

**Position of the Commission Services on the development of Partnership Agreement  
and programmes in LATVIA for the period 2014-2020**

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## INTRODUCTION

The European Union faces the daunting challenge of emerging from the crisis and putting economies back on a sustainable growth path. The exit strategy entails restoring sound public finances, growth-enhancing structural reforms and targeted investments for growth and jobs. For the latter, the CSF funds<sup>1</sup> can make an important contribution to sustainable growth, employment and competitiveness and increase the convergence of less developed Member States and regions with the rest of the Union.

To ensure that the CSF funds deliver long-lasting economic and social impacts, the Commission has proposed a new approach to the use of the funds in its proposal for the **2014-2020 Multiannual Financial Framework**<sup>2</sup>. Strong alignment with policy priorities of the Europe 2020 agenda, macroeconomic and ex-ante conditionality, thematic concentration and performance incentives are expected to result in more effective spending. It is an approach that underlines the need for strong prioritisation and results and away from a culture of entitlement. The CSF funds will thus provide an important source of public investment and serve as a catalyst for growth and jobs by leveraging physical and human capital investment while they serve as an effective means to support the implementation of the **Country Specific Recommendations (CSRs)** issued in the context of the European Semester. This approach is in line with the European Council's call of 29 June 2012 regarding the use of the Union's budget<sup>3</sup>.

CSF funds should aim at jointly fostering **competitiveness and convergence**, by setting the right country-specific investment priorities. A general **refocus of spending** towards research and innovation, support to SMEs, quality education and training, inclusive labour markets fostering quality employment and social cohesion, delivering the highest productivity gains, mainstreaming of climate change objectives and shifting to a resource-efficient low carbon economy is necessary. In order to do so, planning and implementation of CSF funds have to break through artificial bureaucratic boundaries in the next programming period and develop a strong **integrated approach** for mobilising synergies and achieving optimal impact both within countries and across borders. The Europe 2020 objectives must be mainstreamed across the different CSF funds, each of them bringing their contribution to smart, sustainable and inclusive growth. Moreover, CSF funds have a key role to play in supporting financial instruments that can **leverage private investment** and thus multiply the effects of public finance. In short, we need a carefully targeted and results oriented use of CSF funds that maximises their combined impact.

The purpose of this position paper is to set out **the framework for** dialogue between the Commission services and Latvia on **the preparation of the Partnership Agreement and Programmes** which will start in autumn 2012. The paper sets out the key country specific challenges and presents the Commission Services' preliminary views on the main funding priorities in Latvia for growth enhancing public expenditure. It calls for optimising the use of CSF funds by establishing a strong link to productivity and competitiveness enhancing reforms, leveraging private resources and boosting potential

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<sup>1</sup>The EU funds covered by the Common Strategic Framework (CSF), i.e. the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF)

<sup>2</sup> COM (2011) 500 final, COM (2011) 398 final and COM (2012) 388 final

<sup>3</sup> Conclusions of the European Council of 29<sup>th</sup> June 2012 (EUCO 76/12),  
[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/131388.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131388.pdf)

high growth sectors, while emphasising the need to preserve solidarity within the Union and ensuring the sustainable use of natural resources for future generations. There is also a need to concentrate future EU spending on priority areas to maximise the results to be obtained, rather than spreading funding too thinly. EU funding should also be used to fund EU level priorities and to ensure that Latvia can draw full benefits from its EU membership. Therefore the Commission proposes to group and limit EU funding to the key challenges outlined in this position paper. National public spending can not only be used to co-finance but also to finance investments which are complementary and linked to EU funded projects in particular at regional and local level.

The starting point of the Commission's considerations are the assessment of Latvia's progress towards its Europe 2020 targets in its Staff Working Document on the 2012 National Reform Programme and Convergence Programme<sup>4</sup>, underpinned by the CSRs addressed by the Council on 10 July 2012, and country-specific development challenges. The position paper takes account of the lessons learnt during the 2007-2013 programming period and the Commission's legislative proposals for 2014-2020.

