lv/pxweb/lv/uzn/uzn__01_skaits/SRG030.px)

#### 5.2.4. Financing administered by ALTUM



##### Financing administered by ALTUM

- There are 7 loan financial products developed by ALTUM in the EU funds programming period 2014-2020. **Four are special loan programs for farmers (the programs are not related to the EU funds programming periods, as they are not financed from EU funds)** - loans for land purchase, working capital loans and loans to farmers.
- In the period 2016-2019, ALTUM has issued loans to farmers amounting to EUR 125 million, including EUR 53 million for the purchase of land and EUR 3 597 120 for foresters.
- During the period 2016-2019, agricultural and rural development sector enterprises used **guarantees administered by ALTUM**, 115 guarantees with a guarantee agreement amount of **EUR 19.5 million** were issued. Credit guarantees for farmers (66%) and agricultural, fisheries and rural development guarantees (11%) were used the most.
- In the EU funds programming period 2014-2020 **EAFRD funding was not used to finance** the agricultural and forestry sectors **with the support of financial instruments**. The State Treasury loan was used for financial instruments administered by ALTUM, as well as the Rural Development Program 2007-2013 financing repaid.
- According to the survey results, **16% of all respondents requested funding from ALTUM, 22% of those who requested were not funded, 13% were funded partially.**

Four special loan programs have been set up, where enterprises in agriculture and rural development sectors are indicated as beneficiaries: loans to rural and fisheries enterprises (A1), loans to economic operators (A4), working capital loans (A5), loans for land acquisition (A6). Other financial products administered by ALTUM are designed to support entrepreneurship and can be used also by farmers.

##### Loans administered by ALTUM

The table below includes information on financial products administered by ALTUM, information on ALTUM total loan portfolio on 31.12.2019 (includes all borrowers not only agricultural enterprises, as information on ALTUM's loan portfolio as of 31.12.2019 by sectors was not available during the assessment), financing issued to farmers in the period from 01.01.2016 to 31.12.2019 (part of the loans has already been repaid, but part is included in the ALTUM loan portfolio as of 31.12.2019).

Table 29. Loans administrated by ALTUM

Financial instrument	CoM Regulations	ALTUM loan portfolio, 31.12.2019, EUR	Loans to farmers 2016-2019, EUR
<b>A1 - Loan programme for agricultural, rural and fishery enterprises</b>	24.07.2018 CoM Regulation No 446	2 483 000	2 682 452
<b>A2 - Parallel loans to improve the competitiveness of enterprises (fund of funds)</b>	15.07.2016 CoM Regulation No 469	6 994 000	
<b>A3 - Micro loans and start-up loans (fund of funds)</b>	31.05.2016 CoM Regulation No 328	11 318 000	974 694
<b>A4 - Loans to promote the development of small (micro), small and medium-sized enterprises and agricultural services co-operative societies</b>	15.09.2009 CoM rules 1065	69 371 000	38 054 392
<b>A5 - Loans to finance working capital in the agricultural, forestry, fishery and aquaculture sectors</b>	03.12.2019 CoM Regulation No 582	9 003 000	28 452 100
<b>A6 – Loan to purchase agricultural land for the producing agricultural products</b>	22.05.2018 CoM Regulation No 295	68 081 00	53 017 032
<b>A7 - Microloans and grants within the framework of the individual project “Micro crediting Programme” of the Latvian-Swiss cooperation programme</b>	06.09.2011 CoM Regulation No 698	897 000	2 456 339
<b>Total</b>		<b>168 147 000</b>	<b>125 637 009</b>

Source: ALTUM, data on 31.12.2019

ALTUM loans for the agricultural sector have been widely used and 65% or 2801 loans out of the total number (4309) of loans issued by ALTUM, have been issued to farmers. The largest number of loans (43%) were loans for land purchase, loans to farmers (31%), and loans for working capital (23%).

Out of 2801 loans, 1991 loans or 71% are investment loans, and 749 or 27% are working capital loans. Out of 2801 loans issued, 2600 or 93% were issued up to EUR 100,000. Loans are issued proportionally in all regions of Latvia. More than 70% of all loans are issued to micro-enterprises.

### Guarantees issued by ALTUM

ALTUM guarantees are issued following the regulations of the CoM, and the table below gives information on the number and date of approval of the regulations of the CoM of the ALTUM guarantee financial product, the planned total amount and maximum amount of one guarantee. Within the framework of financial product B1, several sub-products have been created. Information on issued guarantees has been compiled at the sub-product level.

Table 30. Guarantees issued by ALTUM in accordance with CoM

Financial product	CoM Regulations	Total amount planned, EUR	Maximum amount of one guarantee, EUR
<b>B1 - Cumulative credit guarantees</b>	B1 - CoM Regulation No 997, 26 October 2010, Regulations on Guarantees for Enhancing the Competitiveness of Operators and Eligible Agricultural Services Cooperative Companies <sup>129</sup>	44 800 000	5 000 000
<b>B1 - Guarantees for large economic operators</b>			
<b>B1 - Credit guarantees for farmers</b>			
<b>B1 - SME credit guarantees</b>			
<b>B2 – Portfolio guarantee</b>	Regulation No 537 of the CoM, 5 September 2017, Regulations Regarding Portfolio Guarantees for the Promotion of	7 800 000	250 000

<sup>129</sup><https://likumi.lv/doc.php?id=220826>

	Small (Micro), Small and Medium-sized Enterprises <sup>130</sup>		
<b>B3 - Agricultural, Fisheries and Rural Development Guarantees</b>	B - 3 CoM Regulation No 9, 08.01.2019, Provisions of the Agricultural, Fisheries and Rural Development Guarantee Programme <sup>131</sup>	16 500 000	1 100 000

Source: CoM Regulations

The information on all guarantees actually issued by ALTUM (different sectors) for the period 01.01.2015- 31.12.2019 is compiled using the data provided by ALTUM and shown in the table below.

Table 31. Guarantees issued by ALTUM – financial data

Support programme	Number	Amount of the guarantee contract, EUR	Amount of the financing contract, EUR
<b>B1 – Cumulative credit guarantees</b>	74	30 044 591	64 891 499
<b>B1 – Guarantees for large enterprises</b>	30	10 931 009	18 700 951
<b>B1 – Credit guarantees for farmers</b>	83	12 166 980	30 211 409
<b>B1 – SME credit guarantees</b>	496	98 374 520	159 569 856
<b>B2 – Portfolio guarantee</b>	216	10 412 110	13 122 169
<b>B3 – Agricultural, Fisheries and Rural Development Guarantees</b>	12	4 046 779	4 046 779
<b>Total</b>	<b>911</b>	<b>165 975 989</b>	<b>290 542 663</b>

Source: ALTUM, data on 31.12.2019

The table below includes information on the guarantees issued to the farmers. In total, guarantees have been issued to farmers for around EUR 19 million, representing a relatively small proportion (12%) of all guarantees issued by ALTUM. A similar proportion is also for the number of guarantees issued – 115 or 13% of all guarantees issued by ALTUM.

Table 32. Guarantees issued by ALTUM

Support programme	Number	Amount of the guarantee contract, EUR	Amount of the financing contract, EUR
<b>B1 – Cumulative credit guarantees</b>	3	584 737	984 800
<b>B1 – Guarantees for large enterprises</b>	0	0	0
<b>B1 – Credit guarantees for farmers</b>	75	10 986 930	27 841 168
<b>B1 – SME credit guarantees</b>	13	3 300 188	5 048 201
<b>B2 – Portfolio guarantee</b>	12	602 409	791 409
<b>B3 - Agricultural, Fisheries and Rural Development Guarantees</b>	12	4 046 779	4 046 779
<b>Total</b>	<b>115</b>	<b>19 521 043</b>	<b>38 712 357</b>

Source: ALTUM, data on 31.12.2019

Farmers have generally (66%) used credit guarantees for farmers (financial product B1). Other guarantees have not been used or used to a very small extent, up to 5% of the guarantees provided by ALTUM. The average amount of the guarantee is EUR 169 748. In most cases (57%), guarantees are issued to micro-enterprises (46%) and small enterprises (20%). 12 enterprises financed under the new guarantee programme - approximately EUR 4 million.

### 5.2.5. Financing provided by commercial banks



#### Financing provided by commercial banks

- The largest commercial banks provide **financing to farmers** - microloans, leasing of machinery and equipment, including attracting EaSI guarantees.

<sup>130</sup><https://likumi.lv/ta/id/293402-rules-for-portfellong-siko-micro-small-and-video-merchant-loan-to-commercial-promotion->  
<sup>131</sup><https://likumi.lv/ta/id/304160-agricultural-fish-farming-and-rural-security-guarantee-programme-rules>



- FCMC does not provide statistics on financing provided by commercial banks to farmers.
- According to the survey results, 1059 out of 3403 or 31% of the respondents (farmers) have requested financing from commercial banks. **536 respondents or 51% have received funding** in full, for 255 or 24% of respondents - the commercial banks did not provide the required funding.
- Financing is mainly **refused to small farms**, which is associated with insufficient cash flow, insufficient share capital and absence of guarantees.

According to the analysis of the current situation, the loan portfolio to the agricultural, forestry and fisheries sectors as of September 2019 is more than 700 million EUR. During the assessment, detailed information was not available from financial institutions on the breakdown of the loan portfolio - by loan amounts and the size of the loan portfolio of commercial banks concerning the financing to farms. It should be noted that part of loans provided by the commercial bank is covered by ALTUM guarantees (according to ALTUM, approximately EUR 19 million).

The table below includes information on the agricultural, forestry and fisheries loan portfolio as of 30.09.2018 and 30.09.2019.

Table 33. Loan portfolio of economic sectors (gross amount in EUR thousand)

Economic sectors	30.09.2018, EUR	30.09.2019, EUR	Breakdown (%) on 30.09.2019
<b>Economic sectors</b>	<b>6 444 390</b>	<b>6 186 036</b>	<b>100%</b>
<b>A Agriculture, forestry and fisheries</b>	759 336	704 949	11.4

Source: FCMC, <https://www.fctk.lv/statistika/kreditiestades/ceturksna-parskati/>, author calculations

Commercial banks mostly offer loans for the purchase of equipment, requiring various guarantees or using the EaSI guarantee, loans are offered at relatively high interest rates.

## 5.3. Calculation of the required funding and financial products

### 5.3.1. Calculation of the required funding — for entrepreneurship development



#### Required financing for entrepreneurship development

- **51% of respondents anticipate the need for additional funding** in the next 3-5 years. Mainly financing **up to EUR 50 thousand** is needed. Funding is mostly required **for 1 to 5 years** (51% of respondents), as well as for a term of **5-20 years** (40% of respondents).

#### Total funding required

The calculation of the required funding is based on the results of the survey following the structure of the participants in the sector and the performers of rural economic activities. In the assessment, 1736 (51%) out of 3403 agricultural economic operators anticipate the need for additional financing in the next 3-5 years. As shown in the table below, the most required funding amount is up to EUR 50 thousands. Financing mostly needed for 1 to 5 years (881 respondents or 51%), as well as for 5-20 years (704 respondents or 40%), 31 respondents or 2% would like to borrow for a term of up to 1 year.

Table 34. Expected funding required for the next five years

	Skaitis
<b>Up to 10,000 EUR</b>	284
<b>From 10,001 to 50,000 EUR</b>	749
<b>From 50,001 to 100,000 EUR</b>	321
<b>From 100,001 to 300,000 EUR</b>	209
<b>EUR 300,001 to 1,000,000</b>	89

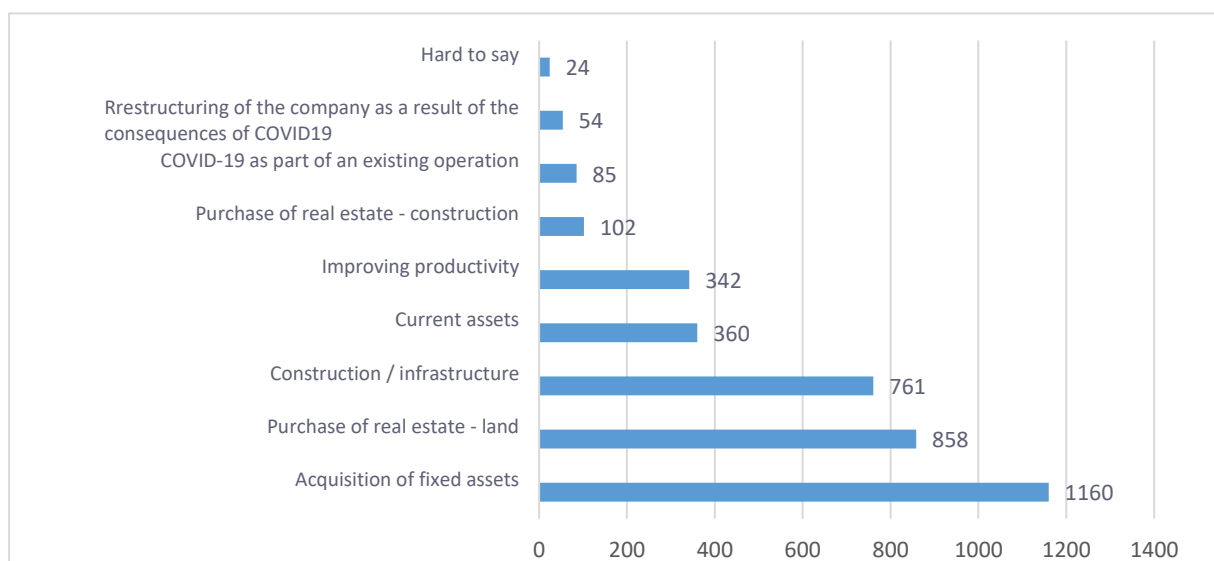
Above EUR 1,000,000	25
Difficult to say	59
<b>TOTAL</b>	<b>1736</b>

Source: Survey results

According to the survey results, the weighted average funding required, using the average values of the funding interval and the value of EUR 1 million as the highest value, is EUR 210,000. Funding is needed for 47% or 190 enterprises; thus, the total amount of funding required is **about 40 million EUR**.

The surveyed rural economic operators plan to use additional funding for fixed assets (67%), land acquisition (49%), as well as investments in construction (44%), working capital (21%) and productivity improvement (20%).

Figure 9. Areas to be financed in the next five year



Source: Survey results

### 5.3.2. Combined financial instrument for entrepreneurship development in rural areas



**Planned financial instrument - combined financial instrument**

- Support to entrepreneurship development in rural areas - in total funding allocated **EUR 60 000 000**.
- Combined financial product including **grant component** (up to 40%) and **loan component** (at least 60%), providing financing up to EUR 100,000 per beneficiary.
- Leverage effect - 1, as no additional financial resources are attracted.
- Beneficiaries - **legal or natural persons engaged in agriculture sector**.

NDP2027 measure No 41 Support for Entrepreneurship Development in Rural Areas, plans to allocate EUR 60 million of funding to the combined financial instrument to promote entrepreneurship development. The SO are: strengthen food security, support farm income adequacy and farm resilience throughout the EU; enhance market orientation and competitiveness, including a stronger emphasis on research, technology and digitalisation; attract young rural economic activity performers and promote entrepreneurship as in rural areas. The table below provides more detailed information about the planned financial instrument.

Table 35. Development opportunities of the combined financial instrument for entrepreneurship development in rural areas

Combined financial instrument for entrepreneurship development in rural areas	
Source of funding	EAFRD financing - NDP2027 measure No 41 support for entrepreneurship development in rural areas
Financing	EUR 60 000 000
Leverage effect	<b>Leverage effect</b> - 1, as no additional financial resources are invested, as well as during the introduction of a financial instrument, the leverage effect may decrease if part of the funding will be directed to the administration of the financial instrument.
Beneficiaries of funding	Legal or natural person engaged in agricultural activity and whose turnover in the last closed year at the level of a single enterprise ranges from EUR 15,000 to EUR 70,000, excluding state and EU support received
Description of the financial instrument	Combined financial instrument based on the submitted business plan and including grant (up to 40%) and loan components (at least 60%) The maximum amount of the financial product per beneficiary is EUR 100,000 The project also sets climate change targets
Investment region	Latvia
Use of funding	Funding can be invested in: <ul style="list-style-type: none"> <li>- Purchase of live animals;</li> <li>- Purchase of plants;</li> <li>- Purchase of fixed assets;</li> <li>- Purchase of land;</li> <li>- Financing working capital.</li> </ul> Identify and agree with DG AGRI, in more detail on the financial instrument which investment and expenditure categories can be financed through the grant component and which can be financed through the loan component.
Implementation model	The combined financial product is administered by a single institution, as according to CoM / 2018/375 final - 2018/0196 (COD) <sup>132</sup> both types of support are provided by the body implementing the financial instrument. Apply the conditions for implementing the financial instrument. ALTUM or RSS or any other selected institution administers the loan and grant components. Provide separate accounting for grant and loan components.

Source: CSE COE calculations

### 5.3.3. Risk capital to improve the competitiveness and productivity of enterprises



#### Planned financial instrument - risk capital

- Support to improve competitiveness and improved productivity of enterprises - **5 000 000 of EUR.**
- Risk capital financial product administered by ALTUM or a fund manager selected through an open tender procedure.
- Beneficiaries - **legal entities** engaged in agriculture sector.

NDP2027 measure No 47 in the framework of support for investment in agriculture and processing, and promotion of co-operation between producers, it is planned to allocate EUR 5 million of funding to the

<sup>132</sup> <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0375>

risk capital financial instrument to promote generational change in agriculture, provide more capital to enterprises, thus also increase their lending opportunities.

#### 5.3.4. State aid issues

In the agricultural sector, the application of de minimis aid is governed by the Commission Regulation (EU) No 182/2011. Regulation (EU ) No 1408/2013, 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the EU to *de minimis* aid in the agriculture sector<sup>133</sup>, which states that the total *de minimis* aid granted by a Member State to one enterprise shall not exceed EUR 20 000 over any period of three fiscal years.

State aid is accounted in the form of de minimis aid following the CoM Regulations No.715, 21 November 2018. "Regulations on *de minimis* aid and accounting procedures for granting and *de minimis* aid accounting model forms"<sup>134</sup>. In addition, other State aid regulations may be taken into account.

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133 <https://eur-lex.europa.eu/eli/reg/2013/1408/oj/?locale=LV>

134 <https://likumi.lv/ta/id/303512>

## 6. EUROPEAN SOCIAL FUND PLUS

### 6.1. Summary and main conclusions

There are **68 measures included** in NDP2027 to be financed through ESF+ financial support with **a total funding of EUR 915 440 085,50**. The ESF+ funded measures will be implemented by the MoF, the MoI, the MoES, the MoEPRD, the MoC, the MoJ, the MoH, the State Chancellery, the MoW, as well as the CSCC/Centre for Demographic Affairs with the relevant co-operation and subordinate institutions.

**Social entrepreneurship** is an integral part of Europe's diverse social market economy. It is based on the principles of solidarity and responsibility, on the priority of individuals and social objectives, promoting social responsibility, social cohesion and social inclusion. Social enterprises (SE) created for social and environmental development can act as a driving force for social changes, also by offering innovative solutions, promoting inclusive labour markets and access to social services for everyone<sup>135</sup>.

Table 36. Assessment of the ESF+

<b>Policy priorities</b>	<ul style="list-style-type: none"> <li>The ESF+ supports the achievement of the strategic objectives of NDP2027: ensuring equal opportunities, reducing inequalities and ensuring social and civil activity, investing in productivity, improving the competences of employees, and promoting social confidence and the promotion of democracy in the country and strengthening the rule of law.</li> <li>Creating and maintaining high-quality and secure jobs, promoting socially responsible business and supporting social entrepreneurship <sup>136</sup></li> </ul>
<b>Group of beneficiaries</b>	<ul style="list-style-type: none"> <li>According to the measures of NDP2027 the main beneficiaries of ESF+ funding are line ministries, including the Ministry of Welfare (MoW), the Ministry of Education and Science (MoES), and the CSCC / Centre for Demographic Affairs.</li> </ul>
<b>Group of beneficiaries — SE</b>	<ul style="list-style-type: none"> <li>SE's were established in 2018 with the Law on Social Entrepreneurship. The total number of SE is small (as of 23.09.2020 there are 119 active, 5 inactive SE), mostly they are new enterprises with operation up to 3 years (according to the survey data), low turnover and small amount of total assets</li> <li>For the great part of SE, the turnover is up to EUR 100 000 and the total assets is up to EUR 100,000.</li> <li>The number of SE is expected to increase to 200 in the following years.</li> <li>Part of the group of beneficiaries is private individuals who want to set up the SE and need funding for starting up the entrepreneurship (natural persons - SE start-ups (winners of the MoW Idea Competition)).</li> <li>SE must reach both entrepreneurship and social goals.</li> <li>The majority of SE's operate in Riga (55%) or Riga surroundings (15%), therefore, it is necessary to promote the development of social entrepreneurship throughout Latvia.</li> </ul>
<b>Available financing</b>	<ul style="list-style-type: none"> <li>NDP2020 plan includes 90 SO for a total of about EUR 598.34 million, financed by the ESF<sup>137</sup>.</li> <li>The most funded measures are "Training for the unemployed and jobseekers" (MoW, EUR 87.08 million), "Aid for outstanding students" (MoES, EUR 41.48 million) and "Health Promotion Measures" (Ministry of Health, EUR 39,91 million).</li> <li>Health, social, educational, cultural and other fields are financed from EU funds, and the State budget;</li> </ul>

<sup>135</sup> [http://www.lm.gov.lv/lv/index.php?option=com\\_content&view=article&id=80690](http://www.lm.gov.lv/lv/index.php?option=com_content&view=article&id=80690)

<sup>136</sup> <https://www.pkc.gov.lv/lv/nap2027>

<sup>137</sup> [https://www.pkc.gov.lv/sites/default/files/inline-files/2013\\_01\\_17\\_NAP\\_finansu\\_tabula\\_eur\\_\\_0.xls](https://www.pkc.gov.lv/sites/default/files/inline-files/2013_01_17_NAP_finansu_tabula_eur__0.xls)

	<ul style="list-style-type: none"> <li>• In the 2020 State budget, EUR 3,515.6 million (35.1%) is for social protection; EUR 1,184.7 million (11.8%) for health sector; EUR 187.4 million (1.9%) for culture and sport;</li> <li>• In the EU funds programming period 2014-2020, 53 specific objectives were financed by the ESF, the total funding of which is EUR 676 704 825;</li> <li>• Many activities were implemented the Ministry of Welfare, including             <ul style="list-style-type: none"> <li>- SO 7.1.1 “Increase the qualifications and skills of the unemployed according to the labour market demand” (total funding EUR 98,186,876; ESF funding - 83,457,803 EUR; State budget funding - 12,575,830 EUR; private co-financing not less than EUR 2,153,243) and SO 9.1.1.1. “Increase the inclusion of the disadvantaged unemployed in the labour market” (total eligible funding at least EUR 97,117,589; ESF funding - EUR 80,260,407; State budget funding EUR 5,624,068; private co-financing not less than EUR 11,233,114) - and Ministry of Health - SO 9.2.4 “Improving access to health promotion and disease prevention services, especially for people at risk of poverty and social exclusion” (EUR 48,260,900, including European Social Fund funding EUR 41,021,764 and State budget funding EUR 239 136).</li> </ul> </li> </ul>
<p><b>Available funding–SE</b></p>	<ul style="list-style-type: none"> <li>• During the EU funds programming period 2014-2020, grants are available to SE (SO 9.1.3 “Aid for social entrepreneurship”) in total EUR 11.120 million (EUR 9 452 175 – ESF funding, 1 668 031 – State budget funding)<sup>138</sup>, while the actual investment in SE (granted contracts) as at 27.07.2020 is ~ EUR 2.61 million.</li> <li>• The SO can finance: long-term tangible and intangible investments, working capital, training and counselling, salaries.</li> <li>• The main reasons for attracting low investment funding are poor quality of SE business plans.</li> <li>• In addition, SE can apply for a variety of financial instruments administered by ALTUM, which are set up to promote entrepreneurship, including start-ups.</li> <li>• SE can also apply for commercial bank loans.</li> </ul>
<p><b>Market failure, investment needs</b></p>	<ul style="list-style-type: none"> <li>• The ESF+ contributes to the achievement of the objectives of several actions of NDP2027, including “Human-centred healthcare”, “Psychological and emotional well-being”, “For generations of Strong Families”, “Social inclusion”, “Quality, accessible, inclusive education”, “Work and income”, “Nature and environment”, “Technological environment and services”, “People participation in cultural and sporting activities”, “Cohesion”, “Justice and governance” and “Security”.</li> <li>• NDP2027 promotes the development of a skilled society, including citizens in activities promoting competences, skills, employment, social inclusion, and common prosperity.</li> </ul>
<p><b>Market failure, investment needs - SE</b></p>	<ul style="list-style-type: none"> <li>• SE needs funding to start up the entrepreneurship, while they are unable to provide the necessary collateral for the loan.</li> <li>• Funding is needed for investment in fixed assets, financing of working capital and the provision of remuneration for employees. Commercial banks may not always offer the required funding if the SE is unable to demonstrate the required collateral for the loan.</li> <li>• Funding for entrepreneurship start-ups (up to EUR 20 000) is not available as SE cannot provide the necessary collateral for the loan, as well as commercial banks are not always interested in providing small loans.</li> </ul>

138 Št summa tiks koriģēta, lai tā būtu atbilstoša reāli plānotajam pieprasījumam



	<ul style="list-style-type: none"> <li>• About half (44%) of SE respondents' own capital is less than 20% of balance sheet total, therefore there is a limited opportunity to obtain the required financial resources from commercial banks.</li> <li>• Funding is necessary for the financing of working capital and salaries, which commercial banks do not provide.</li> <li>• SE has an insufficient financial literacy (based on survey results, interviews with the SE Association and ALTUM) to prepare a business plan in such a quality that commercial banks can finance the project.</li> <li>• When assessing the need for funding in the next 3-5 years (starting in 2020), more than 80% of SE will need additional funds ranging from EUR 20 000 to EUR 100 000.</li> </ul>
<p><b>Financial instruments – SE</b></p>	<ul style="list-style-type: none"> <li>• NDP2027 measure No 502<sup>139</sup> provides EUR 14 million for the development of SE. EUR 9 million will be allocated to financial instruments. The remaining funding will be allocated to technical assistance, publicity and other activities.</li> <li>• <b>The combined financial instrument to start social entrepreneurship.</b> There are 112 active SEs in Latvia. It is planned to increase the number of SE to 200 in the following years, so funding would potentially be needed for 100 new SEs, while 200 new SEs could be created over a seven-year (2021-2027) period. According to the survey results, 85% of SEs intends to raise additional funding. 100 (50%) of new SEs will use external sources for funding. The average amount for the start-up of SE is EUR 50 000 and it is assumed that SE will provide co-funding. <b>Total planned funding for the combined financial instrument (grant and loan) is EUR 4 500 000.</b></li> <li>• <b>Combined financial instrument for the implementation of the business plan and the social impact plan.</b> According to the survey results, 85% of SEs will need additional funding. Only 50 % of SEs are planning to use the combined financial instrument, so the required funding is calculated for 50 SEs. The number is reduced to 45 because part of SEs could use FIs administered by ALTUM. The funding mostly is needed up to EUR 100 000, but there are also SEs, which require additional financing up to EUR 300 000. According to the survey results the average amount of funding needed is EUR 125 000 (weighted average method) and it is assumed that SEs would provide part of the required funding. <b>Total planned funding for the combined financial instrument (grant and loan) is EUR 4 500 000.</b></li> </ul>
<p><b>State aid - SE</b></p>	<ul style="list-style-type: none"> <li>• In the EU funds programming period 2014-2020 SE is supported by grants according to Commission Regulation No 651/2014, Commission Regulation No 1407/2013, Commission Regulation No 794/2004.</li> <li>• In addition, other State aid regulations may be considered.</li> </ul>
<p><b>Expected benefits</b></p>	<ul style="list-style-type: none"> <li>• The social objectives of the NDP2027 measure are achieved.</li> <li>• Created and maintained high-quality and secure jobs, including the employment of target groups.</li> <li>• Promoted socially responsible entrepreneurship and supporting the development of social entrepreneurship.</li> <li>• Further development of social services.</li> <li>• Increased employment opportunities for groups at the risk of social exclusion, disadvantaged unemployed people, people with disabilities and people with mental disabilities.</li> </ul>

<sup>139</sup> [https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027\\_indikat%C4%ABvie\\_invest%C4%ABciju\\_projekti\\_EXSEL.xlsx](https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027_indikat%C4%ABvie_invest%C4%ABciju_projekti_EXSEL.xlsx)

## 6.2. Assessment of market failures

### 6.2.1. European Social Fund Plus Policy



#### Summary of policy priorities included in the planning documents

- Human-centered health care.
- Reducing inequalities.
- Social inclusion.
- Solving social and economic goals, as well as ensuring social integration.
- Promoting socially responsible entrepreneurship by encouraging social inclusion, as well as the development of social services.
- Creating and maintaining high-quality and secure jobs.

The ESF+ fund is intended to support actions in areas such as “Human-centred health care”, “Psychological and emotional well-being”, “Strong family generations”, “Social inclusion”, “Quality, accessible, inclusive education”, “Work and income”, “Natural” environment and Environment, “Technological Environment and Services”, “People participation in cultural and sporting activities”, “Cohesion”, “Justice and governance” and “Security”.

The concept of “Developing social entrepreneurship opportunities in Latvia”<sup>140</sup> states that SE is capable of mobilising parties to solve major societal challenges, by offering a new approach and ensuring sustainable development, access to services, job creation and the strengthening of social capital, particularly in the regions. Social entrepreneurship also contributes to social inclusion, reducing poverty by variable social services supply.

### 6.2.2. National Development Plan 2021-2027



#### NDP2027 measures

- NDP2027 outline 68 measures which are planned to be financed with ESF + financial resources with the total financing of EUR 915 440 085.
- To implement NDP2027 measure No 502 “support social entrepreneurship” by using combined financial instruments with the funding allocated EUR 9 million.

There are **68 measures planned** to be financed by the ESF+ financial resources, with **a total funding of EUR 915 440 086**. The ESF+ funded measures would be implemented by the MoF, the Ministry of Interior, MoES, the Ministry of Environmental Protection and Regional Development (MEPRD), the Ministry of Culture, the Ministry of Justice, the Ministry of Health, the State Chancellery, the MoW, as well as the CSSC/Centre for Demographic Affairs with the relevant co-operation and subordinate institutions.

From 68 NDP2027 measures, only in **one measure** - No 502 “Support social entrepreneurship” with a total funding of EUR 14 million, where the FI to be used.

Table 37: NDP2027 measures of the social entrepreneurship

No.	Description of the measure	Funding, EUR	Justification
502	<b>Support social entrepreneurship</b> Creating and maintaining high-quality (including safe) jobs, promoting socially responsible	14 000 000	NDP2027 measure provides grants and loans to SE's and social entrepreneurship start-ups.

140 [http://www.lm.gov.lv/upload/aktualitates/null/lmkonc\\_271014\\_su\\_1\\_1807.pdf](http://www.lm.gov.lv/upload/aktualitates/null/lmkonc_271014_su_1_1807.pdf)

<p>entrepreneurship and supporting social entrepreneurship</p> <p><u>Targeting:</u> SE's, limited liability companies (LTD) and individuals planning to start social entrepreneurship, population groups at risk of social exclusion, society as a whole, state and local authorities</p> <p><u>Implementation area:</u> Latvia.</p> <p><u>Activities:</u></p> <p>(1) advisory, training and methodological support for applicants of SE status;                  (2) development of the SE register;                  (3) support for the eligibility of SE and evaluation of the SE performance;                  (4) public awareness measures on social entrepreneurship and SE;                  (5) support instruments (grants and loans) for SE; and social business start-ups                  (6) providing advice for the development of business plans.</p>	<p>The NDP2027 measure will help to solve market failures in terms of SE's financial literacy, access to finance for new SE, and access to funding to promote SE.</p> <p>Proposed financial instrument — <b>combined financial instrument (grant and loan)</b>. SE has access to grants for entrepreneurship start-ups and development during EU funds programming period 2014-2020, therefore there is a need to finance entrepreneurship activities via loan and social aspects of entrepreneurship via grants.</p>
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Source: NDP2027, FM, 02.2020

### 6.2.3. Group of beneficiaries



#### Description of the group of beneficiaries

- **Active 119 SE's** (active in different industries).
- 30 of all SE are **labour integration enterprises**.
- **200 new SEs** are estimated.

In accordance with the Social Enterprise Law<sup>141</sup> SE is a limited liability company that has been granted the status of a SE and has a positive social impact on economic activities (such as providing social services, creating an inclusive civil society, promoting education, supporting science, protecting the environment and preserving, protecting animals or ensuring cultural diversity). **Labour integration enterprises**<sup>142</sup> support and increase employment opportunities for groups of people at the risk of social exclusion, including disadvantaged unemployed people, disabled people and people with mental disorders.

SE must be registered in the Register of social enterprises. By 01.04.2018 a pilot project was in force. Starting from 01.04.2018, only SE are included in the Register of social enterprises<sup>143</sup>. As of 23.09.2020, the Register of social enterprises includes 119 active SE and 5 inactive SE. 30 of all SE's are for labour integration enterprises. Most SE's (55%) operate in Riga. According to the information obtained in the interviews (SE Association), it is planned to increase the number of SE to 200 in the **following three years**. Overall, estimates are made on the assumption that there will be 200 new SE in a **seven-year period (2021-2027)**.

### 6.2.4. Financing administered by ALTUM



#### Financing administered by ALTUM

- For the period 2016-2019, **8 ALTUM loans** were issued to SEs for a total amount of **EUR 181 804**.

141 <https://likumi.lv/ta/id/294484-sociala-uznemuma-likums>

142 <https://likumi.lv/ta/id/275959-darbibas-programmas-izaugsmes-un-nodarbinatiba-9-1-1-specifiska-atbalsta-merka-palietinat-nelabveligaka-situacija-esosu>

143 <http://www.lm.gov.lv/lv/es-finansejums/lm-istenotie-projekti/aktualie-projekti/esf-projekts-atbalsts-socialajai-uznemejdarbibai/socialo-uznemumu-registrs>

- SEs has not used guarantees issued by ALTUM.
- 48 SEs have **grant agreements** with ALTUM for **EUR 2 614 000**; total planned cost of the SO is **EUR 11 120 206**.

During the EU funds programming period 2014-2020, various financial instruments are available, administered by ALTUM. The table below includes information on financial instruments administered by ALTUM, broken down by financial instruments. Part of the financial instruments is specifically designed to support entrepreneurship. Financial products A3 and A4 were used to finance the SE.

### Loans administered by ALTUM to support entrepreneurship

Table 38. ALTUM administrated financing - loans

Financial product	CoM Regulations	ALTUM loan portfolio 31.12.2019, EUR	ALTUM loan portfolio to SE, 31.12.2019, EUR
A1 - Loan programme for agricultural, rural and fishery economic operators	24.07.2018 CoM Regulation No 446	2 483 000	
A2 - Parallel loans to improve the competitiveness of enterprises (fund of funds)	15.07.2016 CoM Regulation No 469	6 994 000	
A3 - Micro loans and start-up loans (fund of funds)	31.05.2016 CoM Regulation No 328	11 318 000	
A4 - Loans to promote the development of small (micro), small and medium-sized enterprises and agricultural services co-operative societies	15.09.2009 CoM rules 1065	69 371 000	
A5 - Loans to finance working capital in the agricultural, forestry, fishery and aquaculture sectors	03.12.2019 CoM Regulation No 582	9 003 000	
A6 – Loan to purchase agricultural land for the producing agricultural products	22.05.2018 CoM Regulation No 295	68 081 00	
A7 - Microloans and grants within the framework of the individual project “Micro crediting Programme” of the Latvian-Swiss cooperation programme	06.09.2011 CoM Regulation No 698	897 000	
<b>Total</b>		<b>168 147 000</b>	<b>181 804</b>

Source: ALTUM, data on 31.12.2019

No information was available at the time of the evaluation that SE would have used ALTUM guarantees.