In a context of fiscal discipline, this position paper encourages Latvia to develop and implement medium-term strategies capable of facing the challenges ahead, notably globalisation, while helping to preserve the European social model. Moreover, it provides for a flexible framework for Latvia to react and refocus European, national and local resources on creating growth and employment so that fiscal sustainability and growth-friendly policies go hand-in-hand, also dealing with structural and institutional problems in Latvia and across its national borders in its territorial and geographical context, including as per the EU Strategy for the Baltic Sea Region (EUSBSR), in order to have maximum impact.

Finally it invites Latvia to exploit to the maximum potential synergies between the CSF funds and with other sources of EU funding in a strategic and integrated approach.

## **1. MAIN CHALLENGES**

After a severe contraction in 2008-09, with significant support from EU funds, the Latvian economy started to grow again towards the end of 2010 and moved into a rapid recovery in 2011. The economy expanded by 5.5% in 2011, driven mainly by exports and investments. At the beginning of 2012, industrial production, retail trade and transport services were performing relatively well. The economic sentiment indicator rebounded to a four-year high, with improvements recorded in both the household and corporate sectors. The rebalancing of the economy towards tradable sectors continued at a fast pace, as the share of exports in GDP expanded to 59% in 2011 from 54 % in 2010.

Latvian GDP per capita is nevertheless one of the lowest in the EU (58% of the EU-27 average in 2011). Economic disparities among Latvian regions are also high. The Riga region produces two times more GDP and the number of economically active commercial entities is twice as high as in all other planning regions together. Unemployment in Latvia remains among the highest in the EU with one of the highest long-term and youth unemployment rates in the Union. A high share of the population is at risk of poverty or social exclusion. The situation is particularly severe in the Eastern part of the country.

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<sup>4</sup> Relevant documents are available on Europe2020 website: [http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)

## Europe 2020 targets, national targets and current situation

Europe 2020 headline targets	Current situation	National 2020 target in the NRP
3% of expenditure on research and development	0.6% (2010)	1.5%
20% greenhouse gas (GHG) emissions reduction compared to 1990 <sup>5</sup>	+6% (2010 non-ETS emissions compared to 2005) Based on current policies, in 2020 +18%, 2020 non-ETS projections compared to 2005	+17% (national binding target for non-ETS sectors compared to 2005 )
20% of gross final energy consumption from renewable energy sources (RES)	32.57% (2010)	40%
20% increase in energy efficiency	Gross domestic energy consumption: 4.54 <sup>6</sup> Mtoe in 2010	Energy savings of 0.668 Mtoe, including transformation sector (compared to 2008 level of 4.6 Mtoe)
75% of the population aged 20-64 should be employed	67.2% (2011)	73%
The share of early school leavers should be under 10%	11.8% (2011)	13.4%
At least 40% of 30-34 years old should have completed a tertiary education	35.7% (2011)	34-36%
Reducing the number of people at risk of poverty or exclusion by 20 million in the EU	19.3% (share of persons at risk of poverty or 97 000 lifted out the risk of poverty and/or jobless households by 2011)	21% (share of persons at risk of poverty or by lifting 121 000 people out of the risk of poverty and/or jobless households)

The challenges are reflected in the CSRs adopted by the Council on 10 July 2012. These CSRs address labour market policy issues, education and training, poverty and social inclusion, energy efficiency and energy networks, efficiency of the judiciary, as well as competitiveness, research and innovation.

**Therefore Latvia's most pressing challenges are related to low competitiveness and poor research and innovation performance, underdeveloped and territorially unbalanced infrastructure, high unemployment, including of youth, skills mismatch, social exclusion and high energy intensity and inefficient use of natural resources, which are interrelated.**

### *Low competitiveness and poor research and innovation performance*

Latvia ranks low among the EU-27 as regards the competitiveness of the economy, and in terms of the general productivity level of enterprises, including agriculture, fisheries and aquaculture sectors. Latvia's innovation performance is weak with the share of

<sup>5</sup> 30% if the conditions are right

<sup>6</sup> Gross inland consumption of primary energy excluding non-energy uses

innovative companies only half of the EU-27 average, which is likely to impair the country's competitiveness in the long term.

Lack of market-driven access to capital, difficulties to attract foreign direct investments (FDIs), underdeveloped advanced business services and slow take-up e-commerce are other issues hindering the competitiveness of the Latvian economy. Corruption also has an important impact on the competition, growth and productivity. In the 2011 Transparency International's Corruption Perception Index, which measures perception of corruption in the public sector, Latvia scored only 4.2 out of the maximum 10, being ranked among the six lowest scores in the EU.

Operating only in national markets can be considered as a significant barrier for companies to invest in innovative and knowledge-intensive products. Latvia's market is too small for any significant investment in specialised products to be justified. In addition, the public research and innovation infrastructure and capacities need optimisation, including transparent data collection and monitoring instruments. Current commercialisation efforts by technology transfer centres are not successful and far removed from market needs. Latvian universities perform poorly in worldwide rankings and fail to sufficiently contribute to innovative capacity of Latvian businesses and be a determinant of economic growth.

In terms of labour supply, the shortage of skilled labour is amongst the crucial challenges to reaching the Europe 2020 target. Also the quality and number of academic staff needs to be improved.

The potential of self-employment to create jobs and foster local development is not fully exploited, in particular for disadvantaged groups and youth. The share of self-employed workers among employed is below the EU average.

Although Latvia has made some efforts to reduce the administrative burden on businesses, a number of factors still hinder business environment and economic activity, including the efficiency of the Latvian judiciary. The main challenge here concerns the large case backlog and lengthy proceedings in civil and commercial cases. The inefficiency is particularly acute in conducting insolvency proceedings.

### ***Underdeveloped and territorially unbalanced infrastructure***

The overall poor condition and territorially unbalanced development of the Latvian transport, energy and information and communication technologies (ICT) infrastructure hinders the movement of people and goods in the Latvian regions and thus undermines the balanced economic growth and competitiveness of the country.

The Latvian railway network lacks a direct connection with Central Europe. The shortage of resources for maintenance and development has led to a very low electrification level of lines, as well as the significant deterioration of the infrastructure and rolling stock. Half of the state road network is in bad condition leaving Latvia among the top countries in terms of the number of road accidents. Moreover, the national road maintenance budget is far from sufficient putting at risk the life span of EU co-financed projects. Financial assistance to public transport is insufficient to maintain a quality service and infrastructure, without going into better multi-modal integration and an optimisation of timetables. Due to the high usage of personal cars, rather than public transport, and the intensive use of railway for freight transport with a low level of railway electrification, Latvian transport sector GHG emissions have augmented, but the share of renewable energy in fuel consumption is well below the EU average.

The energy network in Latvia is outdated and needs improvement. Due to the limited interconnection, the gas and electricity markets are largely separated from those of other EU Member States and are dominated by horizontally and vertically integrated monopolies.

The penetration rate of fixed and mobile broadband in Latvia is below the EU average. It remains particularly limited in rural areas. In terms of reaching the Digital Agenda target for ICT lines with the speed above 30 Mbps, the gap in is still large.

### ***High unemployment, including of youth, skills mismatch and social exclusion***

High unemployment, skills mismatch and social exclusion are complex challenges relating to the labour market, education system and society.

Although the Latvian labour market shows some positive signs of recovery, unemployment is the third most severe in the EU, characterised in particular by high long-term unemployment as a legacy of the crisis.

Youth unemployment is also elevated. Early school leavers experience a difficult start in the labour market.

There is a large share of people without professional qualifications and a significant level of skills mismatch with the labour market requirements. The vocational education and training (VET) manifests both participation and quality problems and fails to supply the workforce with sufficient professional skills. The tertiary education lacks real excellence and does not produce enough graduates in mathematics, science and technology, hence skill shortages in the related professions. The active labour market policies (ALMP) in their turn are not effective enough to train, re-train and up-skill people. Adult participation in lifelong learning in Latvia is low and has been decreasing thus widening the gap in relation to the EU average.

The demographic challenges are more pronounced in Latvia than in other EU countries. The projected old age dependency ratio is expected to increase significantly. In the absence of active aging policies, the pre-pension age and elderly face particular difficulties in the Latvian labour market.