### Grant Programme administered by ALTUM

Operational Programme “Growth and Employment” for the EU funds programming period 2014-2020 SO 9.1.1. “Increase the integration of the disadvantaged unemployed into the labour market”, 9.1.1.3. Regulations for the Implementation of the Measure “Support for Social Entrepreneurship” (Cabinet Regulation No 467 of 11 August 2015) determine support for SE’s in the form of grants. The SO is implemented according to the State aid regulations: Commission Regulation No 1407/2013, Commission Regulation No 1408/2013, Commission Regulation No 717/2014.

The aim of the SO is to identify and examine optimal solutions to establish and develop SE, including support for labour integration enterprises, in order to increase employment opportunities for population groups at risk of social exclusion (disadvantaged, disabled, with mental disorders, etc.). The SO is implemented by MoW and co-partner ALTUM. The cost of the SO was initially **planned to be EUR 11 120 206<sup>144</sup>**, the period of implementation of the SO is 04.01.2016 - 31.12.2022. At the time of evaluation, the MoW carries out an evaluation of the “Support for Social Entrepreneurship” and based on the evaluation results the available funding can be modified if necessary.

144 This amount will be adjusted to match the real projected demand

According to the information provided by the MoW, 172 grant applications have been received by ALTUM as at 27.07.2020. 33 contracts are signed with participants for EUR 2 614 000 and 48 contracts with SE for EUR 2 384 000. Grants have a major impact on the activities of SE's and without the grants a number of SE may not have started their entrepreneurship.

### 6.2.5. Financing provided by commercial banks

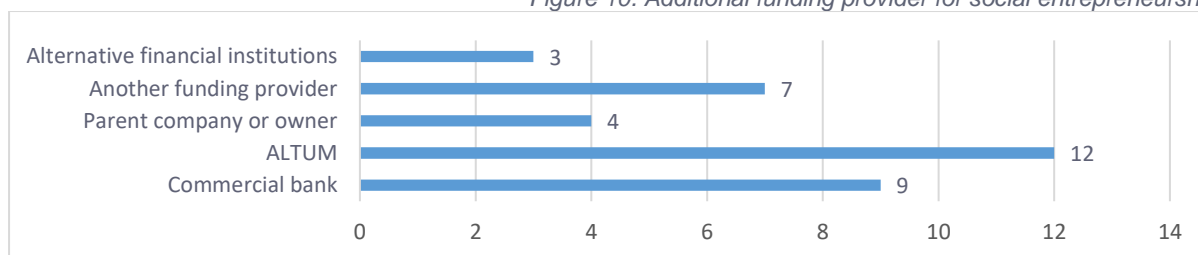


#### Financing provided by commercial banks

- 15 out of 47 SEs, or 32% of all respondents, required for external funding. **9 SE out of 15**, required financing from commercial banks. 60% of SE seeking additional funding or **12% of all respondents**, received part of requested financing; 20% of SE seeking additional funding did not receive funding.
- **Reasons for not receiving** funding: insufficient collateral, and duration of enterprise operations.

According to the survey results, financing to SE is provided by ALTUM, commercial banks and other funding providers. In 60% of cases SE's required financing from commercial banks (loans, guarantees or capital investments) during the period 2016-2019. In 20% of cases SEs received all the required funding, in 60% - part of the funding required and 20% SEs did not receive funding.

Figure 10. Additional funding provider for social entrepreneurship

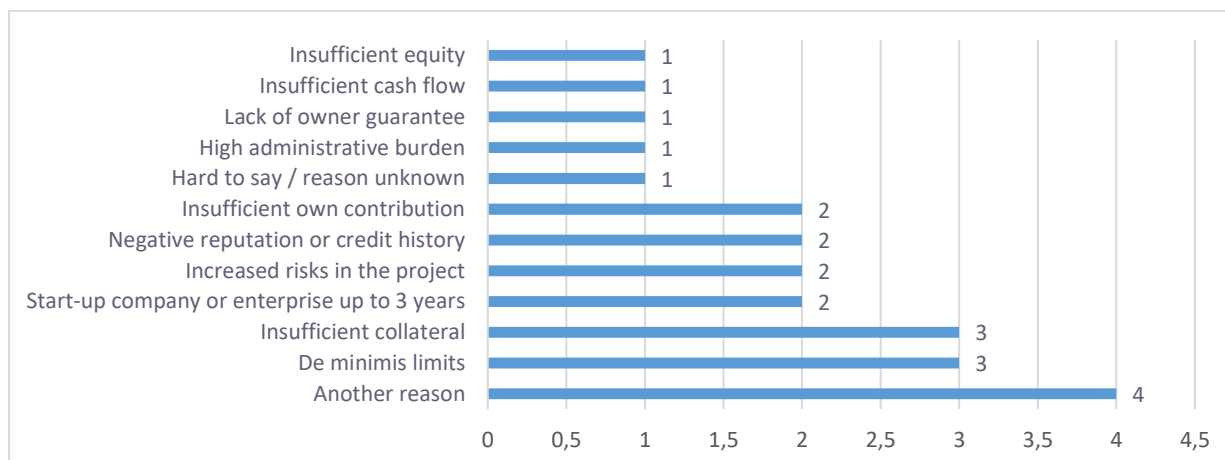


Source: Survey results

Not in all cases, the SEs received the required funding. From 15 loan applicants, the required funding was acquired by 3 SEs, 9 SEs received part of the required amount, 3 SEs did not receive funding.

As shown in figure below, there are different reasons for refusing funding, such as *de minimis* limits (3 replies), insufficient collateral (3 replies), as well as enterprise age (2 replies). As one of the reasons not to apply for the funding respondents identified a major administrative burden.

Figure 11. Additional reasons for refusing funding (for partial or total refusal of financing)



Source: Survey results

## 6.2.6. Calculation of the required funding and financial products



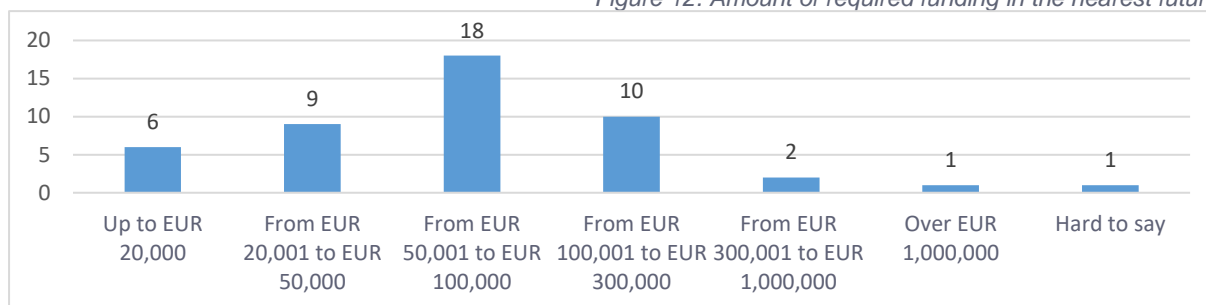
### Required funding

- SE entrepreneurship start-up: **EUR 4 500 000**, financing for 85 SEs.
- Implementation of SE business plan and social impact plan: **EUR 4 500 000**, financing for 50 SEs.
- Beneficiaries - **SE's**

### Survey results

When assessing the need for funding over the next 3-5 years (starting in 2020), 47 respondents, or 84%, will need additional financial resources, but, in comparison to the funding used during the EU funds programming period 2014-2020, the amount of funding needed has increased and is mostly planned to be between EUR 50 000 and EUR 100 000 (to be considered, when designing the new financial instruments).

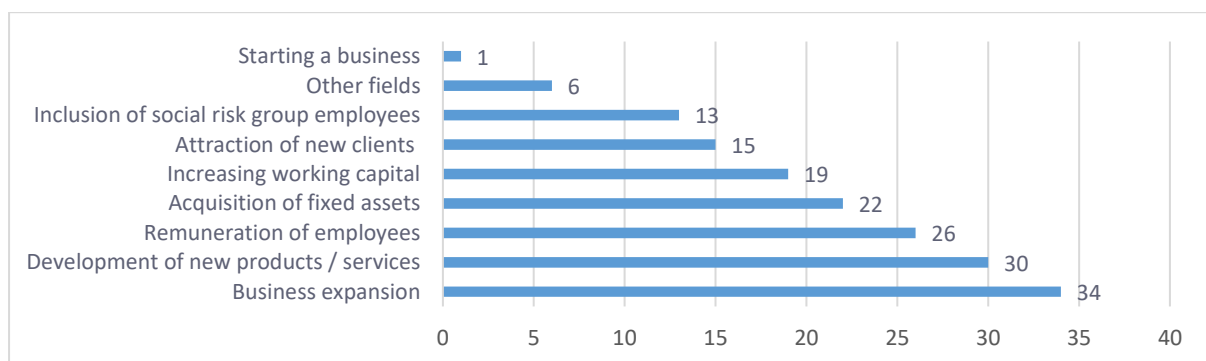
Figure 12. Amount of required funding in the nearest future



Source: Survey results

The main areas to be financed over the next 3-5 years are the enterprise expansion (34 respondents) and new products/services development (30 respondents). COVID-19-related issues were included in the survey addressed to all types of enterprises and only slightly more than 10% of all respondents indicated the need for additional funding to eliminate consequences of COVID-19.

Figure 13. Areas where additional funds should be invested



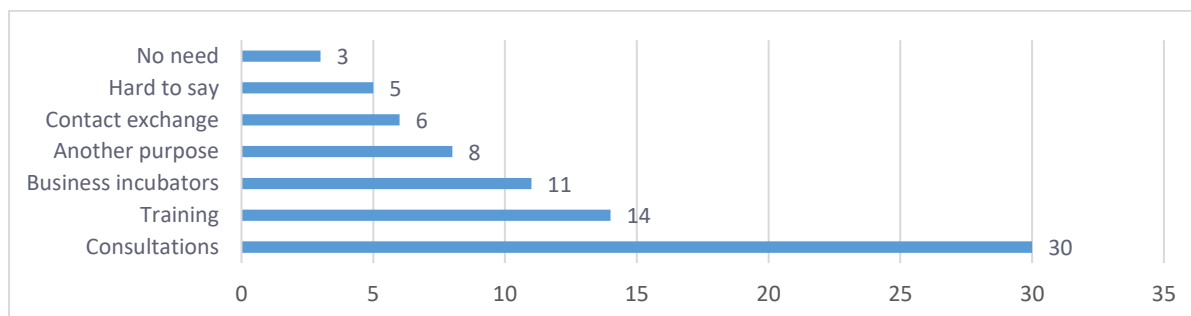
Source: Survey results

Respondents acknowledged that a variety of non-financial support services, such as counselling, training, incubators, will also be needed in the near future. Support activities, including training and counselling, can be developed for all SEs, regardless if the SE applies for funding or not. The second option would be to advise only those enterprises applying for funding. To ensure avoiding conflict of interest, consultations cannot be conducted on the projects to be evaluated.

Also, there is a need for the development of business incubators, attracting skilled specialists, creating events that attract mentors, investors such as brokerage, exchange programs. The provision of such activities could also contribute to the further development of SE.



Figure 14. Necessary trainings to support SE



Source: Survey results

According to survey results if SE cannot be financed only by grants in the next five years, 25 (or 53%) respondents would be prepared to use the combined financial instrument (grant combination with the loan), while 13 (28%) did not, so about half of the SE would be interested in using the combined financial instrument. In response to the issue of access to finance, the majority of SEs admits the need to raise funds for innovations, new products development and introduction to the market.

### Calculation of the required funding

The calculation of the required funding is based on the structure of the industry, the use of existing financial instruments, the opinion of industry associations and the survey results of SE's. A summary of the calculation of the required funding and financial instruments is included in the table below (source of funding ESF+). The calculation does not include entrepreneurship support activities, which include counselling and training and are separable from lending and grants to ensure that loan and grant providers are not involved in the preparation of business plans. Training is crucial to set entrepreneurship and social objectives, measure progress, create business plans. Support activities can be funded from ESF+ but not included in the financial instrument and therefore not considered when calculating the leverage effect.

Table 39. Calculation of the required funding for social entrepreneurship

Calculation of the required funding	Required funding, EUR
<p><b>The combined financial product for the SE entrepreneurship start-up</b></p> <p><b>An enterprise that starts social entrepreneurship is considered to be a limited liability enterprise that has recently registered and wants to establish social entrepreneurship.</b></p> <p>As of 23.09.2020<sup>145</sup> there are about 119 active SEs in Latvia and according to the survey results (SE Association) it is planned to increase the number of SEs to 200 in the following years, it is assumed that funding would potentially be needed for 100 new SEs, but in seven years period (2021-2027) can be 200 new SEs.</p> <p>According to the survey results, 85% of SE plan to raise additional funding, but it is assumed that 50% of enterprises will raise additional funding, as not all new enterprises have experience in raising funds. In general, 50% of the new enterprises, or 100 enterprises, would attract funding.</p> <p>The average amount of planned aid to establish the SE is EUR 45 000, based on the recommendation of the MoW and the CoM Regulation No 301 of 19 May 2020, Amendments to CoM Regulation No 467 of 11 August 2015, entitled "Growth and Employment" 9.1.1. integration of the unemployed into the labour market '9.1.1.3 Rules for eligibility"<sup>146</sup>, of SO "Support for social entrepreneurship", increasing the maximum amount of funding, and assuming that the average amount of funding for the project is EUR 50 000.</p> <p>For a project amount of EUR 50 000, 10% or EUR 5 000 should be provided to SE and EUR 45 000 or 90% financial support. The total amount of the project may be higher if the beneficiary increases its co-financing or attracts any other additional funds.</p> <p>100 SE (50% of 200 new enterprises) need funding:</p>	4 500 000


145 <http://www.lm.gov.lv/lv/es-financejums/lm-istenotie-projekti/aktualie-projekti/esf-projekts-atbalsts-socialajai-uznemejdarbibai/socialo-uznemumu-registrs>

146 <https://likumi.lv/ta/id/314834>

<ul style="list-style-type: none"> <li>▪ <b>average amount per project is EUR 50 000,</b></li> <li>▪ SE's <b>co-financing is 10% or EUR 5 000</b> per project</li> <li>▪ ESF+ and national co-financing is 90% or EUR 45 000 per project</li> </ul> <p>Considering the calculations, EUR 4,5 million, including ESF+ and national co-financing, is proposed for the deployment of financial instruments.</p>	
<p><b>Combined financial product to implement the business plan and the social impact plan</b></p> <p>According to survey results, 85% or 85 SE (100 SE at the time of survey) will need additional funding. Considering that part of the SE may not use financial instrument, the calculation of the required funding has been made for 50 SEs. The most required funding is up to EUR 100 000 but there are SEs who require financing up to EUR 300 000. Based on survey results (weighted average method), the average funding needed is EUR 125 000.</p> <p>A total of 50 SE (50% of 100 SE) needs funding:</p> <ul style="list-style-type: none"> <li>▪ <b>average amount per project is EUR 125 000,</b></li> <li>▪ SE <b>co-financing is 20% or EUR 25 000</b> per project,</li> <li>▪ ESF+ and national funding on average is EUR 100 000 per project (total <b>EUR 5 000 000 for all projects</b>).</li> </ul> <p>Part of the new SE could apply for funding to implement the business plan and social impact plan after a successful start within 2-3 years.</p> <p>As part of the SE may use different financial instruments administered by ALTUM, the amount of funding planned has been reduced by 10% or by EUR 500 000.</p> <p>According to calculations, EUR 4,5 million, including ES + and national co-financing, is proposed to be allocated to financial instruments.</p>	4 500 000
<p><b>Total</b></p>	<p><b>9 000 000</b></p>

Source: CSE COE calculations

### 6.2.7. Combined financial instrument for the start of the social entrepreneurship



**Recommended financial instrument – for the start of SE**

- **Combined financial instrument (loan and grant)** - grant not exceeding 70% and loan not less than 30%.
- The project promoter's co-financing: **at least 10%**.
- Planned **leverage effect 1.17**.
- Beneficiaries – **SE**.

The proposed financial instrument combines loan and grant components, providing financing for social business start-ups - limited liability companies. The maximum grant component is 70% and the minimum loan component is 30%, providing funding for areas such as salaries, fixed assets, working capital and others. If necessary, considering the recommendations and regulations of the European Commission, the proportion of the grant and the loan may be changed. It is recommended that the grant and loan components are implemented in a single financing agreement. In case both components cannot be implemented through the single financing agreement, then **components to be administrated separately**.

The table below contains detailed information about the planned financial instrument.

Table 40. Combined financial instrument for starting a social entrepreneurship

<b>Combined financial product for the start of the social entrepreneurship</b>	
<b>Source of funding</b>	<b>ESF+ – NDP2027 measure No.502 – Promoting social entrepreneurship</b>
<b>Funding</b>	EUR 4 500 000
<b>Leverage effect</b>	Leverage effect assuming ESF+ aid intensity 85% - 1.17

<b>Beneficiaries of funding</b>	<p>SE start-up - LTD</p> <p>The SE initiator submits the business plan and, after receiving a positive decision, the SE establishes the LTD, with the SE status. A financial support agreement is signed with a legal person of SE.</p> <p>Support for the start-up of social entrepreneurship can be granted once and support cannot be received by the SE, which received support funded by the ESF during EU Funds programming period 2014-2020.</p>
<b>Description of the financial instrument</b>	<p>The combined financial instrument - loan and grant - for the SE start-up.</p> <p>The average amount of one project is EUR 50 000, which includes 10% of SE co-financing and public funding of EUR 45 000. For public funding, grant component is up to 70% of the remaining amount of the project following the co-financing of the SU and at least 30% of the loan components from the remaining amount of the project after the co-financing of the SU.</p> <p>A total of 100 SE (50% of 200 new enterprises) needs funding.</p> <p>It is necessary to provide pre-financing for the grant component.</p> <p>The maximum grant component is 70% and the grant support is greater in SE outside Riga (e.g. 70% outside Riga, Riga and Pieriga 50%, measured according to the actual place of operation of SE) to promote social entrepreneurship development outside Riga and Pieriga. A larger grant component may also be for enterprises with greater social impact (objective criteria are determined by the MoW when planning the measure) or a higher proportion of the grant component for labour integration SE's.</p> <p>No collateral is required for the loan component.</p> <p>SE can use the financial instrument grant components within 2 years. Duration of the loan is up to 5 years, the interest rate on the loan is not subsidized.</p>
<b>Investment Region</b>	Latvia
<b>Use of funding</b>	<p>The loan component can be used for a wide variety of enterprises-related issues, such as remuneration costs, working capital, fixed assets, used fixed assets. It is necessary to obtain approval from the EC regarding eligible expenditure.</p> <p>The funding grant component can be used only for the categories of expenditure according to ESF+ regulations.</p>
<b>Implementation model</b>	<p>One institution - ALTUM or MoW, is responsible for the implementation of the financial instrument as the financial instrument is to be introduced into a single financing agreement.</p> <p>The responsible authority evaluates project applications concerning the business and social objectives of the project.</p> <p>During the implementation of the project, the responsible authority evaluates and gives a conclusion regarding the fulfilment of the business plan and social objectives.</p> <p>The establishment and management of a financial product are financed by the ESF+, applying the fixed rate, the maximum of which is set out in the Regulations.</p>

Source: NDP2027, authors' estimates and calculations

### 6.2.8. Combined financial instrument to implement the SE Business Plan and Social Impact Plan



#### Recommended financial instrument to implement the SE Business Plan and Social Impact Plan

- **Combined financial instrument (loan and grant)** - grant not more than 50% and loan not less than 50%.

- The project promoter's co-financing: **at least 20%**.
- Planned **leverage effect 1.17**.
  - Beneficiaries - **SE's**.

The proposed financial instrument is intended to provide financing for the economically active SE, with a maximum grant intensity of up to 50%, as well as a minimum loan intensity of at least 50%. The combined financial instrument is intended to finance working capital and the purchase of fixed assets. If necessary, according to EC's recommendations and regulation, the grant-loan ratio can be modified. It is recommended that the grant and loan components are implemented in a single financial agreement. If the two components cannot be introduced using a single financial agreement, they could be administrated separately.

The table below contains detailed information about the planned financial instrument.

*Table 41. Combined financial instrument for the implementation of the SE Business Plan and Social Impact Plan*

<b>Combined financial instrument for the implementation of the SE Business Plan and Social Impact Plan</b>	
<b>Source of funding</b>	<b>ESF+ – NDP2027 measure No.502 – Promoting social entrepreneurship</b>
<b>Funding</b>	EUR 4 500 000
<b>Leverage effect</b>	Leverage effect assuming ESF+ aid intensity 85% - 1.17
<b>Beneficiaries of funding</b>	An economically active SE.
<b>Description of the financial instrument</b>	<p>The combined financial instrument - loan and grant - to implement the SE Business Plan and Social Impact Plan.</p> <p>The average amount of one project is EUR 125,000, which includes 20% of the SE co-financing and public funding for the grant component up to 50% of the remaining amount of the project following the co-financing of SE and at least 50% of the loan components from the remaining project amount after the co-financing of SE.</p> <p>The average amount of public funding per project is EUR 100 000. The planned number of SE is 50, which has been reduced by 10% as part of the SE can use the financial instrument administered by ALTUM, and therefore the number of SE to be financed is 45.</p> <p>The maximum grant component is 50% and the grant support is higher in SE outside Riga (e.g. 50% outside Riga, Riga and Pierīga 30%, measured according to the actual place of operation of SE) to promote SE development outside Riga. A larger grant component can also be for enterprises with greater social impact (objective criteria are determined by the MoW when planning the measure) or a higher proportion of the grant component for job integration enterprises.</p> <p>It is necessary to provide pre-financing for the grant component.</p> <p>The financial instrument grant components can be used within 3 years. Duration of the loan up to 5 years, the interest rate on the loan is not subsidized.</p> <p>SE does not require collateral for the loan component of a combined financial instrument, but the assets acquired, such as fixed assets, can be used as a guarantee. The SE business plan (excluding the labour integration SE) should provide that at least 30% of the planned loan amount is used for the purchase of fixed assets that will be used as loan collateral (not applicable to operating leasing, because in the case of operating leasing the asset belongs to the leasing provider). The consultation with the EC should provide proof that the ESF+ resources redirected to financial instruments can be used to purchase infrastructure.</p>
<b>Investment Region</b>	Latvia
<b>Use of funding</b>	The financing loan component may be used for a wide variety of enterprise-related issues, such as remuneration, working capital, fixed assets, used fixed assets, subject to compliance with EC regulations.

	The funding grant component can only be used for the categories of expenditure according to the ESF+ regulations.
<b>Implementation model</b>	<p>One institution, ALTUM or MoW, is responsible for the implementation of the financial instruments, as the financial instruments are introduced into a single financing agreement.</p> <p>The responsible authority evaluates project applications concerning the business plan and social impact plan of the project.</p> <p>During the implementation of the project, the responsible authority evaluates and gives a conclusion regarding the fulfilment of the business plan and social impact plan objectives.</p> <p>The establishment and management of financial product is financed by the ESF+, applying the fixed irate, the ceiling of which is set out in the Regulations.</p>

Source: NDP2027, authors' estimates and calculations

### 6.3. State aid issuei

During the EU funds programming period 2014-2020, support to SE is provided according to granting of *de minimis* aid to SE<sup>147</sup> and the maximum cumulative aid amount should not exceed EUR 200 000. Part of SE experienced difficulties to provide the requested information and preparing the required reports. The aid was also granted in accordance with EC 651/2014. In addition, other State aid regulations may be considered.

147 <https://likumi.lv/ta/id/275959-darbibas-programmas-izaugsme-un-nodarbinatiba-9-1-1-specifiska-atbalsta-merka-palielinat-nelabveligaka-situacija-esosu>

## COHESION FUND

### 7.1. Summary and main conclusions

There are **15 measures included** in NDP2027 to be financed through Cohesion Fund (CF) financial support with **a total funding of EUR 1 373 505 174**. MoEPRD, the Ministry of Transport (MoT), MoF, will implement the measures together with the subordinate institutions.

Table 42. Summary of CF policy

<b>Policy priorities</b>	<ul style="list-style-type: none"> <li>• <b>Promoting international connectivity</b> through TEN-T core network. The development of an integrated, sustainable transport system, providing high-quality people and goods mobility, with optimal reach, using the railway as the public transport backbone.</li> <li>• <b>Low-carbon</b>, resource-efficient and climate-resilient development, contributing to the reduction of climate, energy and air pollution.</li> <li>• <b>Sustainable</b> and efficient management of natural resources, contributing to the achievement of the European Green Deal and other global objectives.</li> </ul>
<b>Group of beneficiaries</b>	<ul style="list-style-type: none"> <li>• <b>Water management enterprises</b> (more than 100) - municipal capital companies within the meaning of the public persons capital shares and the Law on the management of capital enterprises.</li> <li>• <b>Waste management enterprises and waste recycling enterprises</b> (about 40) – municipal capital companies and others.</li> <li>• Circular economy issues refer to all enterprises - <b>around 175 000</b> economically active <b>enterprises</b>.</li> </ul>
<b>Available financing</b>	<ul style="list-style-type: none"> <li>• For the EU Funds programming period 2014-2020, total available funding is <b>at EUR 1.7 billion</b>, where EUR 1.3 billion is <b>CF funding</b> and EUR 380 million national co-financing. Most funding redirected to SO 6.2.1 "Ensure a competitive and environmentally friendly TEN-T rail network by promoting its safety, quality and capacity" (MoT, EUR 534 million), SO 6.1.5. "Rebuilding, increasing the capacity of major national roads" (MoT, EUR 257 million) and SO 4.3.1. "Promote energy efficiency and the use of local RES in district heating" (MoE, EUR 150 million).</li> <li>• During the EU funds programming period 2014-2020, water management enterprises have been supported under the SO 5.3.1 "Developing and improving the quality of water and sewer services and providing accessibility", total funding of EUR 121 248 200, including CF funding of EUR 102 562 507, and national funding (private and local government funding) at least EUR 18 685 693.</li> <li>• <b>During</b> the EU funds programming period 2014-2020, waste management companies are supported under the SO 5.2.1 "Promoting the reuse, recycling and recovery of different types of waste", <b>total funding of EUR 85 000 000</b>, including EUR 59 500 000 from the Cohesion Fund, and national financing (private and municipal funding) of at least EUR 25 500 000.</li> <li>• Transport and environmental protection projects are funded also from the State and local municipality budgets. In the 2020 budget<sup>148</sup> the MoT provides investments in transport. EUR 280.7 million for roads, including co-financing for projects; EUR 69 million for railway infrastructure projects; EUR 62.4 million for the aviation industry; EUR 1.1 million for the transit sector development, EUR 91,2 million for passenger transportation, including grants to public transport service providers.</li> </ul>

148 [https://www.fm.gov.lv/files/valstsbudzets/FMPask\\_L\\_SM\\_280120\\_bud2020.pdf](https://www.fm.gov.lv/files/valstsbudzets/FMPask_L_SM_280120_bud2020.pdf)



	<ul style="list-style-type: none"> <li>• There is financing available from the EIB and Connecting Europe Facility (CEF) instrument, including combined financial instruments (grant and loan).</li> </ul>
<p><b>Market failure, investment needs</b></p>	<ul style="list-style-type: none"> <li>• The Cohesion Fund contributes to the achievement of the two NDP2027 objectives: “Nature and the Environment - Green Deal” and “Technological Environment and Services”.</li> <li>• NDP2027 promotes the development of a low-carbon, resource-efficient and climate-resilient, integrated, sustainable transport system, ensuring international connectivity and mobility, as well as maintaining and improving the quality of the environment.</li> </ul> <p>Main investment needs:</p> <ul style="list-style-type: none"> <li>• further improvement of the main national roads (TEN-T network);</li> <li>• development of railway infrastructure;</li> <li>• further development of a multimodal public transport network;</li> <li>• development of Riga as the TEN-T core network urban intersection;</li> <li>• redeployment of Latvian ports to promote climate neutrality and maritime safety;</li> <li>• achieving climate objectives;</li> <li>• the integrated development of customs technical solutions for rapid and effective response, prevention of law violation and public security;</li> <li>• development of water management system;</li> <li>• the introduction of circular economy principles in manufacturing and services; the development of innovative business models based on circular economy principles;</li> <li>• waste farms, waste recycling and further use, and waste prevention measures;</li> <li>• pollution reduction, rehabilitation and recuperation of historically contaminated sites (including recultivation of former waste sites);</li> <li>• digitalization.</li> </ul>
<p><b>Financial instruments</b></p>	<p>Within the framework of the assessment, it is recommended to establish financial instrument for the following two NDP2027 measures:</p> <ul style="list-style-type: none"> <li>• <b>Measure No.296 - Introduction of the principles of circular economy in manufacturing and services;</b> development of innovative business models based on circular economy principles. The estimated amount for financial instruments is <b>EUR 20 000 000</b>. Financial instrument recommended: combined financial instrument (grant and loan component). Climate, circular economy, energy efficiency and RES use measures to be included in the project objectives.</li> <li>• <b>Measure No.609 – further development of Latvian ports in order to promote climate neutrality and maritime safety,</b> an estimated amount of <b>EUR 20 000 000</b>. Financial instrument proposed: a combined financial instrument (loan and grant, proportions can be determined during the activity planning). Climate, circular economy, energy efficiency and RES use measures to be included in the project objectives.</li> </ul>
<p><b>State aid</b></p>	<ul style="list-style-type: none"> <li>• In the EU Funds programming period 2014-2020, beneficiaries receive aid in grants therefore similar conditions could be applied during the EU Funds programming period 2021-2027 as regards State aid issues.</li> </ul>

	<ul style="list-style-type: none"> <li>• In addition, other State aid regulations may be taken into account.</li> </ul>
<b>Expected benefits</b>	<ul style="list-style-type: none"> <li>• The use of combined financial instruments will ensure a gradual transition from aid in grants to loans, thereby encouraging the transformation to business operation principles. Linking grant to environmental and other policy objectives will help enterprises to focus on more complex projects contributing to achieving policy goals.</li> </ul>

## 7.2. Assessment of market failures

### 7.2.1. Policy priorities



#### Summary of policy priorities included in the planning documents

**Low-carbon, resource-efficient and climate-resilient** development by promoting environmental objectives.

The **development of an integrated transport system** providing high-quality mobility opportunities.

Transition to a **circular economy**.

Development of regions and territories.

Two directions of NDP2027 promotes the objectives of Cohesion Policy "Nature and the Environment – Green Deal" and "Technological Environment and Services".

The "Nature and the Environment - Green Deal" contributes to low-carbon, resource-efficient and climate-resilient development while promoting the national objectives of climate, energy, air pollution reduction, water improvement and waste management, and ensuring the preservation and improvement of the quality of the environment. In the framework of the "Nature and Environment — Green Deal", biodiversity is maintained, balancing economic, ecological, social interests and implementing environmental, sustainable management of natural resources and energy policies, establishing clear models of public-population cooperation, as well as involvement in decision-making.

The action "Technological environment and services" contributes to the development of an integrated, sustainable transport system, providing high-quality mobility opportunities for people and freight in the country, with optimal reach, using the railway as the backbone of public transport. During the action, the objectives of international connectivity are important, both in the framework of the core transport network and in the development of broadband electronic communications infrastructure compatible with the EU connectivity objectives.

The circular economy targets are set out in the Action Plan for the transition to the circular economy 2020-2027, promoting sustainable and efficient management of natural resources, as well as contributing to the implementation of the European Green Deal and other global objectives. The circular economy includes keeping the value of products, materials, resources in the economy as long as possible, by reducing raw material consumption, waste volume and environmental impacts. The plan sets out action lines and measures to implement the circular economy: the transition from waste management to resource management; improving resource productivity in all sectors of the economy; creating pre-conditions for the reuse of goods; promoting the transition from purchasing goods to services; improving materials, processes and waste management in priority sectors; strengthening the role of municipalities in the circular economy implementation of the principles; involvement, information and education of the public.

### 7.2.2. National Development Plan 2021-2027



#### NDP2027 infrastructure measures

**15 measures** are planned to be financed through the CF for a total amount of EUR 1 373 505 174.

- Financial instruments proposed for NDP2027 measures:
  - **NDP 2027 measure No 296 Implementation of the principles of circular economy in manufacturing** and services and development of innovative business models based on the principles of circulation – **EUR 55 000 000.**
  - **NDP 2027 measure No 609** for the further development of Latvian ports to promote climate neutrality and maritime safety - EUR 20 000 000.
- **NDP2027 outline 8 transport infrastructure measures to be financed through ERDF with the total financing of EUR 152 535 521.** The financial instruments are not planned.

NDP2027 identifies national priorities for infrastructure development and Cohesion Policy, as well as recommend level of funding and its sources. The evaluation analyzed all NDP2027 measures planned to be financed through the CF, as well as individual infrastructure measures planned to be financed through the ERDF. The table below includes information on the activities of NDP2027 - **the source of funding - CF**. The funding indicated is total funding, including both: planned EU funds and national co-financing, according to the measure.

Table 43. NDP2027 measures for infrastructure development

No.	Description of the measure	Funding, EUR	Justification
296	<p><b>Introduction of circular economy principles in manufacturing and services and development of innovative business models based on circular economy principles</b></p> <p>More efficient use of local resources, including the application of the principles of eco-design and the introduction of a circular economy in different sectors, by achieving a higher use of standards and innovations in the food chain and animal health, in line with the principle of "one health", and by attaining waste-free industries in the economy</p> <p><u>Target audience:</u> society <u>Implementation area:</u> Latvia <u>Activities:</u></p> <ol style="list-style-type: none"> <li>1) introduction of eco-efficient technologies and eco-innovations in manufacturing according to circularity economy principles.</li> <li>2) the introduction of eco design principles for the production of goods and the use of materials.</li> <li>3) development of cross-sectoral industrial symbiosis (particularly at regional level).</li> <li>4) reducing the capacity of packaging materials and increasing recyclability and durability (reuse).</li> <li>5) developing a material flow accounting system (expanding existing accounts, linking databases) and increasing traceability</li> </ol> <p>Responsible - MoEPRD</p>	55 000 000 CF	<p>The target audience and beneficiaries of the measure is the whole society, while the activities of the measure cover production and entrepreneurship.</p> <p>The aim of the measure is to improve the introduction of a circular economy in manufacturing, which may affect the reduction of costs of enterprises or the increase in revenue, therefore it is recommended to use financial instruments for part of the measure.</p> <p>Activities related to the development of a national material flow accounting system are planned to be implemented through grants, as these activities will not result in an increase in the revenue of enterprises and will not reduce expenditure.</p> <p>In addition, during the Operational Programs programming, the link between different measures and possibility to consolidate the measures of NDP2027 will be assessed.</p>
296	<p><b>Measures for further development (modernisation) of Latvian ports for promoting climate neutrality and maritime safety</b></p> <p>Improving international connectivity through the <i>implementation of the Rail Baltica</i> project, further developing the Riga international airport, while increasing the competitiveness of transit services and the acquisition of new markets, creating Riga as an essential and modern multimodal transport</p>	20 000 000 CF	<p>The aim of the measure is to reorganise the operation of Latvian ports. The measures may result in changes in the financial performance of ports, so it would be possible to assess the use of financial instruments.</p> <p>According to information provided by the line ministry, the</p>

<p>hub, including improving infrastructure, thereby increasing the productivity of the Single European Transport Network and promoting environmental objectives.</p> <p><u>Target audience:</u> Liepaja Special Economic Zone Board, Riga Free Port Board, Ventspils Free Port Authority, JSC "Venta Port", ports outside the TEN-T network</p> <p><u>Place of implementation:</u> port areas</p> <p><u>Activities:</u> electrification of port berths; renewal and modernisation of ship navigation facilities; reconstruction of hydro-technical structures, development of environmentally friendly infrastructure</p> <p>Responsible Ministry - MoT</p>		<p>beneficiaries are ports and projects will be carried out in port areas, such as improving passenger infrastructure, improving security.</p> <p>The introduction of measures could reduce port expenditure or increase revenue, so the measure could be implemented by using the combined financial instrument.</p> <p>The grant component could be used for the implementation of security and climate change measures. The loan component could be used to finance commercial activities.</p>
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Source: NDP2027, <https://www.pkc.gov.lv/iv/nap2027>

### 7.2.3. Water management enterprises



#### Description of the group of beneficiaries

- **Water management enterprises (more than 100)** – municipal capital companies within the meaning of Law on Governance of Capital Shares of a Public Person and Capital Companies.
- During the EU funds programming period 2014-2020, water management enterprises have been supported under the SO 5.3.1 "Developing and improving the quality of water and sewer services and providing accessibility", total funding of EUR 121 248 200, including CF funding of EUR 102 562 507, and national funding (private and local government funding) at least EUR 18 685 693.
- According to the survey results of municipal capital companies, 79% of respondents requested additional funding, 74% of them received the required funding. Additional funding is provided in **loans (38%)** or **investment in capital (35%)**. Main funding providers are **municipalities (40%)** and **State Treasury (26%)**. Funding is mainly used for investment in fixed assets (67%).