Finally, income inequality and poverty in Latvia are among the highest in the EU. Severe material deprivation has increased considerably during the crisis, absolute poverty is also elevated. A number of disadvantaged groups<sup>7</sup> face one or several forms of social exclusion. With the economy recovering but the labour market not following and the social protection being weak, Latvia will face a challenge to prevent the at-risk of poverty rate from increasing.

### ***High energy intensity and inefficient use of natural resources***

Latvia's energy intensity is more than double the EU-27 average. The largest contributors to final energy consumption are households, transport, industry and services with a smaller share from agriculture. Increase in the use of renewable energy sources requires diversification and making the best use of locally produced biomass. As regards GHG emissions, transport and agriculture are the major polluters.

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<sup>7</sup> Disabled, children from disadvantaged families, long-term unemployed, young people leaving institutional care, careers, pensioners, people in pre-pension age, people living in remote areas, low skilled, low wage earners, families left behind by emigrants, Roma, addicts, ex-offenders and victims of violence

There is insufficient and inefficient management of natural resources in Latvia. The structure of Latvian waste management is not in line with the waste hierarchy<sup>8</sup>. The majority of collected waste is dumped in sites without pre-treatment, including landfilling of biodegradable waste, and there are insufficient separate waste collection, sorting and recycling efforts. High percentages of waste water remain uncollected. In two-thirds of agglomerations in Latvia, the percentage of non-collection ranges from 10% to 75%. Pollution from individual and diffuse sources, including agriculture, creates a significant burden on surface water and underground water in all Latvia's largest river basins which flow into marine waters. Major deficiencies have been identified also in drinking water treatment, distribution and quality monitoring systems. Due to anthropogenic pressures and insufficient management efforts, Latvia suffers from loss of biodiversity and wind and water erosion of soil.

## **2. PRIORITIES FOR FUNDING**

The CSF funds will be one of the most important instruments to tackle the main development challenges for Latvia and to implement the Europe 2020 strategy. Each fund should give priority, when relevant, to policy areas addressed in the CSRs and in the national reform programmes. For rural development and fisheries, priorities for funding should also contribute to the Common Agricultural and Common Fisheries Policies. Targeted funding should harness growth in Latvia's blue economy. To this end the intervention from the CSF funds needs to be concentrated on a limited number of priorities. Experience shows that thematic concentration allows for an increase in effectiveness of public interventions by reaching a critical mass with a real impact on the socio-economic situation of a country and its regions. Prioritisation is of particular importance in times of fiscal consolidation.

Four complementary and mutually reinforcing funding priorities are proposed hereunder in line with country-specific challenges<sup>9</sup>. They reflect the importance of funding needs and potential contribution to growth and jobs. There is no ranking in the presentation of the funding priorities.

These are the priorities the Commission would like to co-finance in Latvia for the next programming period 2014-20. Sufficient flexibility is built into the new programming architecture to respond to new challenges and unexpected events, which allow for reprogramming on justified grounds.

### **2.1 Innovative and competitive business and research environment**

The quality of the innovation system in Latvia will determine the long-term competitiveness of businesses and thus growth prospects and ability to generate sustainable jobs in the long-term. This funding priority should receive much more support, both in absolute and relative financial terms in comparison to the programming period 2007-2013, and in particular significant resources need to be mobilised to achieve the national Europe 2020 target of 1.5% of GDP for research, technological development and innovation (RTD&I).

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<sup>8</sup> The waste hierarchy sets a clear preference for waste prevention, then re-use, recycling, followed by energy recovery, the last steps being landfilling and incineration without energy recovery

<sup>9</sup> Thematic objectives in the proposed regulations and their link to the funding areas are outlined in Annex I

***Enhancing small and medium-sized enterprises' (SMEs)<sup>10</sup> competitiveness, innovation, technology transfer, cooperation and developing advanced business services, including in agriculture and fisheries***

Increasing the SME's competitiveness remains a major objective for cohesion policy in Latvia. The actions should be tailored to address the main development needs: to promote innovation, increase productivity, improve business environment, ensure adequate access to financing and expand export possibilities.