Around 100 water management enterprises operate in Latvia, providing services in certain administrative areas, such as "Riga Water", "Liepaja water"LTD, "Madona water"JSC.

According to the survey results, 83 municipal capital companies were surveyed, 28 of which are active in water management (34% of respondents). Municipal capital companies provided answers on availability of funding and the amount of planned funding and use of it over the following 3-5 years.

23 out of 28 municipal capital companies (82%) operating in water management sector, needed additional funding in 2016-2019, while 22 municipal capital companies (79%) required funding. Additional funding was needed for infrastructure development, energy efficiency measures, as well as for the improvement of services.

### 7.2.4. Waste management companies and waste recycling enterprises



#### Description of the group of beneficiaries

- **Waste management companies and waste recycling enterprises** (about 40) – municipal capital companies and others.

- **During** the EU funds programming period 2014-2020, waste management companies are supported by SO 5.2.1 "Promoting the reuse, recycling and recovery of different types of waste", **total funding of EUR 85 000 000**, including EUR 59 500 000 from the Cohesion Fund, and national financing (private and municipal funding) of at least EUR 25 500 000.
- According to the survey results of municipal capital companies, 84% of respondents received the required funding, the main funding providers: **commercial banks (45%) and ALTUM (34%)**.

Around 40 waste management companies operate in Latvia – both municipal capital companies (e.g. Jelgava utilities, ZAAO, Jekabpils services) and other operating in the sector (e.g. CleanR, Eco Baltia Environment, Lautus LTD)<sup>149</sup>.

According to the survey results, 83 municipal capital companies were surveyed, seven of which are active in waste management field (8%), and each of surveyed capital companies needed additional financing in 2016-2019, six companies required additional funding. Capital companies provided answers on current availability of funding and the planned amount of funding, its use over the next five years.

According to the survey results, the additional amount of funding requested by capital companies for 2016-2019 was very diverse, ranging from EUR 50 000 up to EUR 5 million.

### 7.2.5. Circular economy enterprises



#### Description of the group of beneficiaries

- Circular economy opportunities refer to all enterprises - **around 175 000** economically active **enterprises**.
- During the EU funds programming period 2014-2020 no SO were outlined for circular economy projects.
- According to the survey results in the period 2016-2019, only 0.1% of respondents required funding for circular economic projects, while in the next 3-5 years, **1% of respondents plan to raise funding for circular economy projects**.

The whole society will benefit from the circular economy, but the actions to be taken relate to production and entrepreneurship in general, including the introduction of eco-efficient technologies and innovations, the development of sustainability, recyclability. Priority sectors for the circular economy are plastics, food waste, critical raw materials, construction materials, biomass and bio-products<sup>150</sup>. For example, production is intended to promote repair, renewability and recyclability. In the field of consumption, promoting reuse, availability of spare parts, introducing a circular economy criterion in green public procurement, and promoting labelling of products (EU Ecolabel and others).

There are 175 337 small and medium-sized enterprises in Latvia, of which 10 967 or 6% are manufacturing enterprises. Among the 250 economically active large enterprises, 56 are manufacturing enterprises (22%).

3099 enterprises replied to the survey questions. 1276 enterprises or about 41% of respondents, needed additional funding over the period 2016-2019. The main areas funded in 2016-2019 were innovative products and their implementation (318 replies), increasing productivity (290 responses) and establishing infrastructure (208 responses). Only 3 respondents or 0.1%, identified the need for funding to develop the circular economy. It should be noted that activities related to the circular economy could be included in the development of new products, adaptation to climate change and other activities.

149 <https://blog.lursoft.lv/2019/09/10/atkritumu-savaksanas-nozare-jau-tagad-domine-atseviski-uznemumi/>  
150

[http://www.varam.gov.lv/in\\_site/tools/download.php?file=files/text/Seminari/vidē/02042016\\_seminars//01\\_AileS\\_Circular\\_Economy\\_LV\\_02032016.pdf](http://www.varam.gov.lv/in_site/tools/download.php?file=files/text/Seminari/vidē/02042016_seminars//01_AileS_Circular_Economy_LV_02032016.pdf)

## 7.2.6. Ports



### Description of the group of beneficiaries

- **Latvia has three large ports (Riga, Ventspils, Liepaja) and five small ports (Skulte, Mersrags, Salacgriva, Pavidosta, Roja).**
- **During** the EU funds programming period 2014-2020 support provided to SO 6.1.1. "Increasing the security level of major ports and improving the mobility of the transport network", **total funding of EUR 83 787 148.**
- As part of the defining NDP2027 measures, the line ministry has obtained information from ports about the funding required (significantly exceeding the funding included in NDP20027) and funding priorities (ships and port infrastructure).

There are 3 large ports (Riga, Ventspils, and Liepaja) and small ports with a corresponding cargo turnover (Skulte, Mersrags, Salacgriva, Pavidosta, and Roja)<sup>151</sup>. The relevant administrative bodies carry out the port management – Riga Free Port Board<sup>152</sup>, Liepaja Special Economic Zone Board<sup>153</sup>, Ventspils Free Port Authority<sup>154</sup>, Skulte Port Authority<sup>155</sup>, Mersrags Port Authority<sup>156</sup>, Salacgriva Port Authority<sup>157</sup>, Pavidosta Port Authority<sup>158</sup>, and Roja Port Authority<sup>159</sup>.

In preparing the list of measures planned in NDP2027, the responsible line ministry has identified the necessary financing for ports significantly above the planned financing of NDP2027 – EUR 20 million, mainly concerning the purchase of ships, the development of port infrastructure (including passenger infrastructure, jetties, electrification, development of railway infrastructure) and security issues.

## 7.3. Calculation of the required funding and financial product

### 7.3.1. Calculation of the required funding – water management enterprises



### Required funding

- The required funding for the development of water management enterprises according to survey results is at least **EUR 95 million** (calculated only based on the survey results of municipal capital water management companies), an average project amount **of EUR 1.3 million, funding needed for approximately 70 water management enterprises.**
- **NDP2027 measure No 295** under the responsibility of MoEPRD, with a planned financing of **EUR 80 000 000.**
- The measure supports **further extension** of the integrated wastewater network and **improvement of wastewater treatment enterprises.**
- The measure should be introduced through grants so that the investments made do not affect the service tariffs and to ensure the use of environmentally friendly technologies. Investments that will ensure further improvement of wastewater treatment enterprises may not have the required financial impact on enterprises financial results, so it is suggested to use grants.
- Recipients of funding - **water management companies.**

151 [http://sam.gov.lv/images/modules/items/PDF/item\\_8566\\_Statistika\\_ostas\\_dzelzcels\\_02.2020.pdf](http://sam.gov.lv/images/modules/items/PDF/item_8566_Statistika_ostas_dzelzcels_02.2020.pdf)

152 <https://rop.lv/lv/>

153 <https://liepaja-sez.lv/>

154 <http://www.portofventspils.lv/lv/>

155 <https://skulteport.lv/>

156 <https://www.mersragsport.lv/>

157 <https://salacgrivaport.lv/>

158 <https://pavidostaport.lv/#>

159 <https://www.rojaport.lv/>

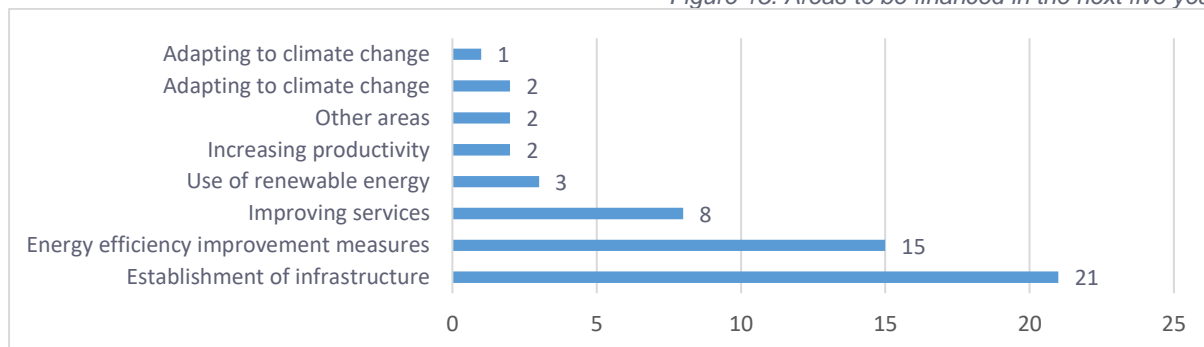


## Survey results

According to the survey results, 26 out of 28 municipal water management enterprises (in total around 100 enterprises, 28 survey respondents) will need additional funding over the next five years, mainly between 300 thousand and 1 million EUR.

Over the next five years, it is mainly planned to finance investments in infrastructure and improving services, as shown in the figure below.

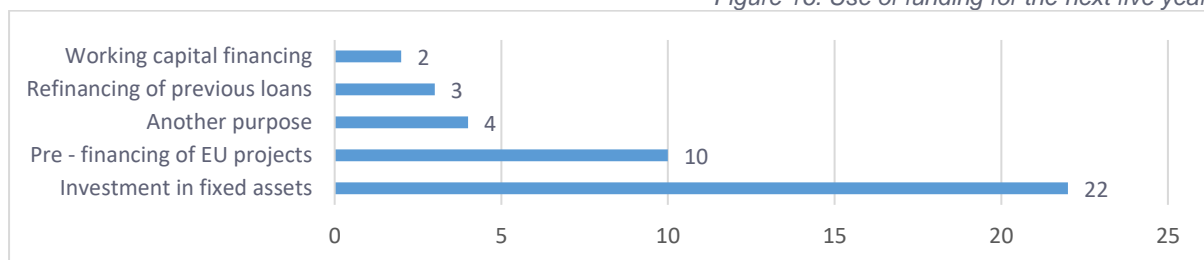
Figure 15. Areas to be financed in the next five year



Source: Survey results

The funding is intended to be used by municipal capital enterprises for investments in fixed assets, and by pre-financing or co-financing EU projects, other priorities are minor.

Figure 16. Use of funding for the next five years



Source: Survey results

## Calculation of the required funding

The table below shows the calculation of the required financing, taking into account the survey results.

Table 44. Calculation of the required funding for water management companies

Calculation of the required funding	Required funding, EUR
<p>In total, there are approximately 100 municipal capital companies – water management enterprises.</p> <p>According to the survey results, 26 out of 28 respondents, or 93%, will need additional funding over the next five years, or approximately 93 municipal capital companies, extending the survey results to all water management holdings.</p> <p>Using the weighted average method and the average value of the required funding interval, the average amount of funding needed per water management enterprise is EUR 1 322 000.</p> <p>According to the survey results, part of municipal capital companies (around 25%) intends to use funding to pre-finance or co-finance EU projects. The total number of beneficiaries of municipal capital companies to be reduced by 25% since financial instruments financed by EU funds cannot be used for the pre-financing EU projects. Accordingly, the total number of municipalities planned to receive funding is approximately 70 municipal water management enterprises.</p> <p>The planned funding for one municipal capital company is approximately EUR 1 322 000 and the total amount of funding for 70 municipal capital company is approximately EUR 95 million.</p>	95 000 000

It should be noted that, following the introduction of an Administrative Territorial reform <sup>160</sup> , the number of municipal water management companies can be reduced, as well as companies could become larger by mergers of several municipal capital companies. Therefore, the average amount of funding required for a single municipal capital company may be higher than those included in the calculations, while the number of municipalities could be lower.	
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Source: CSE COE calculations

### Recommended financing product - grant

Taking into account the objective of the planned investments, to improve and develop existing infrastructure where investments can affect the provided public services, it is planned to use grants as a means of financing. It is essential to provide high-quality public services at an adequate price as well as to meet environmental requirements in the provision of services.

The activities of the measure are related to the improvement of wastewater treatment. This is primarily related to the achievement of environmental objectives and measure planned to be implemented through grants since the planned investment projects are not associated with the reduction of costs or increased revenue.

In addition to the grants, the financing of municipal capital companies can be provided by:

- The State Treasury;
- Commercial banks or other alternative financing providers, but in those cases the municipal capital companies need to mortgage strategically important infrastructure - water supply infrastructure;
- Municipalities, but they do not always have the required funding available and funding available can be used to finance other strategic objectives.

### 7.3.2. Calculation of the required funding and proposed financial product - waste management companies



#### Required funding

- The required funding for waste management companies according to the survey results – **EUR 85 000 000**, the average project amount - **EUR 2 810 000**, the funding will be received by 25 waste management companies.
- **NDP2027 measure No 297 relates** to the development of waste management companies, waste recycling and further use, responsible line ministry - MoEPRD, total planned financing **EUR 85 000 000**.
- The planned measure includes both **capacity-building** projects and projects **for expanding the waste-sorting collection system**.
- Recipients of funding: **waste management companies**.

#### Survey results

According to the survey results, 5 out of 7 respondents (waste management companies), or 72%, will need additional funding over the next five years. Waste management companies plan to invest in infrastructure (2 replies), improving services (2 replies), increasing productivity (2 replies), improving energy efficiency measures (4 replies), developing the circular economy (1 reply). Planned use of funding: investments in fixed assets (4 replies), financing of working capital (1 response), pre-financing or co-financing of EU projects (2 replies), and other objectives (1 reply).

#### Calculation of the required funding

The table below shows the calculation of the required funding, taking into account the survey results.

<sup>160</sup>[http://www.varam.gov.lv/lat/administrativi\\_teritoriala\\_reforma/](http://www.varam.gov.lv/lat/administrativi_teritoriala_reforma/)

Table 45. Calculation of the required funding for waste management companies

Calculation of the required funding	Required funding, EUR
<p>In total, there are ~ 40 waste management companies in Latvia.</p> <p>According to the survey results, 5 out of 7 respondents, or 72%, will need additional funding over the next five years, or about 29 waste management companies.</p> <p>Using the weighted average method and the average value of the required financing interval (excluding financing above EUR 5 million, where the limit of EUR 10 million is used), the average funding needed per water management enterprise is EUR 2 810 000.</p> <p>According to the survey results, a part of waste management companies (around 13%) plans to use the funding to pre-finance EU projects. So the planned total number of beneficiaries expected to be reduced by 13% since financial instruments financed by EU funds cannot be used to pre-finance EU projects. Accordingly, in total funding is planned for approximately 25 waste management companies.</p> <p>The planned funding per waste management company is approximately EUR 2 810 000, and the total amount of funding planned for 25 waste management companies is around EUR 70 250 000. In addition, the creation of new waste management companies should be taken into account, as well as the need for more funding for landfills, therefore, EUR 85 million is to be allocated to the financial instruments.</p>	85 000 000

Source: CSE COE calculations

### Recommended financing product - grant

Within the framework of NAP2027 measure No 297, the planned amount in the amount of **EUR 85,000,000** is planned to be allocated to grants in order to facilitate the recycling of different waste streams, including the rehabilitation of new types of recycling, to separate the collection of waste for the retraining of landfill sites and other activities. Funding would be provided primarily to waste recycling enterprises and landfills, where necessary by setting different aid intensities.

An important aspect of the measure is the Operational Programme result and outcome indicators, unless in cases where project support is not provided through an open tender, assessing the cost-effectiveness of activities and the impact on environmental objectives to be achieved. It is essential that the planned project activities do not significantly affect the service tariffs for the final recipient of the service.

### 7.3.3. Calculation of the required funding and proposed financial product – circular economy enterprises



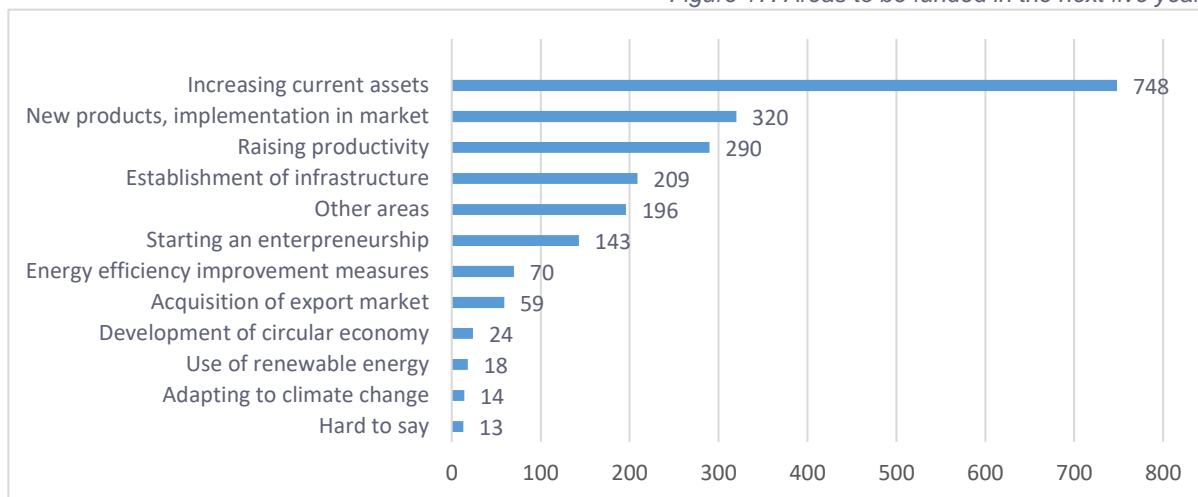
#### Required funding

- The required funding for the development of the circular economy: **EUR 87 650 000**, an average amount per project - EUR 50 000, planned number of supported enterprises - 1753.
- **NDP2027 measure No 296**, economic development of the circular economy, the responsible body is MoEPRD, the estimated amount is **EUR 55 000 000**.

### Survey results

According to the survey results, 30 out of 3099 or about 1% of all enterprises plan to invest in the circular economy development in the following 3-5 years. Measures related to the circular economy may also cover product improvement (532 respondents), innovation and the development of innovative products (284 respondents), adaptation to climate change (31 respondents) and other business development activities, so the part of potential beneficiaries willing to invest in circular economy projects could be 28% of all respondents. It should be noted that in many cases enterprises implement complex projects, where circular economy issues can be one of the aspects of project implementation.

Figure 17. Areas to be funded in the next five years



Source: Survey results

### Calculation of the required funding

The table below shows the calculation of the required funding, taking into account the survey results.

Table 46. Calculation of the required funding for circular economy enterprises

Required funding calculation	Required funding, EUR
Overall, there are 175 337 economically active micro-enterprises and SMEs in Latvia.	87 650 000
According to the survey results, 1% of the enterprises surveyed (30 out of 3099) are planning investments in the circular economy or 1753 enterprises. Assuming an average project size of ~ EUR 50 000, the total amount of funding needed is approximately EUR 87 650 000. The calculated funding is limited to specific circular economy projects.	
It is noted that other projects also could contribute to the development of the circular economy, such as the creation of new products.	

Source: CSE COE calculations

### Recommended financial product – combined financial instrument



#### Recommended financial product – combined financial instrument

- **20% grant and 80% loan.**
- Total planned funding for financial instrument: **EUR 20 million.**
- Beneficiaries: **circular economy enterprises and enterprisess switching to more environmentally friendly technologies.**
- **Planned leverage effect 1.17.**

Under **NDP2027 measure No 296**, the planned amount of EUR 55 000 000 to be allocated to:

- **financial instruments - up to EUR 20 million;**
- **EUR 35 million (grants)**<sup>161</sup> of the measure planned to be used to implement a strategic solution for the management of sewage sludge, which will enable achieving environmental and climate

<sup>161</sup>Draft Circular Economy Strategy for Latvia

objectives. The form of the proposed financing – grants, as no cost reduction or revenue increases and the whole society will benefit.

### 7.3.4. Calculation of the required funding and proposed financial product – ports



#### Required funding

- NDP2027 measure No 609 to further development of Latvian ports in order to promote climate neutrality and maritime security - **EUR 20 000 000.**

The aim of the measure is to reorganize the activities of Latvian ports in order to promote climate neutrality and shipping, which could result in a reduction in costs or increase in revenue, therefore, financial instruments are recommended.

#### Recommended financial product



#### Recommended financial product – combined financial instrument

- **The combined financial instrument with loan and grant components:** total financing of EUR 20 000 000.
- Project funding: **30% co-financing** by the project beneficiary, remaining part of the project financed by the financial instrument (**less than 50% grant and more than 50% loan**).
- Beneficiaries – **ports.**
- **The expected leverage effect at 15%** of national co-financing  $1.17 = 100/85$ .

A combined financial instrument is proposed for the further development of ports, as support in the form of grants alone would not be recommended, as the implementation of projects may lead to reduced costs or increased revenue. The specific activities to be financed and the objectives to be achieved are determined by developing the Regulations of the CoM for implementing the measure.

The total maximum amount of one project is EUR 7 million, where the project promoter provides 30% of the project amount, the remaining part of the project is financed as follows: loan (at least 50%) and grant (not more than 50%).

The table below includes detailed information about the planned financial instrument.

Table 47. Combined financial instrument for restructuring ports

Combined financial instrument	
Source of funding	CF — NDP2017 measure No 609 — Modernizing the operations of ports
Funding	EUR 20 000 000
Leverage effect	Leverage effect $100/85 = 1.17$ .
Beneficiaries of funding	Beneficiaries are large and small ports.
Description of the financial instrument	<p>Combined financial instrument: loan and grant. The grant component funds operations that help to achieve climate objectives and do not reduce costs or increase revenue.</p> <p>The maximum project amount is EUR 7 million, where 30% of the project amount is co-financed by the project promoter.</p> <p>The loan is issued for a period not exceeding seven years, taking into account the rapid development of equipment and technology.</p>
Investment Region	Coastal area.
Use of funding	Funding can be used for a wide variety of port-related activities, such as the development of port infrastructure – the purchase of new vessels, the

	<p>redevelopment of jetliners, electrification, the development of infrastructure needed for passengers and others.</p> <p>The projects should contribute to the achievement of the climate objectives.</p> <p>Examine the possibility of setting circular economy, RES and energy efficiency targets for the project.</p>
<b>Implementation model</b>	<p>Financial instruments shall be administered by ALTUM, the Environmental Investment Fund or any other institution.</p> <p>The establishment and management of a financial instrument to be financed by EU funds at the fixed rate; the maximum amount is determined in the CPR.</p>

### 7.3.5. Digitalisation

Two measures related to digitization are planned under NDP2027: **measure No 543** - broadband infrastructure development and **measure No 544** - establishing a next generation network in rural areas to ensure the development of a broadband network in line with EU connectivity objectives by developing the infrastructure of the "middle mile" and "last mile" electronic communications networks and establishing broadband mapping.

At the time of the preparation of the assessment, the activities of the measure have not been determined yet, therefore no financial instruments are suggested, but it is recommended to evaluate the possibilities of using financial instruments after determining the activities of the measure

### 7.3.6. State aid

Beneficiaries of EU funds programming period 2014-2020 have received support in the form of grants, therefore it is assumed that similar conditions will be applied in the EU funds programming period 2021-2027 regarding State aid issues, taking into account the requirements of the new Regulation. In addition, other State aid regulations may be taken into account.



## 8. EUROPEAN REGIONAL DEVELOPMENT FUND

### 8.1. Entrepreneurship

Competitiveness of enterprises is one of the priorities of the NDP2027, which promotes productivity growth as a result of innovations for the growth of Latvian economy. NDP2027 includes cooperation between enterprises, scientific and social partners, including fields of smart specialisation.

Table 48. Summary of entrepreneurship field

<b>Policy priorities</b>	<ul style="list-style-type: none"> <li>• Open regulation for innovative business models and future technology development.</li> <li>• Use the potential of open data.</li> <li>• Investing in human capital by boosting productivity.</li> <li>• Development of sustainable profitability, cross-sectoral partnership, building knowledge and technology-intensive economy.</li> </ul>
<b>Group of beneficiaries</b>	<ul style="list-style-type: none"> <li>• <b>175 thousand economically active</b> small and medium-sized enterprises in 2018.</li> <li>• <b>250 economically active</b> large enterprises in 2018.</li> <li>• Main sectors: manufacturing; transport and storage; wholesale and retail trade.</li> <li>• Key challenges: access to skilled labour, labour costs, market competition, access to finance.</li> </ul>
<b>Challenges for the group of beneficiaries</b>	<ul style="list-style-type: none"> <li>• According to the survey results, <b>41% of respondents – SMEs – need additional funding</b>, which was mainly required in the form of a loan, capital investments (3.3%) and guarantees (2.5%).</li> <li>• <b>In most cases (73%)</b> funding was needed up to EUR 100 000. Most often, companies have planned to finance <b>current assets (34%), new products development (15%), increasing productivity (13%), and building infrastructure</b>.</li> <li>• According to the survey results (more than 3000 respondents), funding administrated by <b>ALTUM was provided to 33.3% of respondents, 51.1% of the respondents</b> requesting financing did not receive it. 11% of respondents requesting funding from ALTUM, but received only part of the funding. ALTUM mostly <b>(88%) did not provided funding up to EUR 300 000</b>.</li> <li>• According to information oprovided by ALTUM (official system data) on the share of rejected applications in loan programs, number of rejected applications: 8% of applications were rejected in 2017 (8% of all applied for); 6% - in 2018 (4% of all); 18% -in 2019 (15% of all), 19% of the applications (10% of the amount applied for) were rejected in first seven month of 2020 (without COVID-19 programmes).</li> <li>• According to survey results, 81% of enterprises that needed additional financing in the period from 2016 to 2019, applied for it in commercial banks. 36% of the enterprises applying for financing received funding requested, in 20% of cases only part of the financing was provided, but in 43% of cases commercial banks did not provide financing. The main reasons for refusal were insufficient collateral, equity or cash flow. Funding up to EUR 300,000 was not gained by 8.9% of respondents or 13 122 enterprises.</li> <li>• According to the survey results, large enterprises needed financing over 100 000 EUR (mainly 1-5 million EUR), mostly in the form of a loan from commercial banks.</li> <li>• One of the main challenges for the enterprises is to eliminate COVID-19 effects on the company operations. According to survey results financing</li> </ul>

	<p>is needed up to EUR 100 000 (305 out of 389 or 78% respondents). In total <b>389 companies or 12.5% respondents</b> indicated the need for funding to eliminate the consequences of COVID-19.</p>
<p><b>Financing available</b></p>	<ul style="list-style-type: none"> <li>• ALTUM provides a variety of financial products – loans, guarantees, including export credit guarantees, risk capital.</li> <li>• <b>The total ALTUM</b> loan portfolio amounted to EUR 168 147 000 on 31.12.2009. The guarantee portfolio was EUR 128 900 000; the risk capital funds at the end of 2019 was EUR 8 943 674.</li> <li>• <b>The export credit guarantee portfolio</b> was EUR 7,3 million on 31.12.2019.</li> <li>• <b>Commercial banks</b> provide a variety of financial products, thus reaching different companies. At 30.09.2019, commercial banks have a financial contribution of EUR 6.2 billion to the economy.</li> <li>• <b>Lease funding</b> is provided by commercial banks and lease companies, with a leasing portfolio of EUR 1 731 228 948 at the end of 2019.</li> <li>• In 2018 <b>risk capital investment</b> was EUR 8 708 million.</li> <li>• Funding in the form of different financial products is provided by different international financial institutions, for instance, the European Investment Bank and the European Bank for Reconstruction and Development.</li> </ul>
<p><b>Market failure, investment needs</b></p>	<ul style="list-style-type: none"> <li>• Over the next 3-5 years (starting from 2020), a variety of investments are needed. Funding is mainly needed between <b>EUR 10 000 and EUR 100 000</b>.</li> <li>• <b>Micro enterprises</b> need funding from EUR 10 000 to EUR 100 000; small enterprises between EUR 25 000 and EUR 100 000; medium size enterprises EUR 100 000 to EUR 5 000 000; <b>large enterprises</b> EUR 300 000 to EUR 5 000 000.</li> <li>• Additional resources are needed to improve products/services, increase productivity and to achieve other objectives, such as the elimination of the effects of COVID-19.</li> <li>• Enterprises plan to invest mainly in current assets and fixed assets, as well as in production facilities.</li> <li>• The market failure was determined based on the survey results: <b>unsecured financing of commercial banks EUR 1,270 million</b></li> </ul>
<p><b>Financial instruments</b></p>	<ul style="list-style-type: none"> <li>• NDP2027 Measure No 81: <ul style="list-style-type: none"> <li>○ <b>Loans:</b> EUR 200 million (<b>EUR 80 million</b> NDP2027 Measure No 81 and ALTUM financing EUR 120 million). Leverage effect 2.9.</li> <li>○ <b>A combined financial instrument</b> with a grant and loan component where the grant component does not exceed 50% - EUR 125 million (<b>EUR 45 million</b> NDP2027 measure No 81 and ALTUM funding EUR 80 million). Leverage effect 3.27.</li> <li>○ <b>Guarantees:</b> EUR 50 million (NDP2027 measure No 81). The financing provided through guarantees amounting to EUR 250 million. Leverage effect 5.</li> <li>○ <b>Risk capital:</b> EUR 120 million (EUR <b>75 million</b> NDP2027 measure No 81 and EUR 45 million private investment). Leverage effect 1.88.</li> </ul> </li> </ul>
<p><b>State aid</b></p>	<ul style="list-style-type: none"> <li>• During the EU funds programming period 2014-2020, ALTUM administrated similar financial products, with the exception of a combined financial product (a combination of grants and loans) under State aid conditions; therefore, planned State aid issues for support during the EU Funds programming period 2021-2027 could be addressed similarly.</li> <li>• Commission Regulation (EU) No 651/2014, 17 June 2014 declaring certain categories of aid compatible with the internal market pursuant to Articles 107 and 108 of the Treaty, or the <b>General Block Exemption Regulation</b>, covers different categories of aid exempted from the</li> </ul>

	<p>notification obligation under Article 108(3) of the Treaty, provided that the Commission Regulation No 65(3) is complied with 1/2014 General sections and conditions for the specific objective (aid category) concerned.</p> <ul style="list-style-type: none"> <li>• Commission Regulation (EU) No 651/2014, 17 June 2014 declaring certain categories of aid compatible with the internal market, in the application of Articles 107 and 108 of the Treaty, also lays down requirements for <b>risk capital instruments</b> and private capital raising opportunities.</li> <li>• Besides, the Temporary State Aid Framework issued in the context of COVID-19 for grants to enterprises, State guarantee credits, short-term export credit guarantees and other issues may be considered.</li> <li>• In addition, other State aid regulations may be taken into account.</li> </ul>
<b>Expected benefits</b>	<ul style="list-style-type: none"> <li>• The use of combined financial instruments for the development of innovative enterprises will enable enterprises to receive the required funding for the development of new products. The use of FI will enable financing for business development while making the most efficient and economical use of EU funding.</li> </ul>

### 8.1.1. Policy priorities




#### Summary of policy priorities included in the planning documents

- **Open regulation for innovative business models** and development of future technologies.
- Unlocking the **potential of open data**.
- **Investing in human capital** to promote productivity.
- **Promoting competitiveness and export capacity**.

According to NDP2027,<sup>162</sup> the main priority for economic growth is the need to expand and make appropriate use of knowledge and skills. Still, the knowledge development requires a strategic investment of resources in the creation, transfer and acquisition of knowledge, as well as in the development of a smart society capable of creating growth opportunities in response to global events. To boost competitiveness, it is crucial to promote business models by developing sustainable profitability, a cross-sectoral partnership and technology-intensive economy. Promoting the competitiveness and export capacity of enterprises, through raising productivity, creating new enterprises, as well as promoting digitalisation, are important priorities.

In response to the effects of the COVID-19 crisis, it is intended to provide support to sectors, enterprises, workers in the form of a variety of support measures. Support within the competence of the institutions shall be provided by ALTUM, RSS, Central Finance and Contracting Agency (CFCA), as well as the Latvian Investment and Development Agency.

### 8.1.2. National Development Plan 2021-2027



#### NDP2027 measures

Financial instruments proposed for NDP2027 measures:

- **No 81 Providing financial instruments to economic operators (Fund of the Funds), including aid for increasing productivity in regions**, amounting to a total of EUR 250 000 000.

<sup>162</sup><https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027galaredakcija.pdf>

NDP2027<sup>163</sup> identifies business priorities, including SME priorities, as well as recommends the level of funding and its sources for priority implementation. As part of the ex-ante evaluation all NDP measures were analysed. The table below contains information on NDP measures relating to micro, small and medium-sized enterprises and large enterprises. **Source of funding - ERDF.** The funding indicated is total funding, including both planned EU funds and national co-financing, which will depend on the measure.

Table 49. Business support measures planned in NDP2027

No.	Description of the measure	Funding, EUR	Justification
81	<p><b>Provision of financial instruments for economic operators (Fund of the Funds), including support for increased productivity in regions</b></p> <p>Developing the capital market (including “green” financing instruments) and promoting access to financing (including through increasing financial innovation and lending rates in line with GDP growth, investment of pension plan funds in the Latvian economy).</p> <p><u>Targeting:</u> enterprises.  <u>Place of implementation:</u> Latvia  <u>Activities:</u>                      - loans; a loan with a grant element (including medium and large enterprises); guarantees; risk; mezzanine.  <u>Project applicant:</u> ALTUM  <b>Responsible Ministry – MoE</b></p>	250 000 000 ERDF	A measure should be introduced using different financial instruments since the implementation of the measure could lead to an increase in revenue and a decrease in costs for businesses.

Source: NDP2027

### 8.1.3. Group of beneficiaries - SME



#### Description of the group of beneficiaries

- **175 thousand economically active** small and medium-sized enterprises in 2018.
- **Main sectors:** wholesale and retail trade; professional services; construction; manufacturing industry; scientific and technical assistance.
- According to the survey results, **41% of respondents needed additional funding**, which was mainly needed in the form of loan, risk capital investments (3,3%) and guarantees (2.5%).

According to the CSB data, in 2018 there were 175 thousand economically active small and medium-sized enterprises (up to 250 employees), including micro-enterprises. Economically active enterprises (as defined by the CSB) are “enterprises that produced output, provided services or employed people during the reference period, whether they were active during all or part of the reference period”<sup>164</sup>. The dominant sectors (NACE (Rev. 2)) are:

- A agriculture, forestry and fisheries (26 thousand enterprises);
- G wholesale and retail trade; repair of motor vehicles and motorcycles (27 thousand enterprises);

<sup>163</sup><https://www.pkc.gov.lv/lv/nap2027>

<sup>164</sup> <https://www.csb.gov.lv/lv/statistika/statistikas-temas/uznemumi/uznemumu-skaitis/tabulas/metadati-ekonomiski-aktivie-uznemumi>

- M professional, scientific and technical services (20 thousand enterprises).

Most enterprises or about 94% are micro-enterprises, which must be considered when planning the amount of funding required at the enterprise level. The required financing is calculated for enterprises operating in various sectors, except for agricultural and fisheries enterprises (information is included in separate technical annexes), therefore the calculation of the required financing has been performed for 148 936 companies. The enterprises are divided into groups up to 49 employees (99% of all enterprises) and over 49 employees (1% of all enterprises or 1489 enterprises).

#### 8.1.4. Survey results of the group of beneficiaries – enterprises

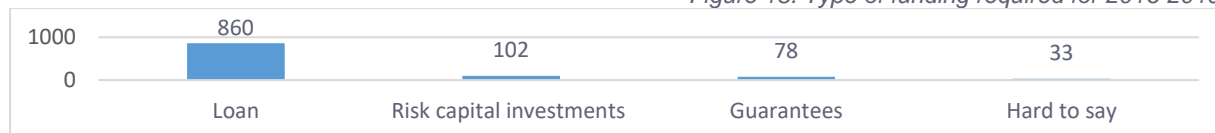


##### Enterprises survey results

- According to survey results (3099 replies) **41% of respondents needed additional funding in 2016-2019.**
- Mostly micro-enterprises (38%) and small-enterprises (56%) have requested funding.
- In most cases **(73%) the funding was needed up to EUR 100 000.**
- Mostly enterprises have planned to finance **current assets (34%), new products development (15%), increasing productivity (13%), and building infrastructure.**

As part of the ex-ante assessment survey was conducted, receiving answers from 3099 respondents. 1276 enterprises, or about **41% of respondents, needed additional funding** over the period 2016-2019. As shown in the figure below, respondents mainly requested for funding in the form of a loan, but enterprises also had an interest in risk capital investments (3.3%) and guarantees (2.5%).

Figure 18. Type of funding required for 2016-2019



Source: Survey results

The table below shows the amount of additional funding needed, broken down by the size of enterprise and the amount of funding needed. **In most cases additional funding was needed for micro-enterprises (38%) and small enterprises (56%).**

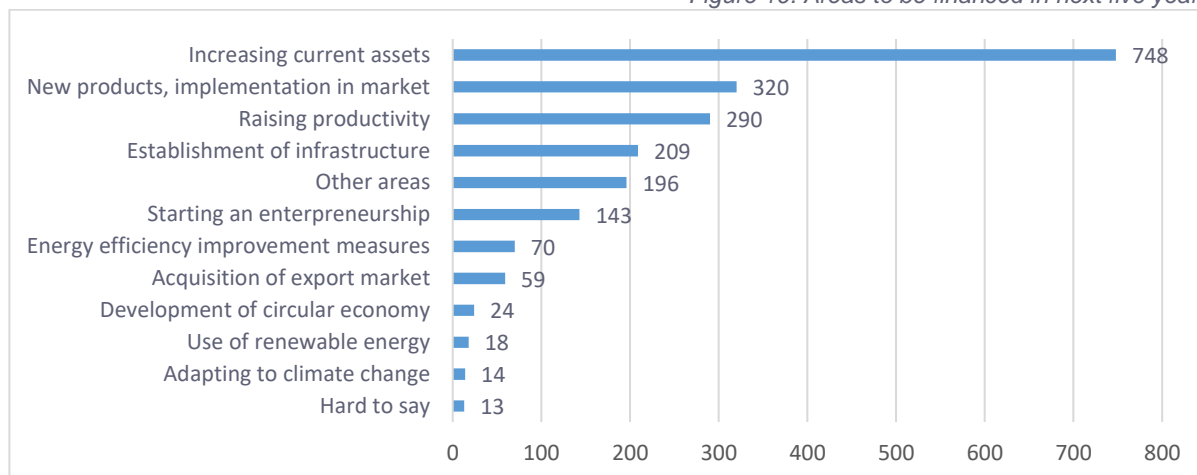
Table 50. Additional funding required for entrepreneurship 2016-2019

Amount of funding needed	Micro-enterprise	Small enterprise	Medium size enterprise	Large enterprise	Total
Up to 10,000 EUR	150	136	0	0	286
EUR 10,001 - 25,000	112	140	2	0	254
EUR 25,001 - 50,000	85	112	3	0	200
EUR 50,001 - 100,000	56	122	12	0	180
EUR 100,001 - 300,000	42	94	15	1	152
EUR 300,001 - 1,000,000	10	62	21	1	94
EUR 1,000,001 - 5,000,000	3	23	15	4	45
Above EUR 5,000,000	9	15	5	1	30
Hard to say	12	11	2	0	25
<b>TOTAL</b>	<b>479</b>	<b>715</b>	<b>75</b>	<b>7</b>	<b>1266</b>

Source: Survey results

In figure below the information about areas to be financed is provided. The information is included in general for all companies, as well as the information on the need for financing for different groups of beneficiaries - micro, small, medium and large enterprises.

Figure 19. Areas to be financed in next five years



Source: Survey results

## 8.1.5. Financing administered by ALTUM for SMEs

### 8.1.5.1. Loans administered by ALTUM



#### Loans administered by ALTUM

- Loans for **specific industries**, i.e. agriculture and fisheries, as well as for **specific groups of enterprises** - SME development.
- According to the survey results, ALTUM **provided funding for 33.3% beneficiaries**, while **51.1% of enterprises did not receive funding** from ALTUM. 11% of enterprises received only part of the requested funding.
- According to the information provided by ALTUM (official system data) on the share of rejected applications in loan programmes: 8% of applications were rejected in 2017 (8% of all applied for); 6% - in 2018 (4% of all); 18% in 2019 (15% of all); 19% of the applications (10% of the amount applied for) were rejected in first seven month of 2020 (without COVID-19 programmes).
- The highest number of rejections (above 40%) is in agriculture, construction, wholesale, transport, accommodation, IT, scientific and technical services, arts, entertainment and leisure.

Various financial instruments, including loans, guarantees and risk capital financial instruments administered by ALTUM, are available during the EU funds programming period 2014-2020. The section summarises information on loans administered by ALTUM.

#### ALTUM loans for entrepreneurship support

The table below shows loans administered by ALTUM, broken down by financial instruments. The conditions for the introduction of financial instruments are included in CoM regulations, so the corresponding regulations and description of the financial product are also indicated in the table below for each of the financial instruments, based on the information included in the CoM regulations and in the ALTUM website, included in the technical annex.



Table 51. Data on the implementation of financial products (active programmes) for business support

Financial instrument	CoM Regulations	ALTUM loan portfolio, 31.12.2019, EUR
A1 - Loan programme for agricultural, rural and fishery economic operators	24.07.2018 CoM Regulation No 446	2 483 000
A2 - Parallel loans to improve the competitiveness of enterprises (Fund of funds)	15.07.2016 CoMo Regulation No 469	6 994 000
A3 - Micro loans and start-up loans (fund of funds)	31.05.2016 CoM Regulation No 328	11 318 000
A4 - Loans to promote the development of small (micro), small and medium-sized enterprises and agricultural services co-operative societies	15.09.2009 CoM rules 1065	69 371 000
A5 - Loans to finance working capital in the agricultural, forestry, fishery and aquaculture sectors	03.12.2019 CoM Regulation No 582	9 003 000
A6 – Loan to purchase agricultural land for the producing agricultural products	22.05.2018 CoM Regulation No 295	68 081 00
A7 - Microloans and grants within the framework of the individual project "Micro crediting Programme" of the Latvian-Swiss cooperation programme	06.09.2011 CoM Regulation No 698	897 000
<b>Total</b>		<b>168 147 000</b>

Source: ALTUM, data on 31.12.2019

The report module does not include detailed information on financial instruments A1 (Loan programme for agricultural, rural and fishery economic operators), A5 (Loans to finance working capital in the agricultural, forestry, fishery and aquaculture sectors) and A6 (Loan to purchase agricultural land for the producing agricultural products). Financial instruments mainly concern agricultural and fisheries enterprises, which are covered in other technical annexe of the assessment report. The financial instrument A7 (Microloans and grants within the framework of the individual project "Micro crediting Programme" of the Latvian-Swiss cooperation programme) has not been discussed in detail, as the implementation of the financial instrument has been discontinued.

The module deals with financial instrument A2 (parallel loans), A3 (micro loans) and A4 (SME loans) with a total loan portfolio on 31.12.2019. - EUR 87,683,000. According to the information provided by ALTUM on 31.12.2019., **ERDF financing was used only for two financial instruments: A2 (parallel loans) (ERDF financing EUR 5 799 871) and A3 (micro loans) (ERDF financing EUR 3 997 580) or a total EUR 9 797 451.**

### Enterprise survey and assessment of market failures

As part of the assessment 3099 respondents were surveyed on the current available financing (in the period 2016-2019) and opportunities to receive it for financing of various projects; the planned guarantee of funding for the next five years, envisaging various funding objectives and sources.

The information on areas where enterprises need fundings included below. According to the survey results, it should be noted that one enterprise could have several episodes/positions of funding, so the total number of enterprises may differ from the total number of funding categories.

In the period 2016 - 2019, 219 (7%) out of 3099 respondents requested funding from ALTUM. ALTUM provided funding for 33.3% applicants, while 51.1% of enterprises did not receive ALTUM funding. 11% of enterprises received only part of the requested funding. According to ALTUM (official system data) on the percentage of rejected applications in loan programmes: 8% of applications were rejected in 2017 (8% of all applied for); 6% - in 2018 (4% of all); 18% - in 2019 (15% of all); 19% of the applications (10% of the amount applied for) were rejected in first seven month of 2020.

The main reasons for refusing financing are insufficient collateral, insufficient shareholders equity, as well as insufficient cash flow. Thus, in order to facilitate SME financing in the future, requirements for

granting a loan should be considered in terms of the required collateral, shareholders equity, and owner's guarantee. It should be emphasized that ALTUM has been working intensively to ease collateral requirements, especially in the small loans segment, due to the EIF guarantees (COSME, EaSI) applicable to loans administered by ALTUM.

It should be noted that not all project applications submitted include financing projects with the necessary cash flows for repayment of the loan.

### 8.1.5.2. Guarantees administered by ALTUM

Guarantees administered by ALTUM are available in the EU funds programming period 2014-2020. The table below provides information on guarantees administered by ALTUM by financial instruments. The conditions for the implementation of financial products are included in the regulations of the CoM. For each of the financial instrument the table below also indicates the relevant CoM Regulations and the description of the financial instrument based the CoM Regulations; included in the technical annex.

#### ALTUM guarantees for entrepreneurship support

Table 52. Guarantees issued by ALTUM for entrepreneurship support

Financial product	CoM Regulations	Total amount planned, EUR
<b>B1 - Cumulative credit guarantees</b>	B1 - Regulations of the Cabinet of Ministers of October 26, 2010 No 997 "Regulations on Guarantees for Improving the Competitiveness of Merchants and Relevant Agricultural Service Cooperative Societies" 1 until 16.06.2020.	ERDF 43 800 000 and other repayment funding for programmes other than ERDF
<b>B1 - Guarantees for large economic operators</b>		
<b>B1 - Credit guarantees for farmers</b>		
<b>B1 - SME credit guarantees (from ERDF)</b>		
<b>B2 - Portfolio guarantee</b>	Regulation No 537 of the CoM, 5 September 2017, Regulations Regarding Portfolio Guarantees for the Promotion of Small (Micro), Small and Medium-sized Enterprises <sup>165</sup>	7 800 000
<b>B3 – Agriculture, fisheries and rural development guarantee</b>	B - 3 CoM Regulation No 9, 08.01.2019, Provisions of the Agricultural, Fisheries and Rural Development Guarantee Programme <sup>166</sup>	16 500 000

Source: ALTUM, data on 31.12.2019

#### Information on guarantees actually issued

According to information provided by ALTUM, from the beginning of the EU funds programming period 2007-2013 to 31.12.2019, total of 899 guarantees were issued, amounting to a **total guarantee agreement of EUR 161,929,216, involving bank funding of EUR 286,495,884**. Mainly issued portfolio loans, most rarely - guarantees for large enterprises. Overall, there has been a gradual increase in the number of guarantees issued since the start of the programs in 2016. According to information received from ALTUM, negotiations and training have been conducted by banks on the explanation and better use of the guarantee product in lending.

### 8.1.5.3. Risk capital funds administered by ALTUM for SMEs

#### Risk Capital Funds managed by ALTUM

In the EU funds programming period 2014-2020 ALTUM provides seed capital, start-up capital and growth capital fund (within Fund of Funds) of EUR 60 million (including ERDF funding of EUR 32.2 million) and an acceleration fund of EUR 15 million (including ERDF funding of EUR 15 million) to pre-seed and seed developmental stages.

<sup>165</sup><https://likumi.lv/ta/id/293402-rules-for-portfellong-siko-micro-small-and-video-merchant-loan-to-commercial-promotion->  
<sup>166</sup><https://likumi.lv/ta/id/304160-agricultural-fish-farming-and-rural-security-guarantee-programme-rules>

**Acceleration programme** funding is intended for innovative start-ups, provided by 3 fund managers that were selected in 2017 - BuildIt Latvia (for start-ups from any the Internet of Things (IoT) and “hardware” scope), Commercialization Reactor (for scientific start-ups) and Overkill Risks (investments in start-ups in Central and Eastern Europe that are active in the field of work environment efficiency and automation and have already made initial market incomes).

The programme provides pre-seed financing of up to EUR 50 000 for the setting up of an enterprise, for advice and product development, exploration, evaluation and approval, and for a budget /seed money of up to EUR 250 000 for enterprises that have completed pre-seed investment stages for further growth, as well as for the development of a product and business model.

**The seed and startup risk capital program operates two funds managed** by Expansion Capital AIFM, focusing on export-oriented projects and enterprises. It is possible to invest up to EUR 250 thousand in a seed capital fund; up to EUR 2.1 million in a starting capital fund.

**Under the Growth Risk Capital Programme**, investments are made in enterprises with high growth potential, supported by ZGI-4 and FlyCap Mezzanine Fund II. The ZGI-4 fund made its first investment<sup>167</sup> in the first half of 2019 by investing EUR 2 million in the Estonian enterprise Corle OÜ. EUR 2 million was invested in HansaMatrix, thus the ZGI-4 fund became 15,06% of HansaMatrix shareholders as a result of the transaction<sup>168</sup>.

Table 53. Data on the introduction of risk capital for entrepreneurship support

Financial product	CoM Regulations	ALTUM Capital Funds — planned funding, 31.12.2019, EUR
D1 - Seed capital, start-up capital and growth capital funds to promote the establishment, development and competitiveness of economic operators	02.08.2016 CoM Regulation No 518	60 000 000
D2 - An acceleration fund to promote the establishment, development and competitiveness of economic operators	12.04.2016 CoM Regulation No 226	15 000 000
<b>Total</b>		<b>73 000 000</b>

Source: ALTUM, data on 31.12.2019

#### 8.1.5.4. Export credit guarantees administered by ALTUM



##### Export credit guarantees

- In the period from 2014 to the end of February 2020, **319 export guarantees** of EUR 20 764 430 were issued. Export credit guarantees have mainly been issued up to EUR 50 thousand, but least guarantees have been issued between 200 and 500 thousand EUR.
- Export credit guarantees are most often granted to exporters to **Russia, Belarus and Ukraine**, with the highest cumulative guarantee amounts.
- In the period 2017-2020, many applications - a total of **336 export guarantees** - have been refused.

Export credit guarantees administered by ALTUM are issued following CoM Regulation No 866, 20 December 2016, Regulations for the issuance of short-term export credit guarantees to merchants and corresponding agricultural services co-operative societies. They are issued by means of public funding reimbursed by the ERDF programming period 2007-2013, SO 2.2.1.4.1 “Aid in the form of loans to improve the competitiveness of economic operators”- EUR 2 030 000 and EU funds programming period 2004-2006 SO 2.4.1 National Programme “Loans (including microcredit) for business start-up’s” in amount EUR 470 000.

<sup>167</sup><https://www.zgi.lv/jaunumi/params/post/1839374/fonds-zgi-4-makes-first-investment>

<sup>168</sup><https://www.zgi.lv/jaunumi/params/post/1866286/izaugsmes-risk-capital-fund-zgi-4-investe-2-million-euro-uznemuma-hansa>

It is stated that the amount of the guarantee for export credit transactions with a single customer does not exceed EUR 2 million, it is provided for export credit transactions with a deferred period of not more than 730 days (not exceeding 547 days for agricultural products). The export credit guarantee covers up to 90% of buyer risk and up to 95% of political risk.

## 8.1.6. Financing provided by financial institutions

### 8.1.6.1. Financing provided by commercial banks to SMEs



#### Financing provided by commercial banks

- Commercial banks offer and provide a **variety of financial products**, such as loan, leasing, credit line, overdrafts, factoring, and others.
- According to a survey results, **81% of enterprises** looking for additional funding between 2016 and 2019 have requested it in **commercial banks**.
- **36% of the enterprises** - the applicants for funding - were **fully funded, 20% of the cases funding received partly**, while **43% did not receive funding**. The main reasons for refusal - insufficient collateral, insufficient equity capital and insufficient cash flow.
- 8.9% or 13 122 enterprises did not receive funding up to EUR 300 000. Based on the survey results data extrapolation a total amount of unprovided funding is **787 - 1 115 million EUR**.
- 35 enterprises with a total amount of **approximately EUR 155 million** (survey results without data extrapolation) did not benefit from funding above EUR 300 000.
- **The total amount of funding not received is EUR 1 270 million, based on the results of data extrapolation. When assessing the market failure, the planned economic development must be taken into account, including the planned increase in export and its impact on entrepreneurship, the planned investments in research, thus the potential increase in the required funding.**

#### Financial instruments provided by commercial banks

The assessment includes information on the financial instruments offered by individual commercial banks, according to the information of commercial banks' web pages.

JSC Swedbank offers credit from EUR 5000 for small and medium-sized enterprises through EIF or ALTUM portfolio guarantees<sup>169</sup>. The annual interest rate of the credit, from 10% (without collateral), with a maturity of up to 5 or 10 years. Overdrafts are also applicable to small and medium-sized enterprises<sup>170</sup>, providing a loan without collateral and receiving EIF or ALTUM guarantees. Overdraft funding from EUR 2 000 with a maturity of one year. Swedbank offers specialised financing programmes for farmers and energy efficiency of multi-apartment houses, as discussed in other technical annexes of the report.

JSC Luminor offers a loan without collateral to small and medium-sized enterprises up to EUR 75 000 (with the owner's or ALTUM portfolio guarantee) for financially stable SMEs that lack sufficient collateral or have specific conditions for receiving any funding. Credit for investment with a minimum amount of 10 thousand EUR, which can be used to co-finance support from EU funds. Financing is also offered in the form of a credit line with a minimum amount of 10 thousand EUR and the maturity of the loan up to 1 year. A support program for entrepreneurs for the development of e-commerce<sup>171</sup> has also been launched with the aim to help small and medium-sized enterprises to develop internet sales. JSC Luminor provides funding to farmers; as discussed in technical annexes of the report.

169 <https://www.swedbank.lv/business/finance/loans/loan?language=LAT>

170 <https://www.swedbank.lv/business/finance/loans/overdraft?language=LAT>

171 <https://www.luminor.lv/lv/jaunumi/luminor-uzsak-jaunu-atbalsta-programmu-uznemejiem-e-komercijas-attistibai>

JSC Citadele offers micro-credit ranging from EUR 1,000 to EUR 20,000, depending on the enterprise's turnover at an interest rate of 14% per annum<sup>172</sup>. A credit and credit line is also provided with different conditions applicable to each enterprise. The credit provides financing for up to 80% of the cost of the project for up to 15 years. The financing of the credit line is provided for a period of 2 years with the possibility to extend. Citadele also provides funding for farmers and the energy efficiency of multi-apartment houses, as discussed in other technical annexes in the report.

JSC SEB Bank provides credit without collateral for small and medium-sized business development projects, such as investment projects, financing of current assets, purchasing fixed assets. The amount of credit is between EUR 2 000 and EUR 20 000, with a repayment schedule of up to 3 years, with an interest rate ranging from 9% (and EURIBOR of 3 months). Credit security - personal guarantee of the owner of the enterprise, and portfolio guarantee is granted automatically<sup>173</sup>.

### Entrepreneurs' survey results and calculation of market failure

According to survey results, 903 (**29%**) out of 3,099 respondents looking for additional financing in the period from 2016 to 2019. Respondents mostly requested financing from commercial banks (81% or 731 of all financing applicants, 23.3% of all respondents), but much less often - from ALTUM and other funding providers, such as alternative financial institutions, parent company or owner or others.

Out of the 731 respondents requesting financing from commercial bank, **36% of enterprises** (261 respondents) received **full financing**, **20%** (147 respondents) received financing **partly**, but **43%** (313 respondents) **did not receive financing**. The main reasons for refusing financing are: insufficient collateral, insufficient equity capital, as well as insufficient cash flow.

The weighted average non-obtained funding is up to EUR 300,000 using the funding group upper limit EUR 85,000. 277 enterprises out of 3099 respondents (8.9%) did not receive financing from commercial banks. In total, 148,936 enterprises were analysed (excluding agricultural and fisheries), where about 99% or 147,447 enterprises with up to 50 employees. Extrapolating the survey results to the whole enterprise group, 8.9% or 13,122 enterprises with a **maximum amount of about EUR 1 115 million**. **It should be noted that the extrapolation considered the upper limit of the financial interval**. In the extrapolation of the data, considering the average limit of the financial interval, the weighted average funding not obtained per enterprise is around **EUR 60 000, or a total of around EUR 787 million**.

The weighted average for non-obtained funding above EUR 300,000 using the upper limit of the funding group (except above EUR 5 million where the lower limit is used) is around EUR 3.4 million. 35 enterprises out of 3099 respondents or 1.1% of all respondents did not receive financing from commercial banks. In total, 1600 enterprises (excluding agricultural and fisheries enterprises) are included in the group. Thus, 1.1% or 18 enterprises did not receive funding, which is a smaller number than indicated in the survey (35 enterprises is too small group as representatives, as well as a part of enterprises up to 50 employees could apply for funding over EUR 300,00), thus the funding not obtained is approximately **EUR 119 million (survey results without extrapolation of data), but taking into account that the lower limit used for funding above EUR 5 million could be around EUR 155 million (35 enterprises, additional funding of EUR 1 million per enterprise)**.

**The total amount of funding not received using survey data extrapolation is around EUR 1 270 million.**

#### 8.1.6.2. Leasing funding



##### Leasing funding

- Leasing funding is provided by **commercial banks and non-bank financiers**.
- In particular, leasing is provided for different means of **transport as well as equipment**.
- **According to survey results 11.9%** of the enterprises **requested funding from leasing companies**, and **46%** the funding was **fully provided**.
- **The amount of funding not received is approximately EUR 97-138 million**.

172 <https://www.citadele.lv/lv/business/microloan/>

173 <https://www.altum.lv/lv/pakalpojumi/uznemumiem/kredita-garantijas/par-programmu/>



## Financial products offered by leasing companies

Within the framework of the assessment, information was obtained from the websites of the largest commercial banks and leasing companies on available financial instruments.

Citadele Leasing and Factoring LTD offers leasing to enterprises for the purchase of both transport and machinery and equipment, financing up to 90% of the value of transport / equipment, which can be supplemented with EU co-financing (thus - leasing loan). It is proposed to deduct input VAT on the purchased equipment and obtain additional current assets<sup>174</sup>. Leasing / leasing credit for farmers is also offered separately, providing the possibility to receive co-financing from the Rural Support Service, as well as a longer loan term.

Luminor Leasing LTD/ Luminor Leasing Latvia LTD provides leasing services for both: road and commercial vehicles, as well as machinery, agriculture, forestry<sup>175</sup>. OP Finance LTD also provides car, commercial vehicle and industrial leasing, including various production and industrial equipment, such as construction, port facility equipment, medical equipment, as well as printing equipment<sup>176</sup>.

JSC "PrivatBank" offers both reverse leasing for equipment with a term of up to 3 years (in the amount of EUR 2 to 10 thousand)<sup>177</sup>, and leasing for other purposes, providing up to 80% of the market value of the leasing object<sup>178</sup>. Scania provides both financial and operational leasing for the purchase of vehicles<sup>179</sup>.

Like other commercial banks, JSC SEB bank also provides leasing of cars, commercial vehicles, industrial and equipment, as well as leasing of agricultural machinery<sup>180</sup>. Such leasing is also provided by SIA UniCredit Leasing, at the same time offering support from the European Investment Fund for receiving financing<sup>181</sup>, providing it to SMEs, agricultural holdings, individual traders, as well as enterprises.

### 8.1.6.3. Available risk capital for SMEs



#### Available risk capital funding

- Risk capital funds have been funded **since 2005**, while **8 qualified risk capital investors** are operating.
- Risk capital investment in 2018 – 0.029% of GDP, mainly in start-ups and seed enterprises.
- The interest in raising risk capital is mainly for micro and small enterprises.

## Financing of EU funds for risk capital funds

By 2017, five public funding support programmes for risk capital funds have been launched in Latvia. In 2005, the first programme in amount of EUR 11.25 million of European Structural Funds and EUR 3.75 million of national funding, supported 3 funds which attracted at least 34% of private funding. As part of this programme, all operational funds operated as start-up/growth capital funds of the enterprise.

The second programme was launched in 2010 in amount of EUR 21 million of the European Structural Funds and EUR 7 million of national funding. 3 venture capital funds were supported, which had to attract an appropriate amount of private funding (BaltCap, Imprimatur Start-up fund – 33% private funding, Imprimatur Seed fund – 0%).

Under the third programme (2012), EUR 30 million of the European Structural Funds and EUR 10 million of national funds were raised, supporting 4 venture capital funds – start-up and growth capital – funds

174 <https://www.citadele.lv/lv/business/leasing/>

175 <https://www.luminor.lv/lv/uznemumiem/lizings>

176 <https://www.opbank.lv/pakalpojumi/lizings/>

177 <https://www.privatbank.lv/biznesam/finansesana/atgriezeniskais-lizinga/>

178 <https://www.privatbank.lv/biznesam/finansesana/lizings/>

179 <https://www.scania.com/lv/lv/home/products-and-services/finance-and-insurance/finance.html>

180 <https://www.seb.lv/uznemumiem/lizings>

181 <https://www.unicredit.lv/lv/uznemumiem/>



(BaltCap, Imprimatur Capital, Excap, FlyCap). Venture capital funds have to raise 33% of private funding under the third programme.

### EIF funding for venture capital funds

In 2012, the European Investment Fund and the Baltic States established the Baltic Innovation Fund with EUR 20 million of each country and EUR 40 million of the European Investment Fund. In 2015, each country contributed a further EUR 6 million and the European Investment Fund contributed additional EUR 12 million, thereby supporting 5 risk capital funds (BMP, BaltCap (Private Equity Fund II and Growth Fund), Livonia Partners, Karma Ventures). Risk capital funds should raise 50% of private funding under these measures.

In 2013, EUR 2 million of national funding was provided for start-up loans provided by risk capital fund Imprimatur Capital, without private funding.

## 8.1.7. Group of beneficiaries - large enterprises



### Description of the group of beneficiaries

- **250 economically active** large enterprises are in 2018.
- **Dominant sectors:** manufacturing industry; transport and storage; wholesale and retail trade, repair of motor vehicles and motorcycles.
- According to the survey results, financing amounted to more than EUR 100 thousand (**mainly EUR 1-5 million**) was required mainly in the **form of loans from commercial banks**.
- According to the survey results, large enterprises need funding, there is a market failure, and the potential growth of SMEs must be taken into account.

According to data of CSB 250 large enterprises (more than 250 employees) were active in Latvia in 2018. The dominant NACE (Rev. 2) sectors are:

- C Manufacturing industry (56 enterprises);
- G Wholesale and retail trade; repair of motor vehicles and motorcycles (41 enterprises);
- H Transport and storage (35 enterprises).

### Survey results on large enterprises

According to the survey results, 3099 respondents were surveyed, which are mainly small (50.7%) and micro enterprises (44.5%). 4.4% of respondents are medium-sized enterprises and 0.4% are large enterprises.

**5 out of 6 respondents were provided with full financing from commercial banks**, but 1 respondent was provided with financing partly due to the significant amount of existing loans. For enterprises that requested funds from the leasing company and ALTUM, it was fully provided.

5 respondents who required additional funds did not request them from ALTUM, reference to lack of information on the availability of funding (3 enterprises), administrative burden (1 enterprise), high interest / commission costs (1 enterprise).

Not only SMEs, but also large enterprises make a significant contribution to economic development, including activities aimed at ensuring digitalisation processes, more active implementation of research and development. Financing availability, such as loans with a grant component, is important to improve economic development. This issue is particularly important in the context of COVID-19, where cash flow is severely conditioned.

## 8.1.8. Calculation of the required financing based on the survey results



### Required funding

- Approximately **39% of respondents will need funding** in the next 3-5 years. **25.4% will require financing up to 100,000 EUR.**
- According to survey results and without extrapolating the data, **additional funding of EUR 583 million is needed**, including **EUR 86 million for the elimination of the consequences of COVID-19.**
- Extrapolating the results of the survey, capital investments of 83 million EUR are needed for micro enterprises and 34 million EUR for small enterprises. Without extrapolating the data, a **capital investment** of around **EUR 80 million** is needed.
- Need for funding for different groups of enterprises according to the total number of respondents - **micro enterprises (38%), small enterprises (54%), medium-size enterprises (6.8%) and large enterprises (0.4%).**
- Funding required for infrastructure development, productivity growth, innovation, improvement of products and services, elimination of COVID-19 consequences.
- Enterprises plan to obtain the required financing **from commercial banks (36%), ALTUM (22%), leasing companies (10%).**

### Calculation of required funding - extrapolation of survey data

As part of the evaluation, a survey of entrepreneurs was conducted including 3099 respondents. Regarding the required funding for the next five years, about **39% of respondents** anticipate that funding would be needed. As shown in the table below, various additional funds will be needed in the next 3-5 years. 790 out of 3099 respondents or **25.4% will need funding up to EUR 100,000.**

Table 54. Amount of additional funds to be required in the next five years

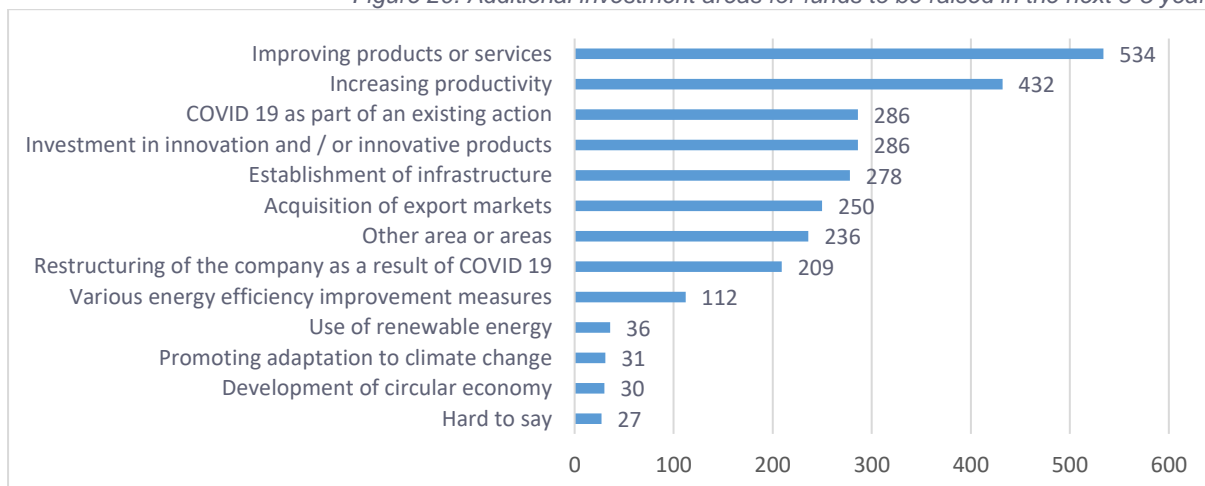
Amount of funding	Number of enterprises	Total amount of funding required, EUR
Up to 10,000 EUR	172	1 720 000
EUR 10,001 - 25,000	216	5 400 000
EUR 25,001 - 50,000	191	9 550 000
EUR 50,001 - 100,000	211	21 100 000
EUR 100,001 - 300,000	228	68 400 000
EUR 300,001 - 1,000,000	122	122 000 000
EUR 1,000,001 - 5,000,000	53	265 000 000
Above EUR 5,000,000	18	90 000 000
<b>Total</b>	<b>1211</b>	<b>583 170 000</b>

Source: Survey results

According to the survey results, the amount of funding required through the upper limits of the funding interval is **more than EUR 580 million**, and the calculation applies only to a group of respondents (3099) without applying extrapolation of the survey results.

Entrepreneurs intended invest the funding in improving products or services, increasing productivity, innovation and/or innovative products, as well as other objectives.

Figure 20. Additional investment areas for funds to be raised in the next 3-5 years



Source: Survey results

The weighted average for the required funding up to EUR 300,000, using the funding group upper limit, is EUR 105 000. 39% of respondents required funding. In total, 148,936 enterprises were analysed (excluding agricultural and fisheries enterprises) and about 99% or 147,447 are enterprises with up to 50 employees. Extrapolating the survey results, the funding required for the whole group of enterprises is 39% or 57 504 enterprises with a maximum amount of around **EUR 6 billion, but it should be noted that the extrapolation used the upper weighted average value of the funding range of EUR 105,000.**

The weighted average funding required above EUR 300,000 according to the funding group upper limit, is EUR 2.5 million. 39% of respondents required funding. In total, 148,936 enterprises were analysed (excluding agricultural and fisheries enterprises) and about 1% or 1,500 enterprises with more than 50 employees. Without extrapolation of the data, the required funding is around EUR 0.5 billion. By extrapolating the data, half of the enterprises needs funding of around € 1.85 billion. The data were extrapolated to only half of the enterprises, as the upper limit of the funding interval was used in the calculations and for most enterprises may not need such a significant amount.

When planning and implementing financial instruments, it is very important to ensure flexibility and the ability to respond quickly to changing market requirements.

### 8.1.9. Calculation of the required funding – export credit guarantees

#### Calculation of the required funding



#### Required funding

- Export credit guarantees were issued in value of EUR 20 million and EUR 70 million were rejected, growth of 10%, necessary aid for export transactions of **at least EUR 100 million, as the EC limits on the provision of export credit guarantees have to be considered (the amount of funding needed may be much higher).**

The responsible line ministry plans that the required financing for the financial instrument will not be provided from the EU funds, but there is a market failure and the State aid is necessary to reduce trade exposure risks, not provided by the private market and the additional gap between enterprises' needs to ensure against trade risks and private market precaution. Exporters have such needs not only for high-risk countries, but also for EU and OECD countries and domestic transactions, as the private market does not provide it to a sufficient extent.

Export credit guarantees are one of the instruments by which the state can directly support the growth of exports, which is the goal of many policy planning documents and especially in a crisis situation where the risks for both exporters and private insurers are increasing.

## 8.1.10. Calculation of the required funding and proposed financial product – Fund of Funds

### Required funding



#### Required funding

- Unsecured financing of **commercial banks** – EUR 1 270 million.