Investments should be directed to the development of Latvian SMEs in emerging areas linked to European and regional challenges such as key enabling technologies and innovative and knowledge-intensive services reflecting new societal demands, cultural and creative industries, products and services linked to ageing population, healthcare, eco-innovations, including agriculture, marine and maritime sectors, the low carbon economy and resource efficiency. Investments should support SMEs in sectors with the highest competitive potential and production. This should include provision of financial instruments providing access to capital for SMEs, self-employed and business start-ups, where such need has been identified by a market gap analysis.

Key business environment issues include internationalisation of Latvian SMEs, supporting access to external markets and attracting FDI. Cooperation with well-performing countries in the Region, using the EUSBSR framework should be developed. Also enterprises should be encouraged to develop networking and horizontal and vertical cooperation across the sectors in Latvia. More openness of markets would help companies to better specialise, and would lead to higher productivity, thus reinforcing companies appetite for innovation and knowledge intensive products.

Latvia should develop advanced business advisory services, in particular in areas of business transfer, access to new markets, resource efficiency concerning energy, waste, water and other new eco-friendly processes, user-oriented and design-driven innovation, raising innovation management capacity, promote innovation voucher programme. The potential of e-commerce should be strengthened.

***Optimising RTD&I infrastructure and capacities and expanding international co-operation***

Latvia needs to pursue its efforts to strengthen research and technological development and promote innovation. Reaching the national Europe 2020 target of investing 1.5% of the GDP in RTD&I by 2020 implies almost a tripling of the current ratio.

Further optimisation of RTD&I structures and capacities on the basis of the smart specialisation strategy should be continued to achieve better positioning of Latvia in the Baltic States and EU context. It is important to ensure that the cohesion policy funding is focused on addressing key challenges, notably the improvement of the innovation governance in order to increase the overall innovation performance.

Latvia should take steps to increase the participation of the private sector in RTD&I and foster cooperation between the main actors involved in the innovation process. In that perspective, improving the overall business environment, especially for innovative SMEs, is a prerequisite. The RTD&I investment supporting trade specialisation towards knowledge-intensive and innovation-driven sectors should be in focus.

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<sup>10</sup> Including social enterprises

Further efforts in commercialisation and technology transfer should be made. Improved legal framework on intellectual property rights and better educational programmes bringing together university students, research organisations and industry could serve to achieve better results.

There is a need to network internationally, starting with the neighbours in the Baltic Sea Region (benefitting from their strengths). The EUSBSR can help serve as a useful point of departure, and cooperation programmes in general – whether in terms of joint initiatives, exchange of good practice, or deeper and more extensive networking – provide important support.

Finally, the lack of highly qualified scientists and engineers needs to be addressed. Investment in human resources will play a crucial role. Expansion of training programmes and their quality, making them more competitive and attracting researchers and scientists from abroad can improve the situation.

### ***Improving quality and efficiency of judiciary***

Latvia has made efforts to reduce administrative burdens on businesses. For continuous improvement of the business environment, future CSF funding should support the efficiency and quality of judicial procedures by reducing the backlog and length of civil procedures, including written procedures, small claims, insolvency procedures and enforcement of decisions. Reliable quality assurance and data collection and compilation systems also should be developed.

## **2.2. Modern infrastructure for growth and jobs**

CSF funds should continue investing in improved accessibility of Latvian regions via modern, sustainable and territorially balanced transport, energy and ICT infrastructure. Better accessibility opens potential for new businesses and jobs thus facilitating balanced economic growth and competitiveness of the country. The investments will focus on completion of missing gaps in Latvia's infrastructure with prominent emphasis on development of sustainable, environmentally friendly and efficient infrastructure. It is expected that both – in relative and absolute terms the importance of this funding area might slightly decrease compared to the 2007-2013 programming period.

### ***Addressing significant gaps in transport infrastructure with a shift to environmentally sustainable modes of transport***

The focus of the CSF funds financing should shift to more environmentally sustainable modes of transport and to areas with the greatest EU added value.