### Financial instruments recommended



#### Financial instruments recommended

- **Loans - EUR 200 million (EUR 80 million NDP2027 measure No 81 and ALTUM funding EUR 120 million).** Group of beneficiaries - enterprises. Planned leverage effect 2.9.
- **Combined financial instrument** with a grant and a loan component, where the grant component does not exceed 50% - **EUR 125 million (45 million NDP2027 measure No 81 and ALTUM funding EUR 80 million).** Group of beneficiaries - enterprises. Planned leverage effect 3.27. The specific objectives to be achieved through the grant component will be determined by the design of the financial instrument.
- **Guarantees: EUR 50 million (NDP2027 measure No 81).** The funding provided through the guarantees is around EUR 250 million. Group of beneficiaries - economic operators. Planned leverage effect 5.
- **Risk capital - EUR 120 million (EUR 75 million NDP2027 measure No 81 and EUR 45 million private investment).** Group of beneficiaries - enterprises. Planned leverage effect 1.88.
- In total, funding is provided in amount of **EUR 700 million** and the estimated market failure, based on the results of the survey, is at least **EUR 1 270 million.**

### Recommended financial instruments by funding

The priority fields for funding is R&D (described in the technical annex “Science, research and innovation”), digitalisation and the development of small and medium-sized enterprises. Digitalisation and also research support instruments are targeted at all categories of enterprises. The following financial instruments are offered for **digitalisation**.



#### Recommended financial instruments for digitalisation

- **Combined financial instruments**, including grant and loan components - **EUR 60 million**, including NDP2027 funding of EUR 20 million and ALTUM funding of EUR 40 million.
- **Individual guarantees, providing financing for EUR 50 million**, including investing NDP2027 financing for guarantees in the amount of EUR 10 million.

Under the OP project <sup>182</sup> enterprises will be offered a digital maturity assessment. Based on assessment of enterprises and identified needs, enterprise employees will be provided with high-level and medium-sized digital management skills training, which includes acquiring knowledge, with a view to promote the competitiveness and efficiency of enterprises through the development of skills for employees in the use of modern digital analytics tools, systems and software.

The following financial instruments are offered for the **development of SMEs**.



### Recommended financial instruments for development of SMEs

- **Start-up and growth loans - EUR 20 million** NDP2027 funding.
- **Seed and growth stage risk capital and mezzanine investments - 15 million EUR** NDP2027 funding, private funding EUR 60 million.
- **Multilevel risk capital funds** (includes: acceleration, pre-seed, seed, growth stages) - EUR 45 million NDP2027 funding and EUR 15 million private funding.
- **Productivity loans** (investments and working capital) - EUR 15 million NDP2027 financing and EUR 60 million ALTUM financing.
- **Individual guarantees - EUR 25 million** NDP2027 funding, thus attracting EUR 125 million of private funding.
- **Portfolio guarantees - EUR 15 million** NDP2027 funding, attracting EUR 75 million private funding.

Regarding the acquired experience of the EU funds programming period 2014-2020, it is advisable to consider the need to develop financial products containing individual guarantees, as they were not widely used and associated with additional administrative burdens. Assess the possibility of subsidising guarantee payments. Multiplier 5 is planned to assess the possibility of using a larger multiplier for individual guarantees.

#### 8.1.11. State aid issues

In the EU funds programming period 2014-2020, ALTUM administered similar financial instruments, except for the combined financial instrument (grant and loan combination) in accordance with the State aid rules, therefore State aid issues for support planned for EU funds programming period 2021-2027 should be addressed similarly.

Commission Regulation (EU) No 651/2014<sup>183</sup> declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty. Commission Regulation (EU) No 1407/2013<sup>184</sup> of 18 December 2013 on Articles 107 and 108 of the Treaty on the Functioning of the European Union application of Article 1 to de minimis aid. Commission Regulation (EU) 2020/972<sup>185</sup> of 2 July 2020 amending Regulation (EU) No 182/2011 1407/2013 and 108 regarding its extension and amending Regulation (EU) No 651/2014 as regards its extension and appropriate adjustments. Commission Regulation (EU) No 360/2012 of 35 April 2012 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid # granted to enterprises providing services of general economic interest. In addition, other state aid regulations may be considered.

## 8.2. Energy efficiency and renewable energy sources

**Energy efficiency and renewable energy sources (RES)** is an essential part of the Cohesion Policy for the EU fund programming period 2021-2027, contributing to achieving Policy objective No 2: “A

<sup>182</sup> [https://www.fm.gov.lv/lv/aktualitates/jaunumi/es\\_fondi/62609-aicina-piedalities-es-fondu-darbibas-programmas-projekta-2021-2027-gadam-sabiedriskaja-apsriesana](https://www.fm.gov.lv/lv/aktualitates/jaunumi/es_fondi/62609-aicina-piedalities-es-fondu-darbibas-programmas-projekta-2021-2027-gadam-sabiedriskaja-apsriesana)

<sup>183</sup> <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A32014R0651>

<sup>184</sup> <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A32013R1407>

<sup>185</sup> <https://eur-lex.europa.eu/legal-content/lv/TXT/?uri=CELEX:32020R0972>

greener, low-carbon Europe (including energy transition, the circular economy, climate adaptation and risk management)<sup>186</sup>.

Table 55. Summary of the implementation of RES and energy efficiency measures

<p><b>Policy priorities</b></p>	<ul style="list-style-type: none"> <li>• Reduce greenhouse gas emissions in non-major energy and industrial activities.</li> <li>• Ensure a higher share of renewable energy in Latvia's final energy consumption.</li> <li>• To ensure a reduction in primary energy consumption.</li> <li>• Provide new energy savings every year.</li> <li>• Activate building renewal and reduce thermal energy consumption.</li> </ul>
<p><b>Group of beneficiaries</b></p>	<ul style="list-style-type: none"> <li>• Depending on the measure to be implemented, there are several groups of beneficiaries: <ul style="list-style-type: none"> <li>○ <b>Residential building owners</b> – Latvia has more than 360 thousand residential buildings; at least 2 000 multi-apartment residential buildings and 7 500 private houses to be renovated by 2030 (necessary funding for residential buildings ~ EUR 1.2 billion, for private houses or small building complexes~ EUR 100 million).</li> <li>○ <b>Municipalities, their authorities, owned buildings.</b> In the Cadastre Information System 4 967 municipality buildings with 6,29 million m<sup>2</sup> area are registered, including educational and healthcare institution buildings. In general, the funding required for activities in period 2021-2027 is EUR 130-326 million.</li> <li>○ <b>State buildings</b> – on 20.12.2019 the list of buildings owned, possessed and used by state institutions includes the buildings of 36 institutions (owners), owned, subordinated and subordinated 838 institutions, with an individual total area of more than 250 m<sup>2</sup>, where energy efficiency activities are carried out to implement Directive 2012 / 27 / EU of 25 October 2012 on energy efficiency, amending Directives 2009/125 / EC and 2010/30 / EU and repealing the requirements of Directives 2004/8 / EC and 2006/32 / EC. There are buildings in use which are not subject to the requirements of the above-mentioned directive (funding is provided under NDP2027measure No 96). Required funding – EUR 300 million.</li> <li>○ <b>Heating operators, including municipal capital companies.</b> There are 237 companies operating. In 2018, more than 633 catlular houses and 175 cogeneration plants were supplied with heat in Latvia. The necessary funding for the period 2021-2027 is ~ EUR 291,9 million.</li> <li>○ <b>Enterprises</b> that plan to introduce energy efficiency measures and/or increase the use of RES. In total, there are 175 000 economically active enterprises in Latvia. 1.9% of respondents funded energy efficiency measures in 2016-2019, 0.2% renewable energy measures and 0.4% RES and energy efficiency measures.</li> </ul> </li> </ul>
<p><b>Challenges for the group of beneficiaries</b></p>	<ul style="list-style-type: none"> <li>• Unclear legal and financial issues, a complex and labor-intensive process of obtaining the necessary consent of apartment owners to the project.</li> <li>• The benefit of energy efficiency from the renovation of buildings does not cover all costs related to the renovation of buildings.</li> <li>• Energy efficiency and RES projects do not necessarily provide the expected financial return.</li> </ul>
<p><b>Available financing</b></p>	<ul style="list-style-type: none"> <li>• For the EU Funds programming period 2014-2020, grants, guarantees and loans are available for EEoMAB activities in total of EUR 201,5 million. Funding invested under the measure or reserved for 525 projects, thereby investing all planned funding.</li> </ul>

186 <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0375>



	<ul style="list-style-type: none"> <li>• Grant funding available to municipalities under SO 4.2.2 “Local government's integrated development programmes”, more than EUR 40 million to promote energy efficiency and the use of RES in municipal buildings.</li> <li>• Financing to promote energy efficiency and transition to the use of RES is also provided in SO 4.1.1. – EUR 23.7 million and SO 4.3.1. – EUR 49.5 million.</li> </ul>
<p><b>Market failure, investment needs</b></p>	<ul style="list-style-type: none"> <li>• According to the survey results, enterprises plans to invest in energy efficiency and the use of RES. <ul style="list-style-type: none"> <li>○ <b>0.4%</b> of respondents required funding for <b>RES</b>. Required funding without extrapolation of respondents' data – EUR 7 million.</li> <li>○ <b>0.77%</b> of respondents required funding for <b>renewable energy and energy efficiency measures</b>. Required funding without extrapolation of respondents' data – EUR 18,5 million.</li> </ul> </li> <li>• 86% from the surveyed <b>municipal capital companies (RES and energy efficiency measure)</b> expect to require external additional financing (loans, guarantees or capital investment) over the next 3- 5 years (starting in 2020), mostly through funding of EUR 1-5 million (36%) and 32% of cases of funding on average EUR 500 thousand. Required funding without extrapolation of respondents' data – EUR 31 million.</li> <li>• <b>Municipal capital companies</b> (heating companies) – EUR 100 million, all heating companies – EUR 292 million.</li> <li>• <b>Municipalities, their authorities, their own buildings</b> – the required funding is EUR 130-326 million.</li> <li>• <b>Residential building owners:</b> the required funding to improve the energy efficiency of buildings for the EU Funds programming period 2021-2027 amounts to EUR 1.2 billion in residential buildings and ~ EUR 100 million in private houses or public buildings.</li> <li>• <b>State buildings</b> – energy efficiency measures – EUR 300 million of funding needed.</li> </ul>
<p><b>Financial instruments</b></p>	<p><b>The combined financial instrument</b> is proposed for the following NDP2027 measures:</p> <ul style="list-style-type: none"> <li>• Under <b>NDP2027 measure No87 of EUR 25 million</b> is intended to promote the production and use of biomethane; where grant is up to 50%, loan at least 50%. Support is provided for producers of biomethane that meets the requirements of Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources and modernized biomethane certification.</li> <li>• <b>NDP2027 measure Nom 88 EUR 27,5million</b> for the use of RES in electricity generation - a grant of up to 50%, a loan of at least 50%.</li> <li>• <b>NDP2027 measure No 95 EUR 131.25 million</b> is planned for increasing energy efficiency in residential buildings - grant up to 50%, loan at least 50%.</li> <li>• <b>NDP2027 measure No 99 provides EUR 50 million</b> for the use of RES and for increasing energy efficiency in industry and traders - a grant of up to 50%, a loan of at least 50%.</li> <li>• <b>NDP2027 measure No 100 provides EUR 55 million</b> for the use of RES and increase of energy efficiency in local and individual heat supply - grant up to 50%, loan at least 50%.</li> <li>• <b>NDP2027 measure No 96, EUR 120 million</b> to improve the energy efficiency of public buildings. Part of the funding should be directed to financial instruments for public buildings (EUR 15 million), for which energy efficiency improvement measures are not specified in regulatory enactments, grant up to 50%, loan at least 50%.</li> </ul>
<p><b>State aid</b></p>	<ul style="list-style-type: none"> <li>• State aid issues should be considered in the context of Commission Regulation (EU) No 182/2011. 651/2014.Commission Regulation (EU) No 1407/2013, Commission Regulation (EU) No 360/2012 requirements.</li> </ul>

<b>Expected benefits</b>	<ul style="list-style-type: none"> <li>• In addition, other State aid regulations may be considered.</li> <li>• Improving the energy efficiency of multi-apartment buildings by more efficient use of available financial means.</li> <li>• Promoting the use of RES and improving energy efficiency in buildings and facilities, both in municipalities and in municipal capital companies and in enterprises through combined financial instruments, thereby switching from the financing projects in grants to the partial financing, as well as promoting the introduction of large and complex RES and energy efficiency projects.</li> </ul>
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### 8.2.1. Common RES and energy efficiency policy



#### Summary of policy priorities included in planning documents

**Reduce greenhouse gas emissions** from non-energy and non-industrial activities.

To ensure a **higher share of renewable energy** in Latvia's final energy consumption.

Ensure **reduction** of primary energy consumption.

Provide **new energy savings** every year.

Activate **building renovation** and reduce **heat consumption**.

Following Regulation (EU) 2018/1999 of the European Parliament and of the Council on the governance of the Energy Union and Climate Action, the regulation covers five key dimensions of the Energy Union to achieve the EU objectives:

- Energy security;
- The internal energy market;
- Energy efficiency;
- Decarbonisation;
- Research, innovation and competitiveness.

By 2020, the EU committed to reduce energy consumption by 20% compared to the initial forecasts in 2007. This goal is also called the 20% energy efficiency goal – the EU's overall headline goal to improve energy efficiency by at least **32.5% by 2030**. The Member States make their contribution as an indicative absolute level of primary energy consumption and final energy consumption in 2020 and as an indicative absolute level of primary energy consumption and final energy consumption in 2030, indicating an indicative trajectory for achieving contribution from 2021<sup>187</sup>.

The energy efficiency policy of multi-apartment houses is planned together with the Energy Development Guidelines<sup>188</sup>, to promote the long-term growth and development of the energy sector. The guidelines set cumulative goals for primary energy savings as well as final energy savings, thus providing the required annual savings.

Energy savings are intended to take into account energy efficiency improvement measures and other policies that contribute to achieving the goal, such as the The National Energy and Climate Plan 2030 (NECP2030)<sup>189</sup>.

The NECP2030 outlined the policy results identified by the EU and the Latvian Energy Union and their main objectives and possible sources of funding to achieve performance indicators for the implementation of the measures. Key objectives to be achieved:

- Reduced greenhouse gas emissions in non-energy and industrial activities compared to 2005;
- Ensuring a minimum 50% share of renewable energy in final energy consumption;
- To ensure a reduction in primary energy consumption to 47,22 TWh;

<sup>187</sup> <https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=CELEX:32018R1999&from=EN> 4.panta "b" daļa

<sup>188</sup> <http://polsis.mk.gov.lv/documents/5499>

<sup>189</sup> <http://polsis.mk.gov.lv/documents/6645>

- Provide at least 0,372 TWh of new energy savings each year to reach at least 20,47 TWh of total energy savings during the period 2021-2030;
- Activate the renovation of buildings, renovate at least 500 thousand m<sup>2</sup> direct management buildings within 10 years and reduce the heat consumption of buildings up to 120 kWh/m<sup>2</sup>/year;
- Reduce the level of energy poverty.

## 8.2.2. National Development Plan 2021-2027



### NDP2027 measures

- There are 12 ERDF-funded measures planned in the NDP2027 to promote RES and energy efficiency for a total amount of more than EUR 560 million.
- Considering NDP2027 measures, financial instruments are proposed for **6 measures**.

NDP2027 includes measures to support RES and energy efficiency projects, as well as the source of funding for the implementation of the priority objectives for the period 2021-2027. As part of the assessment, all activities of the NDP were analysed. The table below contains information on NDP measures related to RES and energy efficiency projects with a **source of funding from - ERDF**.

Table 56. NDP2027 measures to support RES and energy efficiency

No.	Description of the measure	Funding, EUR	Justification
87	<p><b>Promotion of production and use of biomethane</b></p> <p>Reducing greenhouse gas emissions through climate change mitigation and climate technology discoveries, ensuring increased carbon sequestration towards climate-resilient economic development, targeting high energy efficiency and the transport system decarbonisation.</p> <p><u>Target audience:</u> manufacturers and users of biomethane (priorly public transport operators).</p> <p><u>Place of implementation:</u> Latvia</p> <p><u>Activities:</u> installation of biogas treatment plants (biomethane production), development of infrastructure necessary for the use of biomethane in transport or in fixed combustion plants, including by establishing connections to the main gas transmission networks.</p> <p><b>Responsible Ministry: MoE</b></p>	25 000 000	<p>The measure targets biomethane producers and may lead to an increase in revenue or lower enterprises costs as part of the measure, and it is recommended to use financial instruments to implement the measure.</p> <p><b>Proposed financial product – combined financial instrument (grant and loan).</b></p> <p>Projects must indicate the energy efficiency and climate objectives to be achieved.</p> <p>The intended beneficiaries are enterprises intending to produce biomethane, including current producers of biogas.</p>

<p><b>88</b></p>	<p><b>Promoting the use of RES in electricity generation</b></p> <p>Reducing greenhouse gas emissions climate change mitigation and climate technology discoveries and ensuring increased carbon sequestration towards climate-resilient economic development, targeting high energy efficiency and the transport system decarbonisation.</p> <p><u>Target audience:</u> electricity generation enterprises and households</p> <p><u>Place of implementation:</u> Latvia</p> <p><u>Activities:</u> installation of solar electricity generation equipment and storage facilities for enterprises and municipalities</p> <p><b>Responsible Ministry: MoE</b></p>	<p>27 000 000</p>	<p>The measure targets energy producers and may lead to an increase in revenue or lower enterprises costs as part of the measure, and it is recommended to use financial instruments to implement the measure. Measure may reduce household expenses.</p> <p><b>Proposed financial product – combined financial instrument (grant and loan).</b></p> <p>Projects must indicate the achievable objectives for the use of RES in electricity generation.</p> <p>Planned beneficiaries of funding-enterprises, municipal capital companies, energy efficiency and RES communities.</p>
<p><b>95</b></p>	<p><b>Increasing energy efficiency in residential buildings, including developing the ESCO market (multi-apartment, private and small apartment building complexes)</b></p> <p>Improving the quality of housing by modernising and improving the energy efficiency and affordability of housing and improving the quality of real estate management to reduce the risks of long-term maintenance of buildings</p> <p><u>Target audience:</u> Owners of residential buildings</p> <p><u>Place of implementation:</u> Latvia</p> <p><u>Activities:</u></p> <p>1) energy efficiency improvement measures in multi-apartment houses; promotion of efficient use of resources to reduce the amount of energy consumed;</p> <p>2) “Colored Latvia” Housing and Urban Agenda.</p> <p><b>Responsible Ministry: MoE</b></p>	<p>187 500 000</p>	<p>The measure targets residential building owners. The group of beneficiaries is the owners of residential buildings, meaning legal persons (including associations) and individuals and municipalities.</p> <p>During the EU funds programming period 2014-2020, a similar measure is being implemented with a grant, loan and guarantee components, where each component is administered separately.</p> <p>Given that the implementation of the measure will result in savings but may not cover all the costs of the project, a <b>combined financial instrument</b> is proposed.</p> <p>Projects should indicate the energy efficiency and climate objectives to be achieved.</p>
<p><b>96</b></p>	<p><b>Increasing energy efficiency in public buildings</b></p> <p>Improving energy efficiency, smart energy management and the use of renewable energy in public buildings by modernizing and improving the energy efficiency and accessibility of buildings, and improving the quality of property management to reduce the risks of long-term maintenance of buildings.</p> <p><u>Target audience:</u> State building managers and users</p> <p><u>Place of implementation:</u> Latvia</p> <p><u>Activities:</u> measures to improve energy efficiency, smart energy management and the use of renewable energy resources in state-owned buildings</p> <p><b>Responsible Ministry: MoE</b></p>	<p>120 000 000</p>	<p>The measure targets public building managers and users.</p> <p>State buildings are to be divided into two groups.</p> <p>Public buildings which, following the requirements of the regulatory enactments (Directive 2012/27/EU), must take energy efficiency measures (Law on Energy Performance of Buildings): projects to be financed through grants, as project implementation has been determined.</p> <p>Public buildings which, in accordance with the regulatory requirements (Directive 2012/27/EU), do not have to take energy efficiency measures: projects to be financed through</p>

			<p>combined financial instruments (grants and loans).</p> <p>During the planning of Operational Programme, the responsible line ministry will specify the distribution of the financing of the planned NDP2027 measure between two groups of beneficiaries.</p>
99	<p><b>Use of RES and increasing energy efficiency in industry and enterprises</b></p> <p>Improving air quality for the reduction of nitrogen oxides (NOx), ammonia and particulate PM<sub>2.5</sub> in densely populated areas and the country, targeting high energy efficiency, low carbon production and improving transport systems.</p> <p><u>Target audience:</u> enterprises <u>Place of implementation:</u> Latvia <u>Activities:</u> construction of new energy-efficient plants; upgrading existing industrial production capacity by installing more energy-efficient production and production-supporting side-process equipment; arranging production buildings and sites, including the replacement of internal and external engineering networks and engineering systems in the production area against energy efficiency <b>Responsible Ministry: MoE</b></p>	50 000 000	<p>The target audience and beneficiaries of the measure are enterprises.</p> <p>Given that project activities may increase revenue or reduce costs, build energy-efficient plants, modernise existing ones, purchase of new more energy-efficient production equipment may be implemented through financial instruments.</p> <p><b>A combined financial instrument (grant and loan)</b> can be used to finance energy efficiency improvements and the use of RES with a grant component, which entails additional costs for the enterprise.</p> <p>Projects should indicate the energy efficiency and climate objectives to be achieved.</p>
100	<p><b>Use of RES and energy efficiency improvements in district, local and individual heating and cooling</b></p> <p>Reducing greenhouse gas emissions from the economy through climate change mitigation and climate technology discoveries and ensuring increased carbon sequestration towards climate-resilient economic development, targeting high energy efficiency and the decarbonisation of the transport system.</p> <p><u>Target audience:</u> Local heating consumers, individual heating consumers, including households <u>Place of implementation:</u> Latvia <u>Activities:</u> improving energy efficiency and promoting the use of RES in local and individual heating and the deployment of RES technologies in cooling supply <b>Responsible Ministry: MoE</b></p>	65 000 000	<p>The amount of funding planned for district heating operators and municipality capital companies is EUR 40 million, with projects to be implemented using financial instruments.</p> <p>The amount of funding planned for <b>local heating</b> operators and local municipality capital companies is EUR 15 million, with projects to be implemented using financial instruments.</p> <p><b>Individual heating</b>, the beneficiary group – individuals – EUR 10 million, projects to be implemented using grants, taking into account the solvency of the population and the financial return from the introduction of new plants.</p> <p>Projects should indicate the energy efficiency and climate objectives to be achieved.</p>

Source: [https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027\\_indikat%C4%ABvie\\_invest%C4%ABciju\\_projekti\\_EXSEL.xlsx](https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027_indikat%C4%ABvie_invest%C4%ABciju_projekti_EXSEL.xlsx)

### 8.2.3. Group of beneficiaries — owners of residential buildings



#### Description of the group of beneficiaries

- **Owners of residential buildings.**
- In total, there are over **360 thousand** residential buildings in Latvia.
- More than **39 thousand are three and more apartment buildings.**
- Over **860 three and more apartment buildings should be renovated** during the EU funds programming period 2014-2020.
- At least **2 000 multi-apartment residential buildings are to be renovated** by 2030.
- At least **7 500 private homes are to be renovated** by 2030.

According to NECP, residential buildings comprise **367.9 thousand buildings** with a total area of 90.1<sup>190</sup> million m<sup>2</sup>, which is 45% of the total building fund in Latvia. Given that the energy consumed by the building sector together accounts for 40% of the total energy balance<sup>191</sup>, residential buildings are an essential group of beneficiaries to achieve energy efficiency objectives. By 2030, a total of at least 2000 multi-apartment residential buildings and at least 7500 private houses are planned to be renovated, installed non-emission RES technologies, or connected to district heating.

According to the report entitled “Defining the energy performance requirements of buildings for different classes of buildings, taking into account the cost of the life cycle of buildings”, energy is consumed by around 362 thousand residential buildings. **39 504 are three and more apartment buildings** with a total area of 0.85 million m<sup>2</sup> and an average area of 1297.5 m<sup>2</sup>. This type of building dominated in the 20th century. Serial buildings built in the 60-90’s with insufficient thermal isolation, mainly in serie No 103. Annually multi-apartment buildings consume an average of 136 kWh of thermal energy per m<sup>2</sup>, the main sources of which are natural gas and district heating and wood.

Table 57. Characteristics of serial residential buildings

Model series	Area, thousand m <sup>2</sup>	Number	Average area
<b>103</b>	4208,66	1503	2800
<b>467</b>	1897,54	563	3370
<b>602</b>	1608,87	299	5381
<b>318</b>	1021,23	420	2431
<b>104</b>	899,19	355	2533
<b>464</b>	472,26	124	3809
<b>316</b>	426,06	173	2463
<b>119</b>	217,96	37	5891
<b>Total</b>	<b>10751,77</b>	<b>3474</b>	<b>3095</b>

Source: MoE, <https://server.em.gov.lv/index.php/s/RyYynH4VI8No2W8>, 10.lpp. un 12.lpp.

It is planned to develop conditions for the diversification of the co-financing, taking into account the value of the property in which the support measures will be implemented, the solvency of the population, the existing air quality in the area (replacement measures for heating equipment) and the percentage of energy efficiency savings and emissions achieved. Objective to be achieved: at least 2 000 multi-apartment residential buildings have been renovated, and non-emission technologies have been installed (where technically feasible and economically justified, taking into account and assessing the possibility of connecting to the district heating system)<sup>192</sup>.

190 Data of the State Land Service Real Estate State Cadastre Information System as of 1 January 2017.

191 National Energy and Climate Plan, p. 95

192 [https://em.gov.lv/iv/nozares\\_politika/nacionalais\\_energetikas\\_un\\_klimata\\_plans/](https://em.gov.lv/iv/nozares_politika/nacionalais_energetikas_un_klimata_plans/), IV Annex, pages 17-18



### 8.2.3.1. Financing administered by ALTUM



#### Financing administered by ALTUM

- Total public funding administered by ALTUM for energy efficiency measures for multi-apartment buildings (EEoMAB programme) – **EUR 201 462 726**, including ERDF funding – 85%. Funding is planned for approximately 1030 multi-apartment buildings.
- **Financial instruments available** - grant, guarantee and loan.
- Beneficiaries of financial instruments - **apartment owners who have authorised legal persons to carry out all activities related to the energy efficiency project.**
- The EEoMAB programme **supported 438 projects (83%)** in period January 2016 - February 2020, from received 886 applications.
- Total **investment in projects** EUR 93 710 239 under the programme as at 30.04.2020, including grants of EUR 57 188 515 (61%), guarantees of EUR 25 022 630 (26.7%), loans of EUR 11 499 094 (12.3%).
- According to information provided by ALTUM,<sup>193</sup> the average amount of aid per multi-apartment house is between **EUR 100 and EUR 200 thousand.**

#### Loan financial instruments administered by ALTUM

In the table below information on energy efficiency financial instruments for multi-apartment houses included, based on the CoM Regulations for the implementation of measure SO 4.2.1.1..

Table 58. Estimated funding for financial instruments

Financial instrument	CoM Regulations	Total amount planned, in EUR <sup>194</sup>	Maximum amount, EUR
EEoMAB grant	Cabinet Regulation No. 160 of 15 March 2016, implementing rules for the specific objective of "Promoting energy efficiency improvements in public and residential buildings" of the Operational Programme "Growth and Employment" 4.2.1.1. Specific Support Objective Measure "Promoting energy efficiency in residential buildings".  Cabinet Regulation No. 426 of 30 June 2020, Amendments to Cabinet Regulation No. 160 of 15 March 2016, "Growth and Employment", specific aid objective 4.2.1 "Promote energy efficiency improvements in public and residential buildings" 4.2.1.1. implementing rules for buildings' " <sup>195</sup>	176 450 903	up to 50% of the eligible costs of the project
EEoMAB guarantee		25 011 823	3 000 000
EEoMAB loan		does not exceed the eligible costs of the project	

Source: <https://likumi.lv/ta/id/281323-darbibas-programmas-izaugsme-un-nodarbinatiba-4-2-1-specifiska-atbalstamerka-veicinat-energoefektivitates-paaugstinasanu>

According to the Plan for Alternative Energy Efficiency Policy Measures for Reaching the Final Energy Consumption Savings Target for 2014–2020 by second half of 2023, with the Operational Programme "Growth and Employment" SO 4.2.1, "Promote energy efficiency improvements in public and residential buildings" clause 4.2.1.3 "Promote energy efficiency in residential buildings" it is planned to renovate 1220 (renovated buildings) and 19 589 (renovated housing units), accumulating 249.6 GWh of energy savings. The area of buildings to be renovated is about 1.34 million m<sup>2</sup> (taking into account that the total

<sup>193</sup><https://www.ALTUM.lv/lv/pakalpojumi/maju-energy-efficiency/multi-energy-efficiency-basic-information/programming-data/>

<sup>194</sup>Total amount planned increased in accordance with Cabinet Regulation No 426 of 30 June 2020

<sup>195</sup><https://likumi.lv/ta/id/315822>

area of three and more apartment buildings is 51.26 million m<sup>2</sup>), but the area of 3474 standard-type buildings in Latvia is 10.75 million m<sup>2</sup>.

Grants are provided for all projects within the framework of the program, as well as the beneficiaries can be additionally supported with a guarantee, as well as with an ALTUM direct loan. Guarantees are needed, for example, when borrowing from commercial banks. Municipal capital companies - house managers - or an association or private company (Ltd.) specializing in such services are supported.

By supporting the projects submitted by municipal capital companies, the existing experience, knowledge, as well as opportunities to look for alternative solutions are positively assessed. In turn, supporting associations and Ltd., it is often the first experience when a limited liability company submits a project application, therefore more technical support is needed both in the preparation of the application and in the selection of the most appropriate technological solution. In the EU funds programming period 2014-2020, the Competence Center has been established, which advises project applicants regarding the development of technical documentation. The group of beneficiaries also includes municipal capital companies that manage municipal apartment buildings.

### 8.2.3.2. Financing provided by commercial banks



#### Financing provided by commercial banks

- **Loan, which is mostly used together with ALTUM guarantees** (according to ALTUM data - 55% of EEOmAB beneficiaries have used ALTUM guarantees).
- **Up to 100% of project costs** with or without a certain cost “ceiling” per m<sup>2</sup>
- An apartment **pledge or personal guarantee of apartment owners is not required**, the collateral is a commercial pledge on receivables and a security deposit in the amount of 1 - 3 months.
- The loan is **repaid by increasing the management fee**.
- Maximum loan term - **20 years**.
- At least **2/3 of apartment owners' consent** is required for project implementation.

The majority (143 out of 263 or 55%) of grant beneficiaries have benefited from the ALTUM guarantee because commercial banks are reluctant to finance EEOmAB projects without additional ALTUM guarantees. In 12% of cases, commercial banks did not provide the necessary funding and the project applicants received a loan from ALTUM.

Commercial banks **do not offer long-term financing to energy efficiency service providers (ESCO) on long-term terms**.

### 8.2.4. Group of beneficiaries – municipalities and municipal capital companies



#### Description of the group of beneficiaries

- **Municipalities** - 119, incl. 9 cities and 110 counties of the Republic.
- **Municipal authorities** - 669.
- **Local government-owned buildings** - 4,967.
- **Total area of municipal buildings** - 6.29 million m<sup>2</sup>.
- **Necessary financing - MEPRD survey - 326 million EUR, NECP - 100 million EUR.**

According to the CSB data for 2018, there are a total of 669 local government institutions in Latvia, of which the majority or 30% of institutions are located in Pierīga, about 20% in both Zemgale and Latgale, and about 15% in Vidzeme and Kurzeme region. According to the status of ownership, 4967 municipal

buildings with an area of 6.29 million m<sup>2</sup> are registered in the State Cadastre Information System, incl. education and healthcare buildings. Many of these municipal buildings were built before the energy efficiency requirements for buildings were increased, so they have a low level of energy efficiency.

According to survey conducted by MEPRD<sup>196</sup> on the investment needs of local governments in the EU funds programming period 2021-2027 the total financial demand of local governments for energy efficiency improvement projects is **EUR 326 million**.

According to the NECP (applies to the period 2021-2030), the total funding required for the implementation of energy efficiency measures in municipal buildings is **EUR 100 million**, while the funding required for the development of the ESCO market is **~ 30 million EUR**<sup>197</sup>.

### 8.2.5. Group of beneficiaries – providers of district, local and individual heating and cooling services



#### Description of the group of beneficiaries

- **Heat supply merchants, including municipal capital companies** - 237.
- **Heat supply** is provided through district heating systems, local and individual heat supply.
- Heat energy is produced by **633 boiler houses and 176 cogeneration stations**, simultaneously producing electricity.
- The funding required for the implementation of the activity for the development of innovative and energy efficient solutions for increasing the share of RES in energy systems (incl. heat supply) for the period 2021-2027 is **~ 291.9 million EUR**.

In Latvia, consumer heating shall be ensured using:

- **district heating systems** (a set of heat sources, transmission and distribution heat networks and heat energy users that produce, transform, transmit, distribute and consume heat energy in a coordinated manner, Article 1 of the Energy Law);
- **local heat supply, an autonomous heat supply system owned by a producer, state or municipal institution or its autonomous part** (heating networks are not connected) with a nominal installed heat capacity of more than 0.2 and less than 1 MW, which ensures heat supply from a heat source through distribution networks, or without them);
- **local cooling** (an independent cooling system owned by the manufacturer, state or municipal authorities with a nominal installed cooling capacity of more than 0.2 and less than 1 MW, which provides cooling energy and is supplied from a cooling source with or without a distribution cooling piping system) );
- **individual heat supply** (heating system of a separate building, which consists of a heating installation that heats the whole building or heating installations used for heating separate premises in the building, Article 1 of the Energy Law).

According to the register of heat supply companies, there are 237 heat supply companies<sup>198</sup>, including municipal capital companies.

### 8.2.6. Group of beneficiaries - state institutions



#### Description of the group of beneficiaries

- There are **838 state institutional buildings** in Latvia with an area of over 250 m<sup>2</sup>.
- Under the NECP, energy efficiency projects in state-owned buildings require funding of around **EUR 300 million**.

<sup>196</sup> Pages 20-21 of Annex 1 to the Regional Policy Guidelines for 2021-2027.

<sup>197</sup> NDP 2027, 119.p

<sup>198</sup> <https://sprk.gov.lv/content/pakalpojumu-sniedzaji-4>

In accordance with the requirements of Article 5 of Directive 2012/27/EU<sup>199</sup> on energy efficiency, Latvia's 2020 target is of **3% of the area of central government buildings**, and Latvia proposes to achieved this target until 2030. The 3% target shall be calculated on the basis of buildings owned and occupied by the central government with a total floor area of more than 250 m<sup>2</sup> which do not meet the national minimum energy performance requirements set in Article 4 of Directive 2010/31/EU on 1 January. In addition to the 3% target, it is possible to include new state-owned and central government-used buildings that have replaced certain public buildings that have been demolished in the previous two years or are no longer used due to the increased use of other buildings<sup>200</sup>.

In total, on 20.12.2019 in the list of buildings owned, possessed and used by public institutions buildings 36 institutions (owners) are included with **838 buildings** owned, with an individual total area of more than 250 m<sup>2</sup>, where energy efficiency activities are carried out to implement the requirements of Directive 2012/27/EU<sup>201</sup> requirements.

A Member State shall give priority in energy efficiency measures to those central government buildings with the lowest energy efficiency, where the implementation of those measures is cost-effective and technically feasible.

### 8.2.7. Group of beneficiaries – enterprises



#### Description of the group of beneficiaries

- In 2018, **175 thousand economically active** small and medium enterprises, 250 large enterprises.
- **Main sectors:** wholesale and retail trade; professional services, construction; manufacturing; scientific and technical services.
- **As part of the assessment, more than 3,000 enterprises were surveyed.**
- According to the survey results, **41% of respondents required additional funding.**
- **1.8%** of respondents required funding for **energy efficiency measures**, in most cases funding up to 300,000 EUR is required.
- **0.2%** of respondents required funding for **renewable energy measures.**
- **0.4%** of respondents required funding for **renewable energy and energy efficiency measures.**

#### Required funding in 2016-2019

As part of the assessment 3099 respondents were surveyed. 1276 enterprises or about **41% of respondents required additional funding** in the period from 2016 to 2019. According to the survey, about **1.8% of respondents required funding for energy efficiency.**

### 8.2.8. Increasing energy efficiency in residential buildings

#### Proposed financial product- for multi-apartment buildings energy efficiency projects



**Combined financial instrument** - to increase the energy efficiency of apartment buildings.

- **Grant** - grant component up to 50% of the total project amount. The grant component is necessary to partially cover the project costs, because of savings obtained from the project implementation may not cover all costs related to the project implementation.

199 <https://eur-lex.europa.eu/eli/dir/2012/27/oj/?locale=LV>

200 <https://bvkb.gov.lv/lv/content/valsts-eku-saraksts>

201 <https://eur-lex.europa.eu/eli/dir/2012/27/oj/?locale=LV>

- **Loan** - the loan component of at least 50% of the total project amount can be used to finance various project activities, including the financing of large and complex projects. The loan component may also include the financing of other measures necessary to improve the joint ownership of the building.
- **Beneficiaries** - apartment owners (project applicants - municipal capital companies, apartment owners' associations, etc.).
- **Planned funding** - EUR 131.25 million.
- Planned **leverage effect** - **1.17**, can be changed if part of the loan is provided by commercial banks.

### Energy efficiency projects for private houses

Within the framework of **NDP2027 measure No 95**, it is planned to direct funding in the amount of EUR 56.25 million to energy efficiency projects in private houses. At the time of the assessment, no financial instruments are planned, as energy efficiency projects for private houses are related to the achievement of environmental goals and may not provide the necessary financial return to households for the implementation of the projects.

## 8.2.9. Promoting the use of RES in electricity generation

### Technical assistance function

It is recommended to create a technical assistance function to advise project applicants and implementers on various solutions for the use of RES. Taking into account the need for the technical assistance function for other NDP2027 measures, to evaluate the possibility to create a single technical assistance function for all measures related to the improvement of energy efficiency and promotion of RES use. A tailored technical assistance service would serve as a tool to achieve higher project results, including approaching European and national energy efficiency and environmental targets.

### Proposed financial product

Considering the planned project activities, a **combined financial instrument** is recommended to promote the use of RES in electricity generation (grant component) and at the same time not to subsidise enterprises (loan component).



**Combined financial instrument** - promotion of the use of RES in electricity generation.

- **Grant** - grant component up to 50% of the total project costs. The grant component can be changed based on project priorities, such as different types of RES or the geography of the beneficiary. The grant component covers those project costs that are not related to cost reduction through the introduction of RES technologies.
- **Loan** - at least 50% of the total project costs. The loan component covers the project costs related to the reduction of costs for the introduction of RES technologies.
- Planned **leverage effect** - **1.17**.
- **Planned funding** - EUR 27.5 million.
- **Beneficiaries** - enterprises, municipal capital companies, RES communities and energy communities.

## 8.2.10. Increasing the use of RES and energy efficiency in industry and enterprises

### Recommended financial product

Taking into account the planned activities, construction of new energy efficient plants, modernization of industrial production capacities by installing more energy efficient production facilities for businesses, a

combined financial instrument is recommended to promote RES technologies (grant component) and energy efficiency measures without subsidizing companies (loan component).



**Combined financial instrument** – increasing the use of RES and energy efficiency in industry.

- **Grant** - up to 50% of the total project costs. The part of the grant component can be changed depending on the different RES technologies used, the location of the beneficiaries and other factors. The grant component covers those project costs that are not related to cost reduction through the implementation of RES technologies and energy efficiency measures.
- **Loan** - at least 50% of the total cost of the project. The loan component covers the project costs related to the reduction of costs by implementing RES technologies and energy efficiency measures.
- Planned **leverage effect** - **1.17**.
- **Planned funding** - EUR 50 million.
- **Beneficiaries** - enterprises.

### 8.2.11. Use of RES and increase of energy efficiency in district, local and individual heating and cooling

#### Recommended financial product



**Combined financial instrument** - use of RES and increase of energy efficiency in district, local and individual heating and cooling.

- **Grant** - grant component up to 50% of project costs. The grant component covers those project costs that are not related to cost reduction through the implementation of RES technologies and energy efficiency measures.
- **Loan** - loan component at least 50% of project costs. The loan component covers the project costs related to the reduction of costs by implementing RES technologies and energy efficiency measures.
- **Beneficiaries** - enterprises and municipal capital companies.
- Planned **funding** - district heating - EUR 40 million.
- Planned **funding** - local and individual heating and cooling - EUR 15 million.
- Planned **leverage effect** - **1.17**.

### 8.2.12. Air quality improvement measures

#### Calculation of required funding

**NAP2027 measure No 290** provides funding of **EUR 27.5 million** for air quality improvement measures. The calculations of the required funding take into account the calculations of the line ministry regarding the amount of the total required funding.

One of the goals of the measure is to replace inefficient and polluting heating equipment used in individual heating with more modern and efficient ones. The beneficiaries would be private individuals (household owners) and taking into account the need to stimulate the transition of households to more environmentally friendly individual heating equipment, as well as the purchasing power of the population, no financial instrument is planned for the implementation of the measure.

The measure also aims to replace incineration plants and the installation of treatment plants, where the beneficiaries would be municipal capital companies. Given that the activities of the measure will mainly



address environmental issues and the projects may not have a financial impact on the financial results of municipal capital companies, therefore no financial instruments are offered.

### 8.2.13. Increasing energy efficiency in state-owned buildings

#### Calculation of required funding

**NDP2027 measure No 96** funding of **EUR 120 million** is planned for energy efficiency improvement, smart energy management and renewable energy measures in state-owned buildings.

Public buildings can be divided into two groups:

- State-owned buildings, which in accordance with regulatory requirements (Directive 2012/27/EU<sup>202</sup>) must carry out energy efficiency measures - projects must be financed using grants, because the implementation of projects is specified. In total as of 20.12.2019. the list of buildings owned, possessed and used by public institutions includes buildings of 36 institutions (owners), **838** state-owned, with an individual total area of more than 250 m<sup>2</sup>, where energy efficiency activities are carried out to implement the requirements of Directive 2012/27/EU<sup>203</sup> requirements. According to the NECP2030, in general, the activity requires funding in 2021-2030 **EUR 300 million**, with priority given to those central government buildings with the lowest energy efficiency.
- Public buildings that do not have to carry out energy efficiency measures in accordance with regulatory requirements (Directive 2012/27/EU<sup>204</sup>) - projects must be financed with the help of combined financial instruments (grant and loan).

The amount of funding required for the implementation of public building projects included in the first group significantly exceeds the amount of funding planned under NDP2027 measure No 86, therefore the line ministry responsible for the coordination of the OP will specify the planned NDP2027 measure funding distribution between the two groups.



**Combined financial instrument** - for state-owned buildings for which energy efficiency improvement is not specified in regulatory framework (Directive 2012/27 / EU).

- **Grant** - up to 50%. The grant component covers project costs that are not related to the reduction of building maintenance costs, for example, through the introduction of new technologies. The share of the grant component could depend on the technology used, the location of the buildings and other factors.
- **Loan** - at least 50%. The loan component covers the project costs related to the reduction of building maintenance costs.
- **Planned funding** - EUR 15 million.
- **Beneficiaries** - owners of direct administration buildings.
- Planned **leverage effect** - **1.17**.

### 8.2.14. Measures to promote the production and use of biomethan

#### Proposed financial product

A combined financial instrument is proposed, including a grant and a loan component, as the beneficiaries will be enterprisess and enterprises could increase revenue or reduce costs as part of the project. At the same time, the projects are related to the introduction of new technologies, which are associated with additional risks and may not provide the planned financial return, therefore the grant component is also offered.

202 <https://eur-lex.europa.eu/eli/dir/2012/27/oj/?locale=LV>

203 <https://eur-lex.europa.eu/eli/dir/2012/27/oj/?locale=LV>

204 <https://eur-lex.europa.eu/eli/dir/2012/27/oj/?locale=LV>



### Combined financial instrument - promotion of biomethane production and use

- **Grant** - up to 50%. The grant component covers those project costs that are not related to the reduction of the enterprise's costs, for example, by introducing new technologies. The share of the grant component could depend on the technology used, the demand for biomethane and other aspects.
- **Loan** - at least 50%. The loan component covers the project costs related to the reduction of expenses for the beneficiary.
- **Funding** to be allocated - EUR 25 million.
- **Beneficiaries** - enterprises that plan to produce biomethane.
- **Leverage effect – 1.17.**

## 8.2.15. State aid

State aid issues should be considered in the context of Commission Regulation (EU) No 182/2011. 651/201<sup>205</sup>. Energy efficiency and RES projects are eligible for investment aid enabling companies to go beyond Union environmental standards or to increase the level of environmental protection in the absence of Union standards (Article 36), as well as investment aid for timely adaptation to future Union standards (Article 37), investment aid for energy efficiency measures (Article 38, aid intensity not exceeding 30% under certain conditions, may be increased for small and medium-sized enterprises), investment aid for energy efficiency projects in buildings (Article 39, additional investment of at least 30%), investment aid to promote energy efficiency production from renewable resources (Article 41, aid intensity 30% or 45%). When evaluating the planned financial instruments in relation to State aid issues, it is important to review how the State aid is assessed in the case of combined financial instruments, when the aid is provided in accordance with the conditions of the financial instruments.

Commission Regulation (EU) No Regulation (EU) No 1407/2013 of 18 December 2013<sup>206</sup> (on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid. Commission Regulation (EU) 2020/972 of 2 July 2020<sup>207</sup> amending Regulation (EU) No 182/2011 1407/2013 as regards its extension and amending Regulation (EU) No 651/2014 as regards its extension and corresponding adaptations. Commission Regulation (EU) No 360/2012 of 35 April 2012 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid granted to undertakings providing services of general economic interest. In addition, other State aid regulations may be taken into account.

## 8.3. State capital companies

Actions are planned in the majority of NDP2027 directions, contributing to the strategic objectives: providing research and innovation, as well as promoting climate neutrality and regional development, including trust in public administration, improving access to health care and culture services. The report includes recommendations on funding to be allocated to financial instruments roposepd, but it should be noted that the final decision regarding the establishment of financial products and the attraction of funding depends on the approved OP and the planned aid intensity which, at the time of the assessment, is still in the development phase.

The largest amount of funding needed for development of healthcare enterprises is provided by the ERDF, as the financial situation of healthcare enterprises prevents the raising of credit resources, and therefore not all of the information listed in the table below applies to healthcare enterprises. The financial situation of healthcare enterprises depends directly on the amounts of State-paid healthcare services specified in the contract with the National Health Service and the planned financing thereof, which is calculated in accordance with the tariffs specified in CoM No 555 of 28 August 2018, Procedures

<sup>205</sup> <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A02014R0651-20170710>

<sup>206</sup> <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A32013R1407>

<sup>207</sup> <https://eur-lex.europa.eu/legal-content/lv/TXT/?uri=CELEX:32020R0972>

for the Organisation and Payment of Health Services, which results in the actual costs of enterprises not covered by insufficient State budget financing.

Table 59. Summary of state joint capital company policy implementation

<b>Policy priorities</b>	<ul style="list-style-type: none"> <li>The achievement of the strategic objectives of NDP2027, including the strategic goals, environmental objectives and the development of the economy, is supported.</li> </ul>
<b>Group of beneficiaries</b>	<ul style="list-style-type: none"> <li>182 capital companies, including concerns, out of whom State holds 96 capital companies directly (2018).</li> <li>State capital shareholders - mostly line ministries, more often - Ministry of Culture, Ministry of Health, MoT.</li> <li>Total assets of companies – approximately EUR 9 billion; total turnover – EUR 3.77 billion; profitability - 8.6%; return on assets (ROA) – 3.4% (2018).</li> <li>Capital companies (by total assets) are mostly active in such sectors as energy (47.9%), transport (20.8%), and healthcare (7.0%).</li> <li>Capital companies maintain various investment projects in their priority areas, such as infrastructure, services improvement, equipment purchases.</li> </ul>
<b>Financing needs</b>	<ul style="list-style-type: none"> <li>Funding during programming period 2014-2020 was mainly needed for energy efficiency measures, as well as infrastructure development.</li> </ul>
<b>Financing available</b>	<ul style="list-style-type: none"> <li>Banks, ALTUM, EIB, and others provided financing for State capital enterprises during the EU funds programming period 2014-2020.</li> <li>Sources of funding: banks, parent company/owner, other funding providers.</li> </ul>
<b>Financial instruments</b>	<ul style="list-style-type: none"> <li>No financial instruments are offered for measures related to State capital companies for the EU funds programming period 2021-2027. According to the survey results, enterprises have access to financial means under free market conditions. If necessary, companies can use entrepreneurship support financial products administrated by ALTUM.</li> </ul>

### 8.3.1. Common economic growth policy



#### Summary of policy priorities included in development plans

- **Strengthening of the economy**, prosperity of the society.
- **Effective public administration**, strengthening innovation and export capacity.
- Achievement of **smart specialisation** goals.

It is stated within Guidelines for State Participation in Determining General Strategic Goals<sup>208</sup> that the development policy and planning of state capital companies is determined according to the planning documents, i.e., NDP, Sustainable Development Strategy for 2030, as well as other guidelines. Capital companies must contribute not only to the high-quality and competitive goods or services, but also to the general strengthening of the economy and the growth of society.


When planning the general strategic goals of capital enterprises, the goals and priorities of the Latvian Sustainable Development Strategy for 2030 must be taken into account: preservation and development of cultural capital; development of the education system; strengthening innovation and export capacity; ensuring energy independence; conservation, enhancement and sustainable use of natural capital; ensuring equal living conditions for all citizens, effective public administration.

NDP2027 provides for investment in activities in five smart specialisation areas in which several State capital companies operate:

<sup>208</sup> [http://www.valstskapitals.gov.lv/images/userfiles/SMNV\\_\\_30032016\\_pdf.pdf](http://www.valstskapitals.gov.lv/images/userfiles/SMNV__30032016_pdf.pdf)

- knowledge-intensive bioeconomy;
- biomedical, medical technologies, biopharmaceutical and biotechnology;
- intelligent materials, technologies and engineering systems;
- smart energy;
- information and communication technologies.

### 8.3.2. National Development Plan 2021-2027




**Measures of NDP2027**

- **9 NDP2027 measures**, planned to be funded by ERDF financial resources where project implementer can be state capital companies, for the total amount of EUR 536 317 500 are reviewed.
- **7 NDP2027 measures**, planned to be funded by Cohesion Fund financial resources and where project implementer can be state capital company, for the total amount of EUR 1 022 736 000 are reviewed.

National priorities are identified within NDP2027, as well as amount of funding and its sources for the implementation of priorities are recommended. As part of the assessment, all NDP 2027 measures were analyzed. Source of funding - ERDF and CF. The indicated funding is the total funding, including both the planned EU funding and the national co-financing, which will depend on the aid intensity.

### 8.3.3. Group of beneficiaries



**Group of beneficiaries**

- **182 enterprises**, concerns included.
- Direct state participation in **96 enterprises**.
- **Shareholders** - line **ministries**, as well as National Electronic Mass Media Council.

Article 40 of the Law on the Public Administration<sup>209</sup> outlines the basic rules of delegation - a public person can delegate administrative tasks to another public person in the cases specified in the Law, if the authorized person can perform the respective task more efficiently. Article 41 states that tasks which fall within the competence of a public body may be delegated. Sectorial policy-making and development planning functions, coordination of sectoral activities, supervision of institutions and administrative officials, approval of the budget of public persons, allocation of financial resources at the level of programs and sub-programs, as well as control of financial resources cannot be delegated.

Unless otherwise provided by the Law on the Public Administration, a public person may establish a capital enterprise or acquire a participation in an existing capital enterprise if one of the conditions referred to in Article 88 of the Law is met: market failure is eliminated, strategically important goods or services are created, or assets of strategic importance to security.

According to the public information of the Cross-Sectoral Coordination Centre, 182 capital companies, including concerns, operated in 2018. The State has a direct participation in 96 capital companies.

Table 60. Breakdown of State capital enterprises according to the size of the state participation

State participation	Impact	Number
100%	State-owned companies	65
50% > participation < 100%	Directly decisive	4

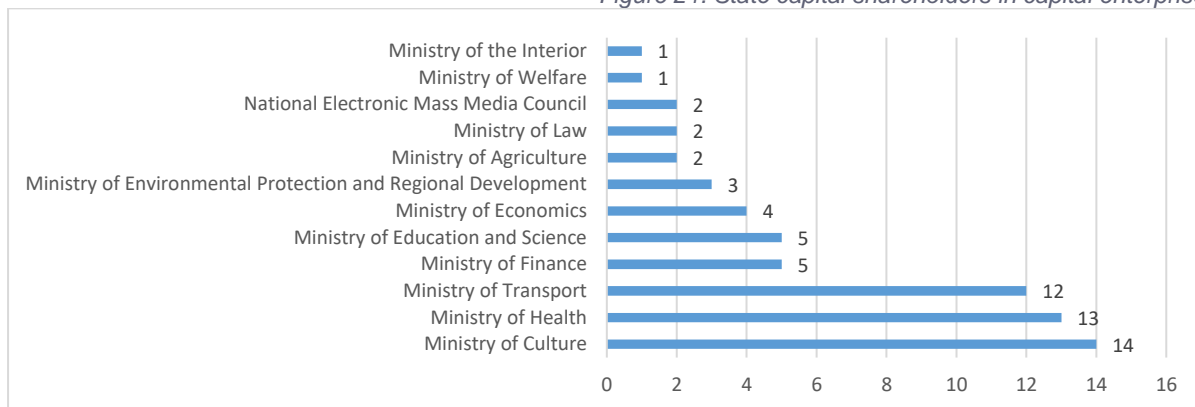
209 <https://likumi.lv/ta/id/63545>

≤50%	Not directly decisive	27
<b>State capital companies are participating in other companies</b>		<b>52</b>

Source: Cross-Sectoral Coordination Centre<sup>210</sup>

The evaluation covers only those capital enterprises where State holds 50% or more. The holders of State capital shares in capital enterprises are usually ministries, most often the Ministry of Culture, the Ministry of Health and the MoT, taking into account a large number of capital enterprises in the sector.

Figure 21. State capital shareholders in capital enterprises



Source: Cross-Sectoral Coordination Centre, [http://www.valstskapitals.gov.lv/images/userfiles/Parskats\\_par\\_valsts\\_kapitalsabiedribam\\_un\\_dalam\\_2018\\_gada\\_atverums%281%29.pdf](http://www.valstskapitals.gov.lv/images/userfiles/Parskats_par_valsts_kapitalsabiedribam_un_dalam_2018_gada_atverums%281%29.pdf)

The total assets of capital enterprises (long-term investments and current assets) are EUR 9.5 billion, while the total turnover is EUR 3.77 billion. Profitability in 2018 – 8.6%, while return on assets (ROA) – 3.4%. The 3 largest capital enterprises by total assets – Latvenergo, Latvijas Dzelzceļš, Air Baltic Corporation – account for 56.4% of total assets and 43.6% of total turnover.

Table 61. Total assets of capital enterprises by sector

Sector	EUR million	% of total assets
Energy	4 558.9	47.9
Transport	1 978.0	20.8
Healthcare	433.5	9.0
Other capital enterprises	703.4	7.4
Real estate	489.7	5.2
Forestry and agriculture	471.0	5.0
Communication	433.5	4.6

Source: Cross-Sectoral Coordination Centre, [http://www.valstskapitals.gov.lv/images/userfiles/Parskats\\_par\\_valsts\\_kapitalsabiedribam\\_un\\_dalam\\_2018\\_gada\\_atverums%281%29.pdf](http://www.valstskapitals.gov.lv/images/userfiles/Parskats_par_valsts_kapitalsabiedribam_un_dalam_2018_gada_atverums%281%29.pdf)

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[http://www.valstskapitals.gov.lv/images/userfiles/Parskats\\_par\\_valsts\\_kapitalsabiedribam\\_un\\_dalam\\_2018\\_gada\\_atverums%281%29.pdf](http://www.valstskapitals.gov.lv/images/userfiles/Parskats_par_valsts_kapitalsabiedribam_un_dalam_2018_gada_atverums%281%29.pdf)

### 8.3.4. Funding administrated by ALTUM



#### Available funding administrated by ALTUM

- ALTUM administers loans to different enterprise groups with a total **loan portfolio (31.12.2019) approximately EUR 168 million** and granted **guarantees for approximately EUR 160 million**. ALTUM's accounts do not separate the State capital enterprises, so it is not possible to determine the state capital enterprises's share in ALTUM's loan portfolio.
- According to the survey results no State capital enterprise **has used ALTUM financing**. The reasons are: high interest/commission costs, time-consuming application process, administrative burden, and limited information on access to funding.
- Unlike the current situation, part of the State capital enterprises (25% of respondents) intends **to raise additional funding from ALTUM** in the future. If necessary, State capital enterprises can use entrepreneurship funding instruments administered by ALTUM.

Various financial instruments managed by ALTUM are available during the EU funds programming period 2014-2020. ALTUM accounts for the loan portfolio on 31.12.2019 do not contain separate information on loans issued to the State capital enterprises so it is not possible to assess the extent to which the State capital enterprises use the financial instruments administered by ALTUM.

#### ALTUM loans for entrepreneurship support

The table below contains information on ALTUM loan portfolio on 31.12.2019.

Table 62. Data on the introduction of financial instruments to support entrepreneurship

Financial product	CoM Regulation	ALTUM loan portfolio on 31.12.2019, EUR
A1 - Loan programme for agricultural, rural and fisheries entities	24.07.2018 CoM Regulation No 446	2 483 000
A2- Parallel loans to improve the competitiveness of entities (fund of funds loan)	15.07.2016 CoM Regulation No 469	6 994 000
A3 - Micro loans and start-up loans (fund of funds loan)	31.05.2016 CoM Regulation No 328	11 318 000
A4 - Loans to promote the development of small (micro), small and medium-sized entities and agricultural services co-operative societies	15.09.2009 CoM Regulation 1065	69 371 000
A5 - Granting of loans for the purchase of current assets in the agricultural, forestry, fishery and aquaculture sectors	03.12.2019 CoM Regulation No 582	9 003 000
A6 - State aid for the purchase of agricultural land for the production of agricultural products	22.05.2018 CoM Regulation No 295	68 081 00
A7 - Microloans and grants within the framework of the individual project "Microcrediting Programme" of the Latvian-Swiss cooperation programme	06.09.2011 CoM Regulation No 698	897 000
<b>Total</b>		<b>168 147 000</b>

Source: ALTUM, data on 31.12.2019.



## Guarantees issued by ALTUM

The following table contains information on guarantees issued by ALTUM on 31.12.2019.

Table 63. Data on the implementation of guarantees issued by ALTUM

Aid programma	Number	Amount of the guarantee agreement, EUR	Amount of the financing agreement, EUR
B1 - Cumulative credit guarantees	74	30 044 591	64 891 499
B1 - Guarantees for large traders	30	10 931 009	18 700 951
B1 - Credit guarantees for farmers	83	12 166 980	30 211 409
B1 - SME credit guarantees	496	98 374 524	159 569 856
B2 – Portfolio guarantee	216	10 412 110	13 122 169
<b>Total</b>	<b>899</b>	<b>161 929 216</b>	<b>286 495 884</b>

Source: ALTUM, data on 31.12.2019

## Usage of ALTUM financial products

20 state enterprises were surveyed during the assessment. None of the respondents used ALTUM's financial products, and all enterprises obtained all funding needed from banks. Reasons for not using ALTUM funding are: high interest/commission costs, lengthy application process, administrative burden, limited information on the availability of funding.

### 8.3.5. Financing provided by commercial banks



#### Financing provided by commercial banks

- According to information on banks' web pages, banks provide different financial services to enterprises, however, no information is available on the amount of loans issued by banks to State capital enterprises.

## Macroeconomic data

According to information provided by Financial and Capital Market Commission, total credit portfolio of non-financial enterprises is approximately EUR 6.2 billion (30.09.2019). The Financial and Capital Market Commission does not provide separate accounting by enterprise size and ownership.

Table 64. Domestic credits. Loan portfolio of domestic non-financial enterprises in the breakdown of economic sectors (19) (gross carrying amount of EUR thousand)

Economic sectors	30.09.2018, EUR	30.09.2019, EUR	Breakdown (%) on 30.09.2019
<b>Economic sectors</b>	<b>6 444 390</b>	<b>6 186 036</b>	<b>100%</b>
A Agriculture, forestry and fisheries	759 336	704 949	11.4
D Electricity, gas and heating	456 156	502 584	8.1
H Transport and storage	678 467	683 095	11.0
J Information and communication services	149 782	125 441	2.0
L Real estate operations	1 644 071	1 789 140	28.9
M Professional, scientific and technical services	96 54	34 651	0.6
N Activities of administrative and service services	121 113	82 362	1.3
O Public administration and defence	30 117	15 798	0.3
P Education	10 322	11 084	0.2
Q Health and social care	42 471	42 742	0.7
R Art, entertainment and recreation	18 401	14 408	0.2

Source: FCMC <https://www.fktk.lv/statistika/kreditiestades/ceturksna-parskati/>, author calculations

According to the survey results, all State capital enterprises have obtained the necessary financing, therefore it is not planned to create separate financial instruments for State capital

enterprises. If necessary, State capital companies can use ALTUM financial instruments designed to support entrepreneurship.

## 8.4. Science, research and innovation

High-skilled **research and industry** researchers, specialists, entrepreneurs (human capital), access to research and development infrastructure, an incentive legal base and sufficient, accessible, adequate and promotional funding constitute innovation capacity<sup>211</sup>. Innovation capacity ensures the use of the technological, social, demographic challenges of the Latvian economy as opportunities for development. It is important to create knowledge- and technology-intensive, exportable products and services that outperform products on the market for analogue or comparable applications. At the same time, to develop the manufacturing industry, to promote the spread of high technologies in traditional industries, focusing on the fields of smart specialization. The financial instruments are generally not applicable and planned for the investments in research and development under the responsibility of the Ministry of Education and Science planned in the draft OP, as the level of technology readiness of the developed solutions does not exceed TRL 5.

The report includes recommendations regarding funding to be allocated to financial instruments and recommendations for financial instruments. It should be noted that the final decision on the establishment of financial instruments and the fund raising depends on the approved Operational Programme and the planned aid intensity (under development).

Table 65. Summary of innovation sector

<b>Policy priorities</b>	<ul style="list-style-type: none"> <li>• Focus on smart specialisation by developing knowledge and technology-intensive, export-capable products and services.</li> <li>• Involvement and linking of scientists and businesses, facilitating cooperation in addressing the challenges of Latvia and Europe.</li> </ul>
<b>Group of beneficiaries</b>	<ul style="list-style-type: none"> <li>• According to the Register of Scientific Institutions, there are 68 scientific institutions operating in Latvia on 01.06.2020, most of which are in Riga.</li> <li>• In 2018, more than half of scientific staff was employed in higher education institutions.</li> <li>• The activities of the scientific institution shall be carried out in the fields of smart specialisation as well as in other areas, including social sciences, humanities, defined as a horizontal field.</li> <li>• Key challenges:               <ul style="list-style-type: none"> <li>○ ensuring the renewal and quality development of human capital by promoting international cooperation;</li> <li>○ promoting scientific and industrial cooperation;</li> <li>○ building an efficient and stimulating investment eco-environment;</li> <li>○ promoting technology transfer and commercialisation of innovation.</li> </ul> </li> <li>• There were 1588 innovative enterprises in Latvia in 2018.</li> <li>• The group of beneficiaries in the field of innovation is not only innovative enterprises, but those who do not qualify for the characteristics of an innovative enterprise at the time of applying for support, but plan to introduce innovation.</li> </ul>
<b>Financing needs</b>	<ul style="list-style-type: none"> <li>• There is a need for funding for research and development, for implementing innovation projects for both scientific institutions and entrepreneurs, by promoting cooperation throughout the process of developing and marketing innovation.</li> <li>• Funding is also needed to ensure adequate pay for scientific staff, including doctoral candidates and post-doctoral staff.</li> </ul>

<sup>211</sup>[https://www.izm.gov.lv/images/zinatne/IZM\\_Viedas\\_Specializ\\_strategija\\_2013.pdf](https://www.izm.gov.lv/images/zinatne/IZM_Viedas_Specializ_strategija_2013.pdf)

<p><b>Financing available</b></p>	<ul style="list-style-type: none"> <li>• Grant programmes administered within the EU funds programming period 2014-2020 provide funding for infrastructure development, practical research, development of study programmes, attracting human capital and growth (on 31.08.2020, funding for research, development and innovation in Latvia is EUR 455 646 347).</li> <li>• Funding provided by the European Investment Bank for research (particularly in universities) within the framework of EIBURS and STAREBEI programmes (up to EUR 100 000 is available under the EIBURS program).</li> <li>• The InnovFin programme provides funding for research and innovation projects (EUR 411.50 million in 2018, EUR 373.00 million in 2019, EUR 692.011 million in 2020) as blended instruments (as part of the Horizon 2020 programme).</li> <li>• Horizon 2020 funding for science and applied research (Horizon 2020 programme - EUR 57 372 197 471, in Latvia EUR 89 325 497).</li> </ul>
<p><b>Market failure, investment needs</b></p>	<ul style="list-style-type: none"> <li>• There is a need for funding innovation in the prototyping and testing phase (TRL 5 to TRL 7-8).</li> <li>• Structured financial instruments are not available for all enterprises involved in innovations.</li> <li>• Tools are needed to help build value chains from laboratory research to mass production, including enterprises improving the technological base.</li> <li>• According to the survey results, 17% of enterprises plan to invest in improving products and services in the next 5 years (63% of respondents are planning investment, investment volume up to EUR 100 000).</li> <li>• 14% of enterprises plan to invest in productivity growth over the next 5 years (56% of respondents planning to invest, up to EUR 100 000).</li> <li>• 9% of enterprises plan to invest in innovation and/or innovative products in the next 5 years (54% of respondents who plan to invest up to EUR 100 000).</li> </ul>
<p><b>Financial instruments</b></p>	<ul style="list-style-type: none"> <li>➤ There are 16 measures in NDP2027 covering activities related to scientific development and innovation with a total funding of more than EUR 700 million.</li> <li>➤ <b>EUR 70 million are planned to be allocated within NAP2027 measure No 81.</b> Given that the activities of the planned measures and their funding are not yet clearly identified at the time of the ex-ante evaluation specific financial instruments are not being offered. The evaluation includes recommendations for the use of financial instruments.</li> </ul>

### 8.4.1. Policy Priorities and Smart Specialisation Strategy



#### Summary of policy priorities included in the planning documents

**Building knowledge and technology-intensive economy.**  
 Promotion of **innovation ecosystem**, promoting sectorial cooperation.  
 Achievement of **Smart Specialisation Strategy goals**.

As stated in the NDP2027<sup>212</sup>, the development of a knowledge and technology-intensive economy requires a significant increase in state aid for research, support for scientific institutions, research groups, individual projects, improvement of the quality of education system, and the development of the

<sup>212</sup> <https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027galaredakcija.pdf>

digital community. The involvement of scientists and businesses should also be encouraged, as well as cooperation in addressing the challenges of Latvia and Europe, including through the use of solutions in business, the creation of new products, ensuring the development of the economy and the growth of potential. It is international cooperation and engagement in world developments that are referred to as a prerequisite for science excellence, new knowledge and resources, while developing strong research organisations and enterprises. Given the limited amount of resources, the State will focus them on knowledge areas with the highest potential to develop knowledge and technology-intensive, export-intensive products and services, while developing the manufacturing industry and promoting high-tech penetration in traditional industries (including security and defence).

The Smart Specialization Strategy is an economic development strategy focusing on research, innovation and financial resources in priority areas of specialization. The Smart Specialization Strategy in Latvia consists of three components - human capital and public innovation capacity building, the innovation system, and the "roadmap" for change. There are defined 5 smart specialization areas in Latvia:

- knowledge-intensive bioeconomy;
- smart energy;
- Information and Communication Technologies (ICT);
- biomedical, medical technologies, biopharmaceutical and biotechnology;
- intelligent materials, technologies and engineering systems.

The information report "Monitoring the Smart Specialisation Strategy"<sup>213</sup> is the second assessment of the implementation of the Latvia's Smart Specialisation Strategy (RIS3). This includes information on trends, objectives and challenges of Latvia's economy, progress in the implementation of RIS3 programmes and measures and progress towards achieving targets, as well as analysis of RIS3 indicators and recommendations for the development of RIS3 in 2021-2027. In the period 2014 - 2020, investments of EUR 499 million were made in the instruments of the MoE and the Ministry of Education and Science. This is directly linked to the achievement of the RIS3 objectives, particularly in research and development. The Ministry of Agriculture has also contributed to the achievement of RIS3 objectives - research and development in the field of bioeconomy, thus the largest investments have been made in the fields of smart materials and bioeconomy.

The results of the macro-level analysis indicate that the transformation of Latvia's economy to higher added value is progressing, but to a lesser extent than expected for RIS3. It is concluded that the research and development programmes for the programming period 2021-2027 should identify a thematic approach considering the specific challenges of the areas, needs and niche specialisation. It is planned that the implementation of the EU funds programming period 2021-2027 should contribute to the development of the ecosystem of strategic value chains by ensuring structured dialogue and coordinated action by all stakeholders, by creating an effective collaborative platform.

It is noted that it is necessary to ensure greater coherence in the implementation of the RIS3 monitoring system at an early stage, by defining and harmonising the objectives and targets to be achieved and their levels of detail, by aligning information systems. It is also planned to focus on incentives to promote scientific excellence while also promoting the internationalisation of research and development programmes. Capacity building and technology transfer are intended to be promoted by promoting excellence.

#### 8.4.2. National Development Plan 2021-2027



##### NDP2027 measures

- **16 NDP2027 measures** (funding source – ERDF and EAGF) with a total funding of EUR 700 million, which relate to scientific development and innovation, were analysed.

213 [https://www.izm.gov.lv/images/IZMunEM\\_Zin\\_RIS3\\_110220.251\\_3.docx](https://www.izm.gov.lv/images/IZMunEM_Zin_RIS3_110220.251_3.docx)

- It is recommended to evaluate the possibilities of implementing **NDP2027 measure No 81** - "Fund of Funds" by using financial instruments.

NDP2027 outlines priorities for knowledge and technology-intensive economic development, as well as recommending the level of funding and its sources for priority implementation. As part of the assessment, all NDP activities relating to science, research and innovation were analysed. **Source of funding: ERDF and EAGF.** The funding indicated is total, including both the planned funding of EU funds and national co-financing, which will depend on the aid intensity.

### 8.4.3. Group of beneficiaries – scientific institutions



#### Group of beneficiaries – scientific institutions

- **There are 68 scientific institutions in Latvia**, 52 out of 68 scientific institutions are in Riga.
- Most scientific institutions are in social sciences (17), engineering and technology (15) and humanities and arts (11).