Financial priority should be given to the railway sector, in particular, to construction of a new fully interoperable higher speed railway connection to Central Europe – "Rail Baltica" (TEN-T Baltic – Adriatic Corridor) and electrification and upgrading of the existing TEN-T core and comprehensive rail networks, including purchase of modern rolling stock. Development of multimodal, integrated and low carbon public and urban transport systems, including measures promoting the use of public transport over private cars should also be among the top priorities. In relation to the road network, the priority should be completion of missing links in the TEN-T core road network and enhancing regional mobility through connecting secondary and tertiary nodes to TEN-T infrastructure.

Investments in extension and upgrading of the transport networks will improve Latvia's local and international connectivity, thus providing favourable environment for creating new enterprises and jobs which in turn will foster balanced development and competitiveness of the regions and the whole country. The focus on sustainable and environmentally friendly intermodal transport will help Latvia to meet its Europe 2020 targets related to emissions and energy efficiency.

### ***Developing energy networks***

For improved sustainability, reliability and efficiency of energy supply, CSF funds' investments should concentrate on promoting competition in major energy networks by avoiding centralised energy sources, development of smart metering and distribution systems, as well as the upgrading of networks to enable uptake from renewable energy sources. Energy efficiency gains will contribute to higher competitiveness of Latvian economy.

### ***Increasing deployment and take-up of ICT networks, especially in remote areas***

The potential of ICT for inclusive and balanced growth and jobs should be appropriately exploited by improvement and expansion of the broadband infrastructure and roll-out of open, modern, affordable and future-proof Next Generation Access infrastructure, especially in rural areas.

## **2.3 High employment, skilled people and inclusive society**

In order to provide adequate response to the challenges in the labour market, education and society, the investment of the CSF funds in these areas should be considerably increased in comparison to the 2007-2013 programming period. Furthermore, investment in employment, social inclusion and education thematic objectives should be concentrated in line with the CSRs. Finally, tackling the above challenges with the common aim to achieve job-rich growth can only meet success if there is strong inter-sectorial co-operation.

### ***Effective Active Labour Market Policies***

ALMPs should continue to be a key policy instrument to combat unemployment and inactivity. Their scope should be considerably expanded and their effectiveness increased along all the services provided, starting from personalised assistance to labour market relevant training with focus on the difficult target groups.

ALMPs should provide all people with up-to-date skills - vital not only for those in job search but also for those already in employment. The job potential of the green and blue economy, white sector and of the ICT sector should be particularly explored. Closer co-operation between labour market and education institutions as well as employers should be developed to support provision of the most relevant skills.

It is also proposed that Latvia benefits from CSF funds to exploit potential of flexible modes of work as it could ensure more/better labour market participation of groups such as women, older workers, the disabled and people living in remote areas.

### ***Youth guarantees***

Dedicated active labour market measures should be put in place to tackle youth unemployment in Latvia. They should aim at improving the employability of young people by facilitating the transition from school to work. CSF funds should thus support introduction of youth guarantees ensuring that every young person in Latvia is offered a job, further education or work-focussed training at least four months after leaving education or becoming unemployed with a particular focus on early school leavers and vulnerable youth.

### ***High quality, labour market relevant and entrepreneurship-focussed education***

The main priorities of CSF funds' investment should be fighting early school-leaving as well as improving participation and quality of VET, quality of tertiary education as well as participation and quality of lifelong learning.

CSF funds should support those structural reforms in education that lead to more efficient and better quality education, in the best interests of the students. CSF funds' investment should bear clear added value.

All education levels should aim at achieving the best education outcomes with the help of highly qualified teaching staff using modern teaching methods, through up-to-date curricula and effective support by future employers.

Tertiary education should serve as a platform for research and innovation and should be in the centre of strategic partnerships with research sector and businesses.

### ***Integration of the most disadvantaged groups in the labour market, education and society***

In order to contribute to more inclusive growth in Latvia, significant part of CSF funds should support integration of the most disadvantaged groups in the labour market, education and society. This investment should focus on reducing the barriers disadvantaged people face and unleashing their economic and social potential.

Integration in the labour market will require dedicated, often individual measures, for instance active labour market measures for older people or adapting the workplace for the disabled. Young people not in employment, education or training also need special measures. All the disadvantaged groups, the low skilled in particular, should also benefit from more and better quality life-long learning.

CSF funds should support improving the provision of social assistance and social work to ensure that the poorest and the most vulnerable are reached. In this context the ALMP and social assistance needs to be effectively co-ordinated.