In accordance with the Law on Scientific Activity<sup>214</sup>, **scientific institutions** are scientific institutes, higher education institutions, commercial companies, and also other institutions in the articles of association, by-law or constitution of which scientific activity and participation in the process of acquiring and improving scientific qualification is provided for and which are registered in the register of scientific institutions. A scientific institution shall have at least five persons with a doctoral degree in the field of research that conforms to the activities of the scientific institution.

In 2020 there were 68 scientific institutions in Latvia, the report contains information on all scientific institutions in Latvia (according to the Register of Scientific Institutions (NZDIS) on 11.07.2020). 52 out of 68 scientific institutions, or 76%, are located in Riga, 3 SI (4%) are located in Vidzeme statistical region, 3 in Zemgale statistical region, 2 (3%) in Latgale statistical region, and 2 more in Kurzeme statistical region. A total of 6 scientific institutions, 8% of the total, are located in Pierīga.

In 2018, 61% of scientific staff are employed in universities, 21% in enterprises, while 18% are employed in national scientific institutes<sup>215</sup>.

When planning scientific development and commercialisation, as well as the type of financing provided (grant or loan), the level of innovation and the need for funding from the various products to be developed is important. It is characterised by the level of technology readiness<sup>216</sup> as identified by the European Commission<sup>217</sup> under Horizon 2020:

- **TRL 1 – basic principles observed:** the results of the scientific study allow for the opening of applied research and technological development works;
- **TRL 2 – technology concept formulated;**
- **TRL 3 – experimental proof of concept:** research and development undertaken (analytical laboratory studies) to confirm forecasts for technology components;
- **TRL 4 – technology validated in lab:** integration of key technological components has been carried out to check their interaction in the laboratory environment;
- **TRL 5 – technology validated in relevant environment** (industrially relevant environment in the case of key enabling technologies): technological components are integrated with relatively real supporting elements so that technology can be tested in an artificially created environment;

214 <https://likumi.lv/ta/id/107337-zinatniskas-darbibas-likums>

215 [http://www.lza.lv/images/stories/Pasakumi/LZA\\_300620\\_FINAL.pdf](http://www.lza.lv/images/stories/Pasakumi/LZA_300620_FINAL.pdf)

216 [https://www.izm.gov.lv/images/zinatne/RIS\\_IKT\\_0406.PDF](https://www.izm.gov.lv/images/zinatne/RIS_IKT_0406.PDF)

217 [https://ec.europa.eu/research/participants/data/ref/h2020/wp/2014\\_2015/annexes/h2020-wp1415-annex-g-trl\\_en.pdf](https://ec.europa.eu/research/participants/data/ref/h2020/wp/2014_2015/annexes/h2020-wp1415-annex-g-trl_en.pdf)

- **TRL 6 – technology demonstrated in relevant environment** (industrially relevant environment in the case of key enabling technologies): the system model or prototype has been tested in an artificially created environment;
- **TRL 7 – system prototype demonstration in operational environment:** a prototype of a system that is or is only marginally different from the planned system has been tested in a real operating environment;
- **TRL 8 – system complete and qualified:** it has been demonstrated that the technology operates in its final form and under the planned conditions (the last level of technological development);
- **TRL 9 – actual system proven in operational environment** (competitive manufacturing in the case of key enabling technologies; or in space).

Basic science generally corresponds to the technology readiness level 1-2, industrial research - level 2-6, but experimental development generally corresponds to levels 6-9 of technology readiness<sup>218</sup>. At TRL level, a source of research funding can also be identified by funding fundamental science from public funding and market entry and commercial financing from private funding.

#### 8.4.4. Group of beneficiaries – large enterprises



##### Group of beneficiaries – large enterprises

- There are **250 economically active large enterprises** in Latvia.
- **A community of four initiatives has been set up under the Innovation Initiative for Excellent Businesses:** The Innovation Ecosystem Community, the Big Data Community, the Research and Development Community, the Technology Community.

According to data provided by CSB, there were **250 economically active large enterprises** (over 250 employees) in Latvia in 2018. Dominant NACE sectors are:

- C Manufacturing (56 enterprises);
- G Wholesale and retail; motor vehicles and motorcycles repair (41 enterprise);
- H Transport and storage (35 enterprises).

While assessing the available information on staff of large enterprises, 133 thousand persons are employed in total, the value added of companies amounts to EUR 3 556 570 thousand.

According to the survey results (3099 respondents), there are mainly small (50.7%) and micro-enterprises (44.5%). 4.4% of respondents are medium-sized enterprises and 0.4% are big enterprises. In 2016-2019, 7 respondents (large enterprises) required for additional funds, of which only 2 enterprises needed funding to create new products on the market.

During the EU funds programming period of 2021-2027, the EU funds should be assessed as various measures planned for NDP2027 to support the innovation initiatives of the excellent enterprises in Latvia. Research and innovation is an intangible asset covering all sectors, from large enterprises to SMEs across the value chain, particularly by helping SMEs (in cooperation with other organisations) to exploit their potential and access strong research and innovation ecosystems<sup>219</sup>. The competitiveness of European industry is closely linked to the development and capacity of its research and innovation. Faced with fierce competition from other parts of the world, Europe must step up its research and innovation efforts to maintain a leading role in research and innovation and to maintain its global leadership in industry.

In general, the involvement of all research and development stakeholders – SMEs, large enterprises, universities and scientific institutes – should be encouraged, thereby achieving positive results, gaining visibility. It is particularly important to involve large enterprises which tend to avoid sharing knowledge and engaging in collaborative projects. It should be noted that the participation of universities and

218 <https://www.rtu.lv/lv/valorizacija/petniekiem/tehnologiju-gatavibas-limeni>

219 [https://www.industry4europe.eu/assets/Uploads/Publications/Industry4Europe\\_Joint-Paper\\_November-2019.pdf](https://www.industry4europe.eu/assets/Uploads/Publications/Industry4Europe_Joint-Paper_November-2019.pdf)



scientific institutes in research projects, programmes have other objectives, mainly the acquisition and exploration of new knowledge and technology in key areas of activity. It is concluded that cooperation between different organisations can contribute to a beneficial additional impact, but at the same time create conflicts<sup>220</sup>.

#### 8.4.5. Group of beneficiaries – SMEs



##### Group of beneficiaries – small and medium sized enterprises

- ~ 175 thousand economically active small and medium sized enterprises operate in Latvia.

According to data provided by CSB, there were **175 thousand economically active small and medium sized enterprises** (up to 250 employees) in Latvia in 2018, including microenterprises (most of SMEs – 94%). Dominant NACE sectors are:

- A Agriculture, forestry, fisheries (26 thousand enterprises);
- G Wholesale and retail; motor vehicles and motorcycles repair (27 thousand enterprises);
- M Professional, scientific and technical services (20 thousand enterprises).

A total of 508 thousand persons are employed by SMEs. Persons are primarily employed in enterprises with a workforce of 0 to 9 (212 thousand or approximately 42%) and between 50 and 249 employees (141 thousand employees or about 12%).

As part of the assessment, 3099 enterprises were surveyed, including 1276 (or 42%) respondents – small and medium sized enterprises, which required additional funding during the period 2016-2019, while new products will be developed by 320 respondents, or about 10%.

#### 8.4.6. Funding provided within EU funds programming period 2014-2020



##### Funding provided within EU funds programming period 2014-2020

- During the EU funds programming period 2014-2020, a significant amount of funding is allocated for the development of science and innovation, including support for research, innovation, entrepreneurship and the introduction of new products into production.

EU funds programming period 2014-2020 funding has been channelled to science, innovation development and development of new products. Information on the relevant specific aid objective (SO) measures implemented through grant funding was analysed, and, in many cases, correlates with targets and groups of beneficiaries with the priorities of the EU funds programming period 2021-2027, therefore part of the SO activities can also be implemented during the programming period 2021-2027- such as 1.2.1.4 SO and 3.1.1.5 SO but by using financial instruments.

220 <https://link.springer.com/content/pdf/10.1007/s10961-020-09814-5.pdf>

### 8.4.7. Funding administrated by ALTUM



#### Funding administrated by ALTUM

- ALTUM administers loans to different groups of entrepreneurs with a total loan portfolio on **31.12.2019 of about EUR 168 million**. ALTUM does not provide specialised financial products for scientific institutions and deployment of innovation. Under the terms of ALTUM loan programmes, financial instruments can potentially be used only by scientific institutions that, according to their legal status, are commercial enterprises. The reports do not identify the scientific institutions separately, so it is not possible to determine whether any of them have used ALTUM lending services.
- ALTUM has issued guarantees for a total amount of **approximately EUR 160 million on 31.12.2019**, but the guarantee programmes implemented by ALTUM are not specifically intended for scientific institutions. Under the terms of the guarantee programmes, they may potentially be used only by scientific bodies which, according to their legal status, are commercial companies. The reports do not identify the scientific bodies individually, so it is not possible to determine whether any of them have used ALTUM guarantees.
- Seed capital, start-up capital and growth capital funds are available to promote the establishment, development and competitiveness of economic operators, as well as an accelerated fund to promote the establishment, development and competitiveness of economic operators.

During the EU funds programming period 2014-2020, various financial instruments administered by ALTUM are available. ALTUM financial instruments are intended for the development of the commercial and social spheres, the beneficiaries of which are legal and natural persons - enterprises and natural persons within the framework of social development programmes. The use of ALTUM products by the scientific authorities is limited. The information on the loan portfolio on 31.12.2019 does not separate information on loans and guarantees issued to scientific institutions, therefore it is not possible to assess whether scientific institutions use the financial means administered by ALTUM.

#### Risk capital administered by ALTUM

Two risk capital products have been created within ALTUM:

- **R.1. – Seed capital, start-up capital and growth capital fund** to promote the establishment, development and competitiveness of enterprises;
- **R.2. – Acceleration fund** to promote the establishment, development and competitiveness of enterprises.

**R.1.** - planned financing of **seed capital, seed capital and growth capital** is EUR 60 million, including EUR 32 200 000 for the venture capital (3.1.2. SO measure 3.1.2.1. "Increase the number of high-growth enterprises"). Beneficiaries are enterprises, agricultural service cooperative societies. Seed capital investments are provided to enterprises to finance the establishment and development.

**R.2. - Acceleration fund to promote the establishment, development and competitiveness of enterprises** - accelerated services, cash investments in the form of loans, capital and quasi-equity. Funding is provided from ERDF SO 3.1.2.2. "Technology Accelerator" for a total of EUR 15 000 000.

### 8.4.8. Financing provided by commercial banks



#### Financing provided by commercial banks

- According to the FCMC, the loan portfolio is approximately **EUR 33.6 million** for professional, scientific and technical services enterprises.

The evaluation provides information on the total loan portfolio by economic sectors. As shown in the table below, at the end of September 2019, the professional, scientific and technical services sector accounted for 0.6% of total funding, or around EUR 33.6 million.

Table 66. Domestic credits. Loan portfolio of domestic non-financial corporations in professional, scientific and technical sector services (gross carrying amount of EUR thousand)

Economic sectors	30.09.2018, EUR	30.09.2019, EUR	Breakdown (%) on 30.09.2019
<b>Economic sectors</b>	<b>6 444 390</b>	<b>6 186 036</b>	<b>100%</b>
<b>M Professional, scientific and technical services</b>	84 185	33 613	0,6

Source: FCMC, <https://www.fktk.lv/statistika/kreditiestades/ceturksna-parskati/>, author calculations

By analysing publicly available information from major banks (Swedbank, Luminor, SEB banka, Citadele), it is concluded that special financial instruments are not offered to finance the professional and scientific services sector. In the analysis of industry, it is concluded that commercial banks are wary of financing innovative products and technologies.

### 8.4.9. Funding provided by EIB, EIF and other institutions



#### Funding provided by EIB, EIF and other institutions

- **InnovFin programme** – loans, equity products, consultations.
- Planned **InvestEU programme** with EUR 38 billion EU guarantee.

During EU funds programming period 2014-2020, funding from InnovFin, EIB and EIF is available to scientific institutions and innovative enterprises. The InnovFin programme<sup>221</sup> provides funding (as blended instruments) for research and innovation projects as part of the Horizon 2020 programme. The programme proposes the following:

- **Loan products:** loans and hybrid loans - loans with a grant element for the public, private sector and development financial institutions for the implementation of development programmes;
- **Equity products** – quasi-equity or subordinated risk loan with maturity, investments in venture capital funds;
- **Consultancy services**, technical and financial expertise.

**The EIB will contribute and finance the activities of the Transition Fund during the programming period 2021-2027.** The Transition Fund will support economic diversification and reconversion of EU territories, including productive investments in small and medium-sized enterprises, the creation of new enterprises, research and innovation, environmental rehabilitation, clean energy, the promotion and retraining of workers, job search assistance and the inclusion of active job seekers, and the transformation of existing carbon-intensive plants if these investments reduce significantly emissions and workplaces are protected.

The EIB Group will provide 75% of the financial resources to boost InvestEU's private and public investment in Europe. In addition, the EIB will provide the necessary banking expertise to all deployment partners and will provide a risk management function for the whole programme.

### 8.4.10. European Research Programme Horizon 2020



#### Funding provided within European Research Programme Horizon 2020

221 <https://www.eib.org/en/products/blending/innovfin/index.htm>

## ➤ Horizon 2020 funding – around EUR 80 billion.

**Horizon 2020** is the largest EU research and innovation programme with available funding of around EUR 80 billion dedicated to the EU funds programming period 2014-2020. In addition to Member States and international financial institutions, including EIB, through funds including private investment, Horizon 2020 provides funding for discoveries, innovation and technological advances of global importance, transferring ideas from research laboratories to production enterprises.

Under Horizon 2020, EUR 45 billion are invested in projects over the 5-year period (until 2019), including 59% were issued to educational institutions and research organisations. On average, 200 000 project applications are submitted per year, with 1600 new patent applications being submitted in the course of the programme projects. 83% of grant recipients admit that without EU support they would not have carried out their projects. It is estimated that, for the period up to 2030, each euro invested under the programme will deliver a return on GDP of EUR 6-8.5.

### 8.4.11. Calculation of funding needed

#### Financing needed for investments in innovative products

The market failure was determined according to the survey results of enterprises, finding out the opinion of potential beneficiaries. According to the survey results, 1211 out of 3099 or 39% of enterprises anticipate that additional funding will be needed in the next five years, including 284 respondents or 9% plan to invest in innovations and / or innovative products. In addition, 532 enterprises or 17% plan to invest in improving products and services, which may also be related to innovation. 430 enterprises or 14% plan to invest in productivity improvements, which may also be related to innovation.

According to the survey results, funding for innovation is needed for **113 micro enterprises for a total maximum amount of about EUR 42 million, 158 small enterprises for a total amount of about EUR 100 million, 16 medium-sized enterprises for about EUR 40 million, 2 large enterprises for about EUR 6 million. According to the results, the total maximum amount of financing required is approximately EUR 186 million**, without extrapolating the data, as only the most active enterprises could seek financing for investment in innovations.

Scientific institutions, given their contribution to basic science and feasibility studies, should be funded in the form of grants.

#### Risk capital investments

The assessment surveyed 3,099 enterprises. 100 or 3.2% needed capital investment. Risk capital was mainly required by micro and small enterprises.

It is assumed that the most active enterprises required for equity investments, thus no extrapolation of data is made. The total required financing is calculated based on the actual survey results, using the upper limit of the financing interval. According to calculations and assumptions (maximum amount of funding and higher total number of enterprises), the amount of funding required is around **EUR 80 million**.

In addition, the data were extrapolated to the whole set of enterprises with the total required funding of approximately **EUR 117 million**. 1.2% of all micro-enterprises have required capital investment (a total of 138 252 micro-enterprises, excluding agricultural enterprises) or 1 659 micro-enterprises have required equity investment (calculations are based on extrapolating the results of the entrepreneurship survey to the whole set of beneficiaries). Assuming that the investments required for **micro-enterprises** amounted to EUR 50 000, the total funding required - **equity investments - is approximately EUR 83 million**.

1.9% of all small enterprises have required for equity investment (a total of 9 084 small enterprises, excluding agricultural enterprises) or 172 small enterprises have required equity investment (calculations are based on extrapolating the results of the entrepreneurship survey to the whole set of beneficiaries). Assuming that the investment required for **small enterprises** was EUR 200 000, the total funding required - **equity investment - is approximately EUR 34 million**.

## 8.4.12. Financial products proposed

### Promoting the development of strategic value chains

**EUR 70 million** will be allocated to support innovation through financial instruments under the planned **NDP2027 measure No 81**. Under the measure, the following financings are planned:

- **Combined financial instrument for purchasing innovative equipment.** Indicative funding is EUR 25 000 000 (loan and grant component), average financing under the combined financial instrument – EUR 1 500 000, out of which 20% would be grant component.
- **Loans for R&D measures: technology development, prototyping, etc.** Indicative funding – EUR 25 000 000, with an average loan of EUR 150 000.
- **Loans for the development of modern technologies.** Indicative funding – EUR 20 000 000, with an average loan of EUR 2 000 000.

## 8.4.13. State aid issues

During the EU funds programming period 2014-2020, EU funds provide support to entrepreneurship in the form of grants, loans, guarantees and risk capital, so similar State aid mechanisms could also be used during the EU funds programming period 2021-2027. In addition, other State aid regulations may be taken into account.

## 9. PROPOSED OUTPUT AND RESULT INDICATORS TO BE INCLUDED IN THE OPERATIONAL PROGRAMMES AND USED FOR THE ASSESSMENT OF EFFICIENCY AND EFFECTIVENESS OF FINANCIAL INSTRUMENTS

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### 9.1. Assessment of the intervention results

Assessment of the intervention results applies to all five EU funds included in the scope of the assessment. Information on output and result indicators, as well as recommendations for the aggregation of information on financial instruments level is provided below. Before aggregating information at project level, it is advisable to obtain guidance from the EC on the necessary information to be collected on loans, portfolio guarantees and other types of financial instruments, and requirements to aggregate the information on the intervention level when using financial instruments.

Article 2 of the Common Provisions Regulation defines output and result indicators<sup>222</sup>:

- **'output indicator'** means an indicator to measure the **specific deliverables of the intervention**;
- **'result indicator'** means an indicator to measure the **short term effects of the interventions** supported, with particular reference to the direct addressees, population targeted or users of infrastructure.

Directorate General for Regional and Urban Policy has presented common output and result indicators concerning the regional policy result framework for the EU funds programming period 2021-2027<sup>223</sup>. Common concepts for output and result indicators throughout the Cohesion Policy (ERDF, CF, ESF+) have been introduced, as well as a complete and more comprehensive list of common output indicators and new common result indicators. It is noted that the general output indicators measure the specific deliverables of the intervention. In contrast, the result indicators measure the (short-term) effects of the interventions supported (with reference to the direct addressees, population targeted or users of infrastructure).

For the EU funds programming period 2021-2027, EC proposes consolidation of indicators<sup>224</sup>, setting out:

- results at intervention level;
- common indicators for outputs and results;
- use of common indicators (when relevant);
- programme-specific indicators, if necessary;
- broader policy coverage;
- data collection (from projects).

Aggregation of SME project results throughout the project, thereby obtaining the overall result of EU intervention can be mentioned as an example of monitoring of result indicators. Monitoring of common indicators is primarily cumulative reporting (outputs, results), followed by aggregation at the programme level, with the last step – reported in implementation at OP level.

In accordance with Article 12 of the Common Provisions Regulation, the indicators are included in the result framework of each Member State for monitoring, reporting and evaluation during the implementation of the Operational programme. The result framework includes not only output and result indicators linked to specific objectives in the regulations, but also milestones (to be achieved by the end of the year 2024 for output indicators) and targets (to be achieved by the end of the year 2029 for output and result indicators). As mentioned in the draft Regulation on the European Regional Development Fund and the Cohesion Fund (Article 7), the baseline for output indicators is zero, while the milestones for 2024 and the final targets for 2029 shall be cumulative.

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<sup>222</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0375>

<sup>223</sup><http://www.interact-eu.net/download/file/fid/15054>

<sup>224</sup>[https://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/doc/29112018/6\\_Indicators2021\\_evalnet.pdf](https://ec.europa.eu/regional_policy/sources/docgener/evaluation/doc/29112018/6_Indicators2021_evalnet.pdf)



When implementing projects with financial instruments, it is essential to aggregate information on output and result indicators, as these projects also achieve the intended intervention targets. Particular attention should be paid to the output and result indicators for combined financial instruments with grant and loan components, where the objectives to be achieved are set out for the grant component. EU funds data on the output and result indicators according to the draft Regulations is included below.

In order to meet the EC requirements on reporting, all the information to be reported is included in Annex 3, where breakdown by different funds is included.

The necessary data shall be aggregated by the institution responsible for the administration of the financial instrument and agreed by the Ministry of Finance, as the information accumulated is reflected in the Cohesion Policy Funds Management Information System (CPF MIS) system in order to ensure a united and integrated transfer of data to the EC. The data needed for administration of financial instruments is to be aggregated in the institution responsible for administering financial instruments whilst using the institution's information system since such specific and detailed information cannot be included in the CPF MIS. The information to be transferred to the CPF MIS at least once per month. Before the introduction of financial instruments, it needs to be evaluated whether improvements to the CPF MIS are required and whenever possible, automated data exchange between systems needs to be ensured.

The information creation and transfer to central database is the responsibility of the institution involved in EU funds management. The authority responsible for the implementation of financial instruments needs to evaluate whether changes to existing information systems are necessary to ensure that the requirements of all draft regulations regarding the information to be collected are met.

#### **Output indicators of ERDF and CF**

The common indicators are included in Annex 1 of the proposal for a Regulation of the European Parliament and of the Council on the ERDF and the CF<sup>225</sup>, which are referred to as common output and result indicators. Based on the requirements of the draft Regulation, projects supported through financial instruments need to collect information on at least **8 output indicators** (more detailed information included in the Annex 1). The Annex contains recommendations for the indicators to be aggregated for the projects financed by financial instruments.

Based on the requirements of the draft Regulation, information on at least **23 result indicators** need to be aggregated (more detailed information is included in the Annex 3). The report Annex also contains recommendations regarding the indicators to be aggregated for projects financed by financial instruments.

#### **ESF+ indicators**

Detailed information on the ESF+ output and result indicators is set out in the Annex 3 of the report. When planning the aggregation of the information on projects financed through financial instruments, it must be considered that financial instruments are intended only to support social enterprises, therefore only a small part of the required information should be aggregated.

#### **Output indicators of the EAFRD<sup>226</sup>**

##### **Result indicators (based on interventions supported by the CAP)**

There are 38 result indicators for the various interventions, both for improving overall result and for achieving particular objectives, such as a better supply chain organisation. The inclusion of appropriate climate, environmental targets, such as improving air quality, reducing emissions in the livestock sector, green energy produced in agriculture, forestry, is also essential, thereby contributing to the overall EU objectives.

##### **Output indicators**

35 EAFRD output indicators are defined in CAP interventions. The number of beneficiaries will be significant, as well as the number of young farmers (beneficiaries). In EU funds programming period 2021-2027 it will be essential to promote agricultural activities, promote and inform about agricultural policy for different sectors, for instance, in the beekeeping sector (maintaining/improving the industry).

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<sup>225</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0372>

<sup>226</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0392>

Considering the planned use of financial instruments and the type of financial instruments (combined financial instrument), a large part of the required information on result indicators and output indicators to be collected.

### **EMFF common indicators**<sup>227</sup>

The information to be collected on EMFF achievements according to the draft Regulations, as well as those necessary indicators to aggregate information on the use of financial instruments, are provided in blue in the text below.

- Evolution of volume of landings stemming from stocks assessed at maximum sustainable yield;
- Evolution in profitability of the Union fishing fleet;
- Surface (ha) of Natura 2000 sites, and other marine protected areas under the Marine Strategy Framework Directive, covered by protection, maintenance and restoration measures;
- Percentage of fishing vessels equipped with electronic position and catch reporting device;
- **Evolution in the value and volume of aquaculture production in the Union;**
- **Evolution in the value and volume of landings;**
- **Evolution of GDP in maritime NUTS3 regions;**
- **Evolution in the number of jobs (in full-time equivalent) in the sustainable blue economy;**
- Number of shared operations contributing to the European cooperation on coastguard functions.

## **9.2. Information for assessing the efficiency and effectiveness of financial instruments**

Information on financial instruments is needed not only to evaluate the intervention but also to analyse the efficiency and effectiveness of financial instruments used, which can be assessed at both the EU and national level. Some of the information aggregated can be also used to assess the efficiency and effectiveness of financial instruments used. Information aggregated at the EU level, as well as recommendations on the use of data for analysis of efficiency and effectiveness are presented below.

Directorate General for Regional and Urban Policy reviews the financial instruments of the European Structural and Investment Funds annually<sup>228</sup>, aggregating data on progress in the financing and implementation of the financial instruments. The summaries are based on data provided by the Managing Authorities according to Article 46 of Regulation (EU) No 1303/2013 of the Common Provisions<sup>229</sup>. Article 46 states that the Special Report of the Managing Authority (for each financial instrument) includes:

- Identification of the programme and of the priority axis or measure from which support from the ESI funds is provided;
- Description of the financial instrument and implementation arrangements (**to be used for measurement of effectiveness of FI**);
- Identification of the bodies implementing financial instruments, and the bodies implementing funds of funds where applicable (**to be used for measurement of effectiveness of FI**);
- Total amount of programme contributions by priority or measure paid to the financial instrument;
- Total amount of support paid to the beneficiaries or committed in guarantee contracts according to financial instrument for investments in beneficiaries, as well as management costs incurred or management fees paid, by programme and priority axis or measure (**to be used for measurement of effectiveness of FI**);

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<sup>227</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/? uri = CELEX: 52018PC0390>

<sup>228</sup>[https://ec.europa.eu/regional\\_policy/sources/thefunds/fin\\_inst/pdf/summary\\_data\\_fi\\_1420\\_2018.pdf](https://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/summary_data_fi_1420_2018.pdf)

<sup>229</sup><https://eur-lex.europa.eu/legal-content/LV/TXT/? uri = celex %3A32013R1303>

- The performance of the financial instrument including progress in its set-up and in selection of bodies implementing the financial instrument, including the body implementing a fund of funds **(to be used for measurement of effectiveness of FI)**;
- Interest and other gains generated by support from the ESI Funds to the financial instrument and programme resources paid back to financial instruments from investments and amounts used for differentiated treatment **(to be used for measurement of effectiveness of FI)**;
- Progress in achieving the expected leverage effect of investments made by the financial instrument **(to be used for measurement of effectiveness of FI)**;
- The value of equity investments, with respect to previous years **(to be used for measurement of effectiveness of FI)**;
- Contribution of the financial instrument to the achievement of the indicators of the priority or measure concerned **(to be used for measurement of efficacy of FI)**.

DG REGIO evaluates the number of financial instruments and Operational Programmes implemented, investments made (both total and EU funding), administrative costs, leverage, and the structure of final beneficiaries (entity type). Investments are evaluated within the framework of programmes as well as thematic objectives applicable to each programme:

➤ **ERDF and CF:**

- The number of financial instruments and Operational Programmes implemented;
- Amount of funding: financing from the Operational Programme, costs to final beneficiaries, administrative costs – to be **used to measure the effectiveness of financial instruments**;
- Choice of financial instruments: loan, equity, guarantees, combined instrument, others - to be **used to measure the effectiveness of financial instruments**;
- Leverage effect - to be **used to measure the effectiveness of financial instruments**;
- Type of implementation: directly, fund of funds, financial intermediary, others, to be **used to measure the effectiveness of financial instruments**;
- The number of final beneficiaries, structure (type of economic entity - micro-enterprise, SMEs, etc.) - to be **used for the financial instrument efficiency analysis**;
- For the EU funds programming period 2014-2020, stated mainly for the thematic objectives 1, 3, 4, but also for Objective 2 and 5-9;
- Indicate the closing date of the ex-ante evaluation, the process of the selection process of the financial instrument implementer, the date of the financing agreement.

➤ **ESF and YEI:**

- The number of financial instruments and Operational Programmes implemented;
- Amount of funding: financing from the Operational Programme, costs to final beneficiaries, administrative costs – to be **used to measure the effectiveness of financial instruments**;
- Choice of financial instruments: loan, equity, guarantees, combined financial instrument, others - to be **used to measure the effectiveness of financial instruments**;
- Leverage effect - to be **used to measure the effectiveness of financial instruments**;
- Type of implementation: directly, fund of funds, financial intermediary, others, to be **used to measure the effectiveness of financial instruments**;
- The number of final beneficiaries, structure (type of economic entity - micro-enterprise, SMEs, etc.) - to be **used for the financial instrument efficiency analysis**;
- For the EU programming period 2014-2020, stated mainly for the thematic objectives 8, 9, 10;
- The closing date of the ex-ante evaluation, the process of the selection process of the financial instrument implementer, the date of the financing agreement.

➤ **EAFRD:**

- The number of financial instruments and regional Operational Programmes implemented;  
Amount of funding: financing from the Operational Programme, costs to final beneficiaries, administrative costs – to be **used to measure the effectiveness of financial instruments**;
- Choice of financial instruments: loan, equity, guarantees, combined instrument, others - to be **used to measure the effectiveness of financial instruments**;
- Leverage effect – to be **used to measure the effectiveness of financial instruments**;
- Type of implementation: directly, fund of funds, financial intermediary, others - to be **used to measure the effectiveness of financial instruments**;
- The number final beneficiaries, structure (type of entity – micro-enterprise, SMEs, etc.) – to be **used for the financial instrument efficiency analysis**;
- The area of activity of the final beneficiaries, the agricultural area:
  - < 5 ha;
  - 5-10 ha;
  - 10-20 ha;
  - 20-50 ha;
  - > 50 ha;
  - total area;
- The sector of activity of the final beneficiaries must be indicated;
- The projects have been implemented under the thematic objectives 3, 4, 6, 8.

➤ **EMFF:**

- Purpose of the financial instruments implemented;
- Financial volume: EMFF aid intensity (and funding, EUR), the total amount of funding to **be used to measure the effectiveness of financial instruments**;
- Type of financial instrument: loan, guarantee, other - to be **used to measure the effectiveness of financial instruments**;
- Implementation of the financial instrument: directly, fund of funds, others - to be **used to measure the effectiveness of financial instruments**;
- Number of final beneficiaries - to be **used for analysis of the effectiveness of financial instruments**;
- The funding paid to final beneficiaries - to be **used for the analysis of the effectiveness of financial instruments**;
- For the EU funds programming period 2014-2020 the EMFF's financial instruments are included in the thematic objective 3.

The information to EC should be provided on financial instruments and elements such as eligible expenditure by type of financial product, management costs and fees declared as eligible expenditure, private and public sector resources broken down by type of financial product amount (mobilised in addition to the funds), as well as interest and other income from financial instruments funds support and the resources eligible for this support.

### **Leverage effect**

Regarding financial instruments, it is essential to measure the leverage effect for planned and used financial instruments, considering the EC guidelines<sup>230 231</sup>, in order to ensure the most efficient EU funds investment.

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230[https://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/guidance\\_leverage\\_reporting\\_en.pdf](https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_leverage_reporting_en.pdf)

231[https://www.fi-compass.eu/sites/default/files/publications/Reporting\\_template\\_presentation\\_June\\_2017.pdf](https://www.fi-compass.eu/sites/default/files/publications/Reporting_template_presentation_June_2017.pdf)

## **Management information**

In addition to the information on financial instruments required by the EC, management information can be aggregated to assess the efficacy and effectiveness of each financial instrument. The efficiency assessment requires information on the market failure - in which areas funding is not available, what is the profile and characteristics of the beneficiary group, the amount of funding required per beneficiary, the cost of the financial product to the final beneficiary. Using various data acquisition platforms, such as the Rural Support Service client database, the State Revenue Service client database, to conduct market research once a year, if necessary, cooperating with various industry associations. Annual surveys can be designed to assess the need for individual financial products (questions would be related to specific financial products) or for economic trends or the market situation as a whole. The obtained results are comparable with existing financial products.

## **Process effectiveness**

In terms of effectiveness, internal operational processes should be assessed: application processing and decision-making speed, funding application and agreement administrative costs. Summarization of the cost of a financial product using management information and specific cost drivers by which costs are allocated to the financial product, such as the number of applications processed. Measurement the efficiency and costs of internal processes by identifying opportunities for process improvement once a year.

In terms of efficiency, the ratio of planned financial resources to be invested can be assessed, as well as the financial product itself in terms of leverage.

## **Customer management effectiveness**

Regarding the processing of the project application, it is recommended to acquire the following data: date of application, dates of requesting additional information, date of decision, date of agreement, type of communication (face-to-face, e-mail, digital platforms, etc.). During the agreement signature phase the following information can be aggregated: periodicity of reporting, dates of requesting additional information, type of communication (face-to-face, e-mail, digital platforms, etc.). The obtained information is stored in a data warehouse, standard reports can be created, including information search parameters, for example, financial product, dates. The created reports can be used as needed, even every day.

The aggregation of the necessary information for the result and efficiency evaluation of financial instruments is the responsibility of the institution. The institution may also choose the data, the information systems, the frequency of reporting and the procedures for examining.

## ANNEX 1. TABLE OF DATA SOURCES USED

### EU Regulations

1.	Proposal FOR EUROPEAN PARLIAMENT AND COUNCIL REGULATION on the European Regional Development Fund and the Cohesion Fund COM/2018/372 final - 2018/0197 (COD)	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0372">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri = CELEX: 52018PC0372</a>
2.	European Parliament and Council Regulation (EU, Euratom) 2018/1046 of the of 18 July 2018 on the financial rules applicable to the general budget of the Union amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014 and Decision NO 541/2014/es and repealing Regulation (EU, Euratom) No 966/2012  PE/13/2018/REV/1	<a href="https://eur-lex.europa.eu/legal-content/lv/TXT/?uri=CELEX:32018R1046">https://eur-lex.europa.eu/legal-content/lv/TXT/? uri = CELEX: 32018R1046</a>
3.	Proposal for the EUROPEAN PARLIAMENT AND COUNCIL REGULATION establishing rules on support for strategic plans drawn up by the Member States under the Common Agricultural Policy (CAP strategic plans) financed by the European Agricultural Guarantee Fund (EAGF) and the Rural Development (EAFRD) European Agricultural Fund for repealing the European Parliament and Council Regulation of the (EU) No 1305/2013 and the European Parliament and Council Regulation (EU) No 1307/2013 of  COM/2018/392 final - 2018/0216 COD	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=COM:2018:0392:FIN">https://eur-lex.europa.eu/legal-content/LV/TXT/? uri = COM: 2018: 0392: FIN</a>
4.	Proposal FOR THE EUROPEAN PARLIAMENT AND COUNCIL REGULATION on the European Social Fund Plus (ESF +)  COM/2018/382 final	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0382">https://eur-lex.europa.eu/legal-content/LV/TXT/? uri = CELEX: 52018PC0382</a>
5.	Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market according to Articles 107 and 108 of the Treaty	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32014R0651">https://eur-lex.europa.eu/legal-content/LV/TXT/? uri = CELEX: 32014 R0651</a>
6.	Proposal FOR EUROPEAN PARLIAMENT AND COUNCIL REGULATION laying down common rules on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund and the European Maritime and Fisheries Fund and financial rules for them and the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument  COM/2018/375 final - 2018/0196 COD	<a href="https://eur-lex.europa.eu/legal-content/lv/TXT/?uri=COM%3A2018%3A375%3AFIN">https://eur-lex.europa.eu/legal-content/lv/TXT/? uri = COM %3A2018% 3A375 %3AFIN</a>
7.	European Parliament and Council Regulation (EU) No 345/2013 of 17 April 2013 on European Venture Capital Funds	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32013R0345">https://eur-lex.europa.eu/legal-content/LV/TXT/? uri = CELEX: 32013R0345</a>
8.	Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3AC2012%2F326%2F01">https://eur-lex.europa.eu/legal-content/LV/TXT/? uri = CELEX %3AC2012% 2F326 %2F01</a>
9.	European Parliament and Council Regulation (EU) No 508/2014 of 15 May 2014 on the European Maritime and Fisheries Fund and repealing Council Regulations (EC) No 2328/2003, (EC) No 861/2006, (EC) No 1198/2006 and (EC) No 791/2007 and (EU) No 1255/2011 of the European Parliament and the Council	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:02014R0508-20200425">https://eur-lex.europa.eu/legal-content/LV/TXT/? uri = CELEX: 02014R0508-20200425</a>



10.	European Parliament and Council Regulation (EU) No 1305/2013 of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:02013R1305-20200626">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri = CELEX: 02013R1305-20200626</a>
11.	Proposal FOR EUROPEAN PARLIAMENT COUNCIL REGULATION on the European Maritime and Fisheries Fund and repealing Regulation (EU) No 508/2014 of the European Parliament and the Council COM/2018/390 final	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0390">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri = CELEX: 52018PC0390</a>
12.	Amended proposal FOR EUROPEAN PARLIAMENT AND COUNCIL REGULATION on the European Regional Development Fund and the Cohesion Fund COM/2020/452 final	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:520PC0452">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri = CELEX: 520PC0452</a>
13.	Amended proposal FOR EUROPEAN PARLIAMENT AND COUNCIL REGULATION on the European Social Fund Plus (ESF +) COM/2020/447 final	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:520PC0447">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri = CELEX: 520PC0447</a>
14.	Amended proposal FOR EUROPEAN PARLIAMENT AND COUNCIL REGULATION laying down common rules on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Fair Reformation Fund and the European Maritime and Fisheries Fund and financial rules for them and the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument COM/2020/450 final	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:520PC0450">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri = CELEX: 520PC0450</a>
15.	Proposal for EUROPEAN PARLIAMENT AND COUNCIL REGULATION laying down certain transitional rules for the support of the European Agricultural Fund for Rural Development (EAFRD) and the European Agricultural Guarantee Fund (EAGF) in 2021 and amending Regulations (EU) No 228/2013, (EU) No 229/2013 and (EU) No 1308/2013 as regards the funds and their allocation for 2021 and amending Regulations (EU) No 1305/2013, (EU) No 1306/2013 and (EU) No 1307/2013 as regards the funds and application in 2021 COM/2019/581 final	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52019PC0581">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri = CELEX: 52019PC0581</a>
16.	Proposal FOR EUROPEAN PARLIAMENT AND COUNCIL REGULATION establishing the InvestEU Programme COM/2018/439 final - 2018/0229 COD	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:52018PC0439">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri = CELEX: 52018PC0439</a>
17.	European Parliament and Council Regulation (EU) No 1303/2013 of 17 December 2013 laying down common rules on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and general rules on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421583712511&amp;uri=CELEX:32013R1303">https://eur-lex.europa.eu/legal-content/LV/TXT/?qid = 1421583712511 &amp; uri = CELEX: 32013R1303</a>
18.	European Parliament and Council Regulation (EU) No 1301/2013 of 17 December 2013 on the European Regional Development Fund and specific provisions for the Investment for growth and jobs objective and repealing Regulation (EC) No 1080/2006	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421585111648&amp;uri=CELEX:32013R1301">https://eur-lex.europa.eu/legal-content/LV/TXT/?qid = 1421585111648 &amp; uri = CELEX: 32013R1301</a>

19.	European Parliament and Council Regulation (EU) No 1300/2013 of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421585242439&amp;uri=CELEX:32013R1300">https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421585242439&amp;uri=CELEX:32013R1300</a>
20.	European Parliament and Council Regulation (EU) No 1304/2013 of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421584799618&amp;uri=CELEX:32013R1304">https://eur-lex.europa.eu/legal-content/LV/TXT/?qid=1421584799618&amp;uri=CELEX:32013R1304</a>
21.	Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market according to Articles 107 and 108 of the Treaty	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32014R0651">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32014R0651</a>
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23.	Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:02013R1407-20200727#E0002">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:02013R1407-20200727#E0002</a>
24.	Commission Regulation (EU) No 360/2012 of 25 April 2012 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid granted to undertakings providing services of general economic interest	<a href="https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:02012R0360-20181231">https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:02012R0360-20181231</a>
25.	European Parliament Directive (EU) 2019/944 and the Council of 5 June 2019 on common rules for the internal market in electricity and amending Directive 2012/27/EU	<a href="https://eur-lex.europa.eu/eli/dir/2019/944/oj/?locale=LV">https://eur-lex.europa.eu/eli/dir/2019/944/oj/?locale=LV</a>
26.	European Parliament and Council Directive (EU) 2018/2001 of 11 December 2018 on the promotion of the use of energy from renewable sources	<a href="https://eur-lex.europa.eu/eli/dir/2018/2001/oj/?locale=LV">https://eur-lex.europa.eu/eli/dir/2018/2001/oj/?locale=LV</a>

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28.	Cabinet Regulation No. 537 of 5 September 2017, Regulations on Portfolio Guarantees for the Promotion of Small (Micro), Small and Medium-sized Enterprises	<a href="https://likumi.lv/ta/id/293402">https://likumi.lv/ta/id/293402</a>
29.	Cabinet Regulation No. 9 of 8 January 2019, Provisions of the Agricultural, Fisheries and Rural Development Guarantee Programme	<a href="https://likumi.lv/ta/id/304160">https://likumi.lv/ta/id/304160</a>
30.	Cabinet Regulation No. 160 of 15 March 2016, Implementing rules for the specific objective of "Promoting energy efficiency improvements in public and residential buildings" 4.2.1.1 of the Action Programme "Growth and Jobs" 4.2.1.	<a href="https://likumi.lv/ta/id/281323">https://likumi.lv/ta/id/281323</a>
31.	Cabinet Regulation No. 469 of 15 July 2016, Regulations regarding parallel loans to economic operators for improving competitiveness	<a href="https://likumi.lv/ta/id/283610">https://likumi.lv/ta/id/283610</a>
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33.	Cabinet Regulation No. 715 of 21 November 2018, Regulations Regarding Procedures for the	<a href="https://likumi.lv/ta/id/303512">https://likumi.lv/ta/id/303512</a>

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34.	Cabinet Order No. 103 of 12 March 2020 on the emergency situation	<a href="https://likumi.lv/ta/id/313191">https://likumi.lv/ta/id/313191</a>
35.	Cabinet Order No. 46 of 4 February 2020 on the Latvia National Energy and Climate Plan 2021-2030	<a href="https://likumi.lv/ta/id/312423">https://likumi.lv/ta/id/312423</a>
36.	Cabinet Regulation No. 518 of 2 August 2016, Regulations Regarding Seed Capital, Start Capital and Growth Capital Funds for Promoting the Establishment, Development and Competitiveness of Realtors of Economic Activities	<a href="https://likumi.lv/ta/id/284072">https://likumi.lv/ta/id/284072</a>
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38.	Cabinet Regulation No. 582 of 3 December 2019, Procedures for the Implementation of the State Aid Programme for the Granting of Loans for Procurement of Working Means in the Agricultural, Forestry, Fisheries and Aquaculture Sector	<a href="https://likumi.lv/ta/id/311153">https://likumi.lv/ta/id/311153</a>
39.	Cabinet Regulation No. 403 of 27 April 2010, Procedures for granting State aid for the purchase of working products for the production of agricultural products	<a href="https://likumi.lv/ta/id/209091">https://likumi.lv/ta/id/209091</a>
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43.	Cabinet Regulation No. 1065 of 15 September 2009, Regulations Regarding Loans for Promoting the Development of Small (Micro), Small and Medium Sized enterprises and Agricultural and Forestry Services Cooperative Companies	<a href="https://likumi.lv/ta/id/198282">https://likumi.lv/ta/id/198282</a>
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45.	Cabinet Regulation No. 248 of 24 April 2018, Amendments to Cabinet Regulation No. 997 of 26 October 2010, Regulations on Guarantees for Improving the Competitiveness of Operators and Qualifying Agricultural Services Cooperative Companies	<a href="https://likumi.lv/ta/id/298825">https://likumi.lv/ta/id/298825</a>
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51. Ex-ante assessment financial instrument methodology for the 2014-2020 programming period. General methodology covering all thematic objectives, Volume I, EIB, 2015	<a href="https://www.fi-compass.eu/sites/default/files/publications/manual_vol-I_ex-ante-assessment-general-methodology.pdf">https://www.fi-compass.eu/sites/default/files/publications/manual_vol-I_ex-ante-assessment-general-methodology.pdf</a>
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78.	<a href="https://www.makroekonomika.lv/lapa/par-latvia-banking-macroeconomic-forecast">https://www.makroekonomika.lv/lapa/par-latvia-banking-macroeconomic-forecast</a>
79.	<a href="https://www.pkc.gov.lv/lv/nap-2027/Information">https://www.pkc.gov.lv/lv/nap-2027/Information</a>
80.	<a href="https://em.gov.lv/lv/nozares_politika/nacionalais_energetikas_un_klimata_plans/">https://em.gov.lv/lv/nozares_politika/nacionalais_energetikas_un_klimata_plans/</a>
81.	<a href="https://www.esfondi.lv/es-funds-2014---2020">https://www.esfondi.lv/es-funds-2014---2020</a>
82.	<a href="https://www.esfondi.lv/2007.-2013.g.-planosanas-period">https://www.esfondi.lv/2007.-2013.g.-planosanas-period</a>
83.	<a href="https://www.zm.gov.lv/zemkopibas-Ministry/static-leaves/2014-2020-year-planosana-period? id = 7433 #jump">https://www.zm.gov.lv/zemkopibas-Ministry/static-leaves/2014-2020-year-planosana-period? id = 7433 #jump</a>
84.	<a href="https://www.zm.gov.lv/statiskas-pages/es-support-for-fisturism? id = 2248 #jump">https://www.zm.gov.lv/statiskas-pages/es-support-for-fisturism? id = 2248 #jump</a>
85.	<a href="https://www.makroekonomika.lv/uznemejdarbibas-kreditesana-year-lost-to-pessimistic-note">https://www.makroekonomika.lv/uznemejdarbibas-kreditesana-year-lost-to-pessimistic-note</a>
86.	<a href="https://www.fktk.lv/statistika/kreditiestades/ceturksna-views">https://www.fktk.lv/statistika/kreditiestades/ceturksna-views</a>
87.	<a href="https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe201911~57720ae65f.en.html #toc2">https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe201911~57720ae65f.en.html #toc2</a>
88.	<a href="https://www.fktk.lv/statistika/finansu-Instrument-Market/Four-Year-Overview/">https://www.fktk.lv/statistika/finansu-Instrument-Market/Four-Year-Overview/</a>
89.	<a href="http://www.laukutikls.lv/sites/laukutikls.lv/files/article_attachments/2_e.kublina_zm_ejzf_pec_2020_konference_271119.pdf">http://www.laukutikls.lv/sites/laukutikls.lv/files/article_attachments/2_e.kublina_zm_ejzf_pec_2020_konference_271119.pdf</a>
90.	<a href="http://data.csb.gov.lv/pxweb/lv/uzn/uzn_01_skaitis/SRG020.px/">http://data.csb.gov.lv/pxweb/lv/uzn/uzn_01_skaitis/SRG020.px/</a>
91.	<a href="http://data.csb.gov.lv/pxweb/lv/uzn/uzn_01_skaitis/SRG030.px/">http://data.csb.gov.lv/pxweb/lv/uzn/uzn_01_skaitis/SRG030.px/</a>
92.	<a href="http://data.csb.gov.lv/pxweb/lv/uzn/uzn_uznemfin_ikgad/UFG030.px/">http://data.csb.gov.lv/pxweb/lv/uzn/uzn_uznemfin_ikgad/UFG030.px/</a>
93.	<a href="http://www.lm.gov.lv/lv/index.php?option=com_content&amp;view=article&amp;id=80690">http://www.lm.gov.lv/lv/index.php?option=com_content&amp;view=article&amp;id=80690</a>
94.	<a href="https://www.pkc.gov.lv/sites/default/files/inline-files/2013_01_17_NAP_finansu_tabula_eur_0.xls">https://www.pkc.gov.lv/sites/default/files/inline-files/2013_01_17_NAP_finansu_tabula_eur_0.xls</a>
95.	<a href="https://www.fm.gov.lv/lv/sadaldas/valsts_budzets/">https://www.fm.gov.lv/lv/sadaldas/valsts_budzets/</a>
96.	<a href="https://docs.google.com/spreadsheets/d/1t0YykKgxObLutneRAfE8DiPBUBJKIRDi6tsgG6b245M/edit?usp=sharing">https://docs.google.com/spreadsheets/d/1t0YykKgxObLutneRAfE8DiPBUBJKIRDi6tsgG6b245M/edit?usp=sharing</a>
97.	<a href="https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027_indikat%C4%ABvie_invest%C4%ABciju_projekti_EXSEL.xlsx">https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027_indikat%C4%ABvie_invest%C4%ABciju_projekti_EXSEL.xlsx</a>
98.	<a href="http://www.lm.gov.lv/lv/es-financing/lm-istenotie-projects/Actual-projects/esf-project-support-social-non-workforce/social-growth-registrs">http://www.lm.gov.lv/lv/es-financing/lm-istenotie-projects/Actual-projects/esf-project-support-social-non-workforce/social-growth-registrs</a>
99.	<a href="https://www.fm.gov.lv/files/valstsbudzets/FMPask_L_SM_280120_bud2020.pdf">https://www.fm.gov.lv/files/valstsbudzets/FMPask_L_SM_280120_bud2020.pdf</a>
100.	<a href="http://www.varam.gov.lv/in_site/tools/download.php?file=files/text/Seminari/vid/02042016_seminars/01_AileS_Circular_Economy_LV_02032016.pdf">http://www.varam.gov.lv/in_site/tools/download.php?file=files/text/Seminari/vid/02042016_seminars/01_AileS_Circular_Economy_LV_02032016.pdf</a>
101.	<a href="http://sam.gov.lv/images/modules/items/PDF/item_8566_Statistika_ostas_dzelzcelis_02.2020.pdf">http://sam.gov.lv/images/modules/items/PDF/item_8566_Statistika_ostas_dzelzcelis_02.2020.pdf</a>
102.	<a href="https://rop.lv/lv/">https://rop.lv/lv/</a>
103.	<a href="https://liepaja-sez.lv/">https://liepaja-sez.lv/</a>
104.	<a href="http://www.portofventspils.lv/lv/">http://www.portofventspils.lv/lv/</a>
105.	<a href="https://skulteport.lv/">https://skulteport.lv/</a>
106.	<a href="https://www.mersragSPORT.lv/">https://www.mersragSPORT.lv/</a>
107.	<a href="https://salacgrivaport.lv/">https://salacgrivaport.lv/</a>
108.	<a href="https://pavilostaport.lv/#">https://pavilostaport.lv/#</a>
109.	<a href="https://www.rojaport.lv/">https://www.rojaport.lv/</a>
110.	<a href="http://www.varam.gov.lv/lat/administrativi_teritoriala_reforma/">http://www.varam.gov.lv/lat/administrativi_teritoriala_reforma/</a>
111.	<a href="http://www.interact-eu.net/download/file/fid/15054">http://www.interact-eu.net/download/file/fid/15054</a>
112.	<a href="https://ec.europa.eu/regional_policy/sources/docgener/evaluation/doc/29112018/6_Indicators2021_evalnet.pdf">https://ec.europa.eu/regional_policy/sources/docgener/evaluation/doc/29112018/6_Indicators2021_evalnet.pdf</a>

## ANNEX 2. PARTICIPANTS IN EXPERT INTERVIEWS

The following table contains data about interviews held (face to face or conference calls) during the ex-ante evaluation.

Institution	Date
Ministry of Economics	06/01/2020
Environmental Investment Fund	07/01/2020
Ministry of Finance	07/01/2020
Ministry of Agriculture	09/01/2020
Ministry of Finance	10/01/2020
Development Finance Institution ALTUM	14/01/2020
Development Finance Institution ALTUM	20/01/2020
Development Finance Institution ALTUM	21/01/2020
Ministry of Welfare	21/01/2020
Development Finance Institution ALTUM	23/01/2020
Development Finance Institution ALTUM	28/01/2020
Development Finance Institution ALTUM	29/01/2020
Latvian Alternative Financial Services Association	29/01/2020
Latvian Finance Industry Association	31/01/2020
BaltCap	03/02/2020
Latvian Venture Capital Association	03/02/2020
Development Finance Institution ALTUM	05/02/2020
Ministry of Finance	05/02/2020
Latvian Chamber of Commerce and Industry	05/02/2020
Latvian Employers Confederation	06/02/2020
Latvian Association of Local and Regional Governments	06/02/2020
SEB Bank	07/02/2020
Latvian Association of Universities	07/02/2020
Latvian Organic Farming Association	10/02/2020
Latvian Rural Advisory and Training Centre	12/02/2020
Latvian Information and Communication Technology Association	12/02/2020
Latvian Farmers Federation	13/02/2020
Development Finance Institution ALTUM	13/02/2020
Latvian Electrical Engineering and Electronics Industry Association	13/02/2020
Latvian Association of Local and Regional Governments	14/02/2020
Latvian Rural Forum	17/02/2020
Association of Mechanical Engineering and Metalworking Industries	20/02/2020
Social Business Association	24/02/2020
Development Finance Institution ALTUM	24/02/2020
Ministry of Economics	25/02/2020
Ministry of Agriculture	25/02/2020
Swedbank Latvia	27/02/2020
Citadele bank	02/03/2020
Latvian Association of Start-ups	05/03/2020
Central Finance and Contracting Agency	06/03/2020
Ministry of Finance	09/03/2020
Ministry of Finance	27/03/2020
Ministry of Finance	30/03/2020
Latvian Chamber of Commerce and Industry	09/04/2020
Ministry of Agriculture	21/04/2020
Ministry of Agriculture	23/04/2020
Ministry of Agriculture	20/05/2020
Ministry of Finance	26/05/2020
Ministry of Transport	02/06/2020
Ministry of Environmental Protection and Regional Development	05/06/2020



Institution	Date
Ministry of Transport	25/06/2020
Ministry of Health	29/06/2020
Ministry of Finance	30/06/2020
Ministry of Agriculture	30/06/2020
Ministry of Education and Science	01/07/2020
Ministry of Economics	01/07/2020
Development Finance Institution ALTUM	02/07/2020
Ministry of Economics	06/07/2020
Ministry of Finance	22/07/2020
Ministry of Economics	31/07/2020
Ministry of Agriculture	04/08/2020
Ministry of Economics	17/08/2020
Central Finance and Contracting Agency	18/08/2020
Ministry of Finance	19/08/2020
Ministry of Agriculture	19/08/2020
Ministry of Economics	26/08/2020
Ministry of Economics	02/09/2020
Ministry of Environmental Protection and Regional Development	03/09/2020
Ministry of Economics	07/09/2020
Ministry of Economics, Development Finance Institution ALTUM	08/09/2020

## ANNEX 3. INDICATORS INCLUDED IN THE DRAFT REGULATIONS

### 3.1. Common indicators for ERDF and Cohesion Fund output and results

In the tables below included are indicators that could be aggregated for projects implemented by using financial instruments (those indicators are marked in blue). A different approach to data collection could be assessed for combined financial instruments (grant and loan components), loans and guarantees. More information to be collected on combined financial instruments as they relate to the achievement of specific policy objectives.

Indicators identified as an asterisk (\*) are applicable (for specific purposes) to more than one policy objective 1-4.<sup>232</sup>

Table 67. Common indicators for ERDF and Cohesion Fund output and results

Policy objective	Outputs	Results
<b>1. A smarter Europe by promoting innovative and smart economic transformation</b>	RCO 01 — Enterprises supported (of which: micro, small, medium, large)*	<b>RCR 01 - Jobs created in supported entities*</b>
	RCO 02 — Enterprises supported by grants*	<b>RCR 02 - Private investments matching public support (of which: grants, financial instruments)*</b>
	<b>RCO 03 — Enterprises supported by financial instruments*</b>	<b>RCR 03 - SMEs introducing product or process innovation*</b>
	RCO 04 — Enterprises with non-financial support*	<b>RCR 04 - SMEs introducing marketing or organisational innovation*</b>
	RCO 05 — Start-ups supported*	<b>RCR 05 - SMEs innovating in-house *</b>
	RCO 96 — Interregional investments in EU projects*	RCR 06 - Patent applications submitted to European Patent Office*
		RCR 07 - Trademark and design applications *
		<b>RCR 11 - Users of new public digital services and applications*</b>
		<b>RCR 12 - Users of new digital products, services and applications developed by enterprises*</b>
		<b>RCR 13 - Enterprises reaching high digital intensity*</b>
		<b>RCR 14 - Enterprises using public digital services*</b>
	<b>RCO 15 — Capacity of incubation created*</b>	<b>RCR 16 - High growth enterprises supported*</b>
		<b>RCR 17 - 3-year-old enterprises surviving in the market*</b>
		<b>RCR 25 - Value added per employee in supported SMEs*</b>
	RCO 102 – SMEs investing in training management systems *	RCR 100 — SMEs staff completing formal training for skills development (KISA) (by type of skills: technical, management, entrepreneurship, green, other) *
<b>2. A greener, low-carbon Europe by promoting clean and fair energy transition, green and</b>		RCR 29 — Estimated greenhouse gas emissions*

<sup>232</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52018PC0372&from=EN>

blue investment, the circular economy, climate adaptation and risk prevention and management		
	RCO 97 — Number of energy communities and renewable energy communities supported*	RCR 32 — Renewable energy: Capacity connected to the grid (operational)*
	RCO 24 – New or upgraded disaster monitoring, preparedness, warning and response systems*	RCR 96 — Population benefiting from protection measures against non-climate related natural risks and risks related to human activities* RCR 38 — Estimated average response time to disaster situations*
5. A Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives		RCR 77 – Tourists/visits to supported sites*
Horizontal Implementation -		<b>RCR 91 - Average time for launch of calls, selection of projects and signature of contracts*</b> <b>RCR 92 - Average time for tendering (from launch of procurement until signature of contract) *</b> <b>RCR 93 - Average time for project implementation (from signature of contract to last payment) *</b>

RCO: Regional Policy Common Output Indicator.

RCR: Regional Policy Common Result Indicator.

### 3.2. Minimum ERDF and CF output indicators

- **RCO 03 - Number of enterprises supported by financial instruments, including micro-enterprises, small, medium and large enterprises;**
- RCO 04 – Number of enterprises with non-financial support, including micro-enterprises, small, medium and large enterprises;
- **RCO 05 – Number of start-ups supported;**
- **RCO 96 – Interregional EU projects;**
- **RCO 15 - Capacity of incubation created (according to the corresponding performance indicators: use of incubator services, increased turnover of incubated companies, supported by the operational programme for the number of fast-growing, small and medium-sized enterprises);**
- **RCO 102 for SMEs investing in training management systems;**
- **RCO 97 - Number of energy communities<sup>233</sup> and renewable energy<sup>234</sup> communities supported;**
- RCO 24 - New or upgraded disaster monitoring, preparedness, warning and response systems.

<sup>233</sup>A rightholder based on voluntary and open participation who is actually controlled by its members or partholders, who are natural persons, local authorities, including municipalities, or small businesses; the main task of which is to provide environmental, economic or social benefits to its members or partholders or to the local territories in which it operates rather than to generate financial benefits profits; and may engage in production, including from renewable energy sources, distribution, supply, consumption, pooling, energy storage, the provision of energy efficiency services or the provision of electric vehicle charging services or other energy services to their members or partholders, <https://eur-lex.europa.eu/eli/dir/2019/944/oj/?locale=LV>

<sup>234</sup>Energy from renewable non-fossil energy sources, namely wind, solar (solar thermal and solar photovoltaic energy) and geothermal energy, environmental energy, tidal, wave and other marine energy, hydropower and biomass, landfill gas, waste water treatment plant gas and biogas, <https://eur-lex.europa.eu/eli/dir/2018/2001/oj/?locale=LV>

### 3.3. Mandatory ERDF and CF result indicators to be included:

- **RCR 01 – Jobs created in supporting entities;**
- **RCR 02 — Private investments matching public support (of which: grants, financial instruments);**
- **RCR 03 – SMEs introducing product or process innovation;**
- **RCR 04 – SMEs introducing marketing or organisational innovation;**
- **RCR 05 – SMEs innovating in-house;**
- RCR 06 — Patent applications submitted to European Patent Office;
- RCR 07 — Trademark and design application;
- **RCR 11 – Users of new public digital services and applications;**
- **RCR 12 – Users of new digital products, services and applications developed by enterprises;**
- **RCR 13 — Enterprises reaching high digital intensity;**
- **RCR 14 — Enterprises using public digital services;**
- **RCR 16 — High growth enterprises supported;**
- **RCR 17 — 3-year-old enterprises surviving in the market;**
- **RCR 25 — Value added per employee in supported SMEs;**
- RCR 100 — SMEs staff completing formal training for skills development (KISA) (by type of skills: technical, management, entrepreneurship, green, other);
- **RCR 29 — Estimated greenhouse gas emissions;**
- **RCR 32 — Renewable energy: Capacity connected to the grid (operational);**
- RCR 96 — Population benefiting from protection measures against non-climate related natural risks and risks related to human activities;
- RCR 38 — Estimated average response time to disaster situations;
- RCR 77 — Tourists/visits to supported sites;
- **RCR 91 — Average time for launch of calls, selection of projects and signature of contracts;**
- RCR 92 — Average time for tendering (from launch of procurement until signature of contract);
- RCR 93 – Average time for project implementation (from signature of contract to last payment).

### ESF+ general support indicators<sup>235</sup>

- Total output indicators for human-focused activities:
  - The common indicators for participants are:
    - unemployed, including long-term unemployed,
    - long-term unemployed,
    - inactive persons,
    - employed, including self-employed,
    - participants below 30 years of age,
    - participants above 54 years of age,
    - participants with lower secondary education or less (ISCED levels 0 to 2),
    - participants with upper secondary education (ISCED level 3) or post-secondary education (ISCED level 4),
    - participants with tertiary education (ISCED levels 5 to 8).
  - The total number of participants will be calculated automatically on the basis of total output indicators for employment status.

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<sup>235</sup> [https://ec.europa.eu/sfc/en/system/files/2021/ged/esf\\_toolbox\\_august\\_2020.docx](https://ec.europa.eu/sfc/en/system/files/2021/ged/esf_toolbox_august_2020.docx)

- Other common output indicators<sup>236</sup>:
  - participants with disabilities,
  - third country nationals,
  - participants with a foreign background,
  - minorities (including marginalised communities such as the Roma),
  - homeless or affected by housing exclusion,
  - participants from rural areas.
- The total output indicators for entities are:
  - number of supported public administrations or public services at national, regional or local level,
  - **number of supported micro, small and medium-sized enterprises (including cooperative and social enterprises).**
- The total rate of immediate results for participants is:
  - participants engaged in job searching upon leaving,
  - participants in education or training upon leaving,
  - participants gaining a qualification upon leaving,
  - participants in employment upon leaving.
- Total long-term performance indicators for participants:
  - participants in employment six months upon leaving,
  - participants with an improved labour market situation six months upon leaving.

### Common ESF+ output indicators

- Supported recipients with food:
  - Number of children below 18 years of age,
  - Number of youths aged 18-29 years,
  - Number of end recipients above 54 years of age,
  - Number of end recipients with disabilities,
  - Number of third-country nationals,
  - persons of recipients with a foreign background or from minority,
  - Number of homeless end recipients or end-recipients affected by housing exclusion lost in housing.
- Supported recipients with goods:
  - Number of children below 18 years of age,
  - Number of youths aged 18-29 years,
  - Number of end recipients above 54 years of age,
  - Number of end recipients with disabilities,
  - Number of third-country nationals,
  - persons of recipients with a foreign background or from minority,
  - Number of homeless end recipients or end-recipients affected by housing exclusion lost in housing.

### EAFRD performance indicators (only based on interventions supported by the CAP)<sup>237</sup>

For the EAFRD, the information to be collected depends on:

- R.1. Enhancing performance through knowledge and innovation: number of persons benefiting from support for advice, training, knowledge exchange or participating in EIP operational groups or other cooperation groups/actions;
- R.2. Linking advice to knowledge systems: Number of advisors receiving support to be integrated within Agricultural Knowledge and Innovation Systems (AKIS);
- R.3. Digitalising agriculture: Share of farms benefitting from support to digital farming technology through CAP;
- R.4. Linking income support to standards and good practices: Share of Utilised Agricultural Area (UAA) covered by income support and subject to conditionality;
- R.5. Risk management: Share of farms with supported CAP risk management tools;
- R.6. Redistribution to smaller farms: Percentage additional direct payments per hectare for eligible farms below average farm size (compared to average);

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<sup>236</sup> Where data on these indicators are not derived from data records, the values of these indicators may be determined using information-based estimates made by the beneficiary

<sup>237</sup><https://data.consilium.europa.eu/doc/document/ST-11869-2020-ADD-1/en/pdf>, data on 14.10.2020.

- R.7. Enhancing support to farms in areas with specific needs: Percentage additional support per hectare in areas with higher needs (compared to average);
- R.8. Targeting farms in specific sectors: Share of farmers benefitting from coupled income support for improving competitiveness, sustainability or quality;
- R.9. Farm modernisation: Share of farmers receiving investment support to restructure and modernise, including to improve resource efficiency;
- R.10. Better supply chain organisation: Share of farms participating in supported Producer Groups, Producer Organisations, and quality schemes supported by the CAP;
- R.11. Concentration of supply: Share of value of marketed production by sectoral Producer Organisations or producer groups with operational programmes;
- R.12. Mitigation and adaptation to climate change: Share of Utilised Agricultural Area (UAA) and/or livestock units (LU) under support to reduce ammonia and GHG emissions, maintaining/enhancing carbon storage, including commitments to improve climate change adaptation (with breakdown by mitigation and adaptation);
- R.15. Green energy from agriculture and forestry and from other renewable sources: Supported investments in renewable energy production capacity, including bio-based (Megawatt);
- R.16a Investments related to climate: Share of farms benefitting from CAP investment support contributing to climate change mitigation and adaptation, and to renewable energy or biomaterials production
- R.17. Afforested land: Area supported for afforestation (including agroforestry) and reforestation;
- R.17a Investment support to the forest sector: Total investment to improve the performance of the forestry sector
- R.18. Improving soils: Share of Utilised Agricultural Area (UAA) under supported commitments beneficial for soil management;
- R.19. Improving air quality: Share of Utilised Agricultural Area (UAA) under supported commitments to reduce ammonia emission;
- R.20. Protecting water quality: Share of Utilised Agricultural Area (UAA) under supported commitments for water quality;
- R.22. Sustainable water use: Share of Utilised Agricultural Area (UAA) under supported commitments to improve water balance;
- R.22a Environmental performance in the livestock sector: Share of livestock units (LU) under supported commitments to improve environmental sustainability;
- R.23. Investments related to natural resources: Share of farmers benefitting from CAP investments support related to care for the natural resources;
- R.23a Environment-/climate-related performance through investment in rural areas: Number of operations contributing to environmental sustainability, climate mitigation and adaptation goals in rural areas;
- R.24. Environmental/climate performance through knowledge: Number of persons benefitting from advice/training, knowledge exchange supported by the CAP related to environmental-climate performance;
- R.26. Supporting sustainable forest management: Share of forest land under commitments to support forest protection and management of ecosystem services;
- R.27. Preserving habitats and species: Share of Utilised Agricultural Area (UAA) under management commitments supporting biodiversity conservation or restoration;
- R.27a Investments related to biodiversity: Share of farms benefitting from CAP investment support contributing to biodiversity;
- R.28. Improving Natura 2000 management: Share of total Natura 2000 area under supported commitments set up and financed under EAFRD;
- R.30. Generational renewal: Number of beneficiaries setting up with support from the CAP;
- R.31. Growth and jobs in rural areas: New jobs supported in supported projects;
- R.31a LEADER coverage: Share of rural population covered by local development strategies;
- R.32. Developing the rural economy: Number of rural businesses including bio-economy businesses developed with CAP support;
- R.33. Smart transition of the rural economy: Number of supported Smart Villages strategies;
- R.34. Connecting rural Europe: Share of rural population benefitting from improved access to services and infrastructure through CAP support;
- R.36. Limiting antimicrobial use: Share of livestock units (LU) concerned by supported actions to limit the use of antimicrobials (prevention/reduction)



- R.37. Sustainable pesticide use: Share of Utilised Agricultural Area (UAA) concerned by supported specific commitments which lead to a sustainable use of pesticides in order to reduce risks and impacts of pesticides;
- R.38. Improving animal welfare: Share of livestock units (LU) covered by supported actions to improve animal welfare;
- 39 Organic farming: Share of Utilised Agricultural Area (UAA) supported by the CAP for organic farming maintenance or conversion.

#### Output indicators for the EAFRD<sup>238</sup>

- O.1. Number of European Innovation Partnership) operational group projects;
- O.4. Number of ha for basic income support for sustainability;
- O.5. Number of beneficiaries of payments for small farmers;
- O.6. Number of ha subject to complementary income support for young farmers;
  - O.6a Number of ha for complementary redistributive income support;
  - O.6b Number of units (ha or livestock units) for eco-schemes
- O.8. The number of units covered by supported insurance schemes;
  - O.8a Number of mutual funds for agricultural, climate and sanitary risk management receiving support under EAFRD (by type of hazards)
- O.9. Number of ha benefiting from coupled income support;
- O.10. Number of heads benefitting for coupled income support;
- O.11. Number of ha receiving support for areas facing natural or specific constraints (all categories);
- O.12. Number of ha receiving support under Natura 2000;
  - O.12a Number of ha receiving support under the Water Framework Directive
- O.13. Number of ha (excluding forestry) covered by environment/climate commitments going beyond mandatory requirements;
- O.14. Number of ha (forestry) covered by environment/climate commitments going beyond mandatory requirements;
  - O.14a Number of units other than ha covered by environment/climate commitments going beyond mandatory requirements
- O.15. Number of ha with support for organic farming;
  - O.15a Number of units other than ha supported for organic farming
- O.16. Number of livestock units covered by support for animal welfare, health or increased biosecurity measures;
- O.17. Number of operations or units supporting genetic resources;
- O.18. Number of supported on-farm productive investment operations or units under EAFRD;
  - O.18a Number of supported on-farm non-productive investment operations or units under EAFRD;
- O.19. Number of supported infrastructures investment operations or units under EAFRD;
- O.20. Number of supported off-farm non-productive investment operations or units under EAFRD;
- O.21. Number of supported off-farm productive investment operations or units under EAFRD;
- O.22. Number of young farmers receiving installation support under EAFRD;
- O.23. Number of rural businesses receiving support for start-up;
  - O.23a Number of small farms receiving development support under EAFRD
- O.24. Number of supported producer groups/organisations under EAFRD;
- O.25. Number of beneficiaries receiving support to participate in official quality schemes under EAFRD;
- O.26. Number of supported operations or units for generational renewal (excluding installation support);
- O.27. Number of supported local development strategies (LEADER) or preparatory actions;
- O.28. Number of other cooperation operations or units supported under EAFRD (excluding EIP reported under O.1);
- O.29. Number of trainings and advice operations or units supported by EAFRD;
  - O.29a Number of plans, studies or awareness actions supported by EAFRD
- O.33. Number of producer groups/organisations (or associations of producer organisations) setting up an operational funds/program;

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238 <https://data.consilium.europa.eu/doc/document/ST-11869-2020-ADD-1/en/pdf>, data on 14.10.2020.

- O.35. Number of actions or units for beekeeping preservation/improvement.