Investment in more inclusive education should allow for better access to knowledge and skills and greater opportunities for academic and social achievement.

Together with investment in social integration measures, including community-led local development in rural areas and increasing community-based care, this should contribute to building a more inclusive society in Latvia.

## **2.4. Energy efficiency and sustainable management of natural resources**

Proper management of natural resources and the low-carbon economy are the key factors for the sustainable and balanced growth of Latvia, where resource efficiency enhances competitiveness and provides opportunities for new jobs and nature conservation ensures long-term sustainability of natural resources and human wellbeing. To facilitate sustainable management of natural resources, Latvia should develop an effective set of implementation instruments in the field of environment helping to achieve full implementation of the EU environmental legislation and to encourage more efficient use of natural resources in line with the Roadmap to a Resource Efficient Europe<sup>11</sup>. Sustainable economic development at sea and in coastal areas should also be ensured and sustainable growth from marine and maritime sectors should be explored. It is therefore expected that the investments from the CSF funds in this investment area will increase in comparison to the programming period 2007-2013.

### ***Shift to energy, resource-efficient and low-carbon economy, including energy efficiency of residential and administrative buildings***

Improved energy efficiency and implementation of the low carbon economy is of utmost importance for fostering Latvia's competitiveness and energy independence. Energy efficiency gains will have positive effects on the development of Latvian enterprises and creation of new jobs.

Funding priority should be given to energy efficiency measures in carefully determined areas with the highest economic and technical potential for reductions, for example energy efficiency retrofitting measures in the public buildings and housing sectors, as well as innovative energy efficiency solutions in businesses, including agriculture. Efficiency benefits should be increased by introducing the legal and fiscal framework for energy performance contracting. Furthermore Latvia should advance in enforcing coherent stable and predictable renewable energy support framework promoting diversification of renewable energy sources and making the best use of locally produced biomass.

Another area for intervention should be climate change adaptation and mitigation, particularly for the protection of biodiversity and natural resources of water and soil.

### ***Addressing significant needs for investment in the waste and water sectors to meet the environmental acquis***

Due to the direct impact on the Baltic Sea region's eco-system, the efficient and sustainable management of natural resources in Latvia in close cooperation with other Baltic Sea countries should be among the top concerns. The financing priority should be given to measures with the highest added value, i.e. for increasing the share of population connected to centralised waste water collection networks and pursuing changes in the waste management system in line with the waste hierarchy. Resource efficiency should be reinforced through sustainable water management, including fish-stock management.

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<sup>11</sup> COM(2011) 571 of 20.9.2011

### 3. SUCCESS FACTORS FOR EFFECTIVE DELIVERY

Together with financial consolidation **structural reforms** play a key role in enhancing the overall efficiency thereby the growth potential of the Latvian economy. They are also **key condition** for the successful implementation of the CSF funds which can only have optimal impact, if an appropriate policy, legal and administrative framework is in place.

Therefore the new Common Provisions Regulation will set out ex-ante conditionalities which are preconditions relating to the effective and efficient use of EU funds. Based on experience from the current programming period and the CSRs the Commission Services have identified a number of ex-ante conditionalities critical for successful implementation of the above funding priorities:

- Develop a national research and innovation strategy for smart specialisation.
- Develop a comprehensive national transport plan.
- Develop a national strategy for poverty reduction.
- Develop a strategy for reinforcing administrative efficiency including public administration reform.
- Develop a comprehensive national broadband plan.
- Ensure the effective implementation of EU environmental *acquis* in the sectors of waste management and wastewater management.
- Develop a strategic plan for aquaculture and improve data collection for fisheries management to ensure smooth shift from direct to shared management, and implement the Union control, inspection and enforcement system.

Fulfilment of these sector-specific conditionalities **requires a significant effort** in order to avoid a **bottleneck in timely implementation of CSF funds**. Where ex-ante conditionalities are not fulfilled by the time of submitting the Partnership Agreement to the Commission, Latvia will need to lay down a series of actions to be taken at national and regional level and a timetable for implementing them. All ex-ante conditionalities need to be fulfilled by the deadline agreed and at the latest within two years of the adoption of the Partnership Agreement or by 31 December 2016.

### 4. PRIORITIES FOR EUROPEAN TERRITORIAL COOPERATION

Effective solutions in many areas of development require a cooperative approach to challenges and opportunities that looks across the borders to share experiences.

Challenges identified for Latvia have important transnational and cross-border dimensions in particular in the fields of RTD&I, transport, energy, environmental protection and maritime issues. As far as possible, responses in terms of investment described in the funding areas above should seek synergies with the European Territorial Cooperation (ETC) and the EUSBSR that would allow for the highest European value added.

Under the ETC goal, the ERDF supports cross-border and transnational cooperation. Latvia would benefit in many ways from cooperation in the field of environment via improving management of solid waste and wastewater and finding joint solutions for reducing pollution of the Baltic Sea, including maritime safety issues, sustainable development of off-shore and coastal areas. Cross-border actions should focus on co-operation in the area of transport by developing TEN-T networks, addressing its imbalances and bottlenecks. Cooperation should be developed in RTD&I facilitating

technology and knowledge transfer, in particular targeted at SMEs. Cross-border and transnational cooperation actions should also focus on developing interconnections with EU natural gas and electricity markets.

In the framework of the EUSBSR, Latvia should seek synergies in the areas of RTD&I, VET and tertiary education, entrepreneurship, transport infrastructure, agriculture, fisheries and aquaculture, energy, protection of environment and promotion of resource efficiency. The EUSBSR should be embedded in all relevant EU and national funding programmes to ensure overall coherence. Latvia should seek to make use of the broad range of available financial resources, and ensure linkages between the ETC programmes and investment in growth and jobs programmes, to foster the implementation of the EUSBSR and utilise the strengths of the macro-region to the maximum.

## ANNEX

The annex contains the arrangements for effective programming and delivery, assessment of funding needs in relation to thematic objectives and assessment of specific aspects of administrative capacities.

### **A. ARRANGEMENTS FOR EFFECTIVE PROGRAMMING AND DELIVERY**

Experience from previous programming periods indicates several factors affecting effectiveness of investment, in particular the need for strategic orientation and concentration, the need to avoid fragmentation of investments, projects insufficiently embedded in national systems, weak response to the actual needs, and low European value added. A general shift towards more coherent and innovative approach is necessary in order to demonstrate clearly the impact on attaining the Europe 2020 objectives.

For future CSF funds' investments in the areas listed below the Commission expects specific justification regarding their usefulness for attaining the Europe 2020 objectives and respect of the following considerations:

- Any possible ERDF investment in cultural heritage should be aimed on developing the 'creative sector', with a strong focus on investment in RTD&I, innovative entrepreneurship in cultural and creative industries, and major cultural infrastructures (theatres, museums) only within the framework of integrated urban regeneration projects.
- ERDF support for sport infrastructure should be avoided unless linked to education infrastructure or a high European added value can be demonstrated.
- EMFF funding should not contribute to overfishing by subsidising fishing capacity. Although Latvia has successfully implemented its Fishing Effort Adjustment plan, it should still evaluate and identify any remaining overcapacity in its fleets in order to phase this out.

Funding shall be granted in accordance with EU state aid rules. Funding should address real market failures, have an incentive effect and be limited to the minimum necessary, so that funds are used efficiently, overcompensation is avoided and distortions of competition are limited.

The structure of the operational programmes (OPs) should also reflect the focus of EU interventions on Europe 2020 objectives. The balance of funding, the number of programmes and the most suitable architecture will be developed in partnership with stakeholders in Latvia and in negotiations with the Commission. Cooperation at all levels is a key to achieving quality of spending.

The proposed 2014-2020 legislation for the CSF funds offers additional flexibility to set up programmes in each Member State to best match their institutional set-up. Annex I of the Commission's amended proposal for the Common Provisions Regulation includes elements of the Common Strategic Framework<sup>12</sup> and sets out different options for integrated approaches to programming, to achieve coordination and synergies during implementation, which Member States are encouraged to explore. For rural development, the option to draw up thematic sub-programmes within a rural development programme provides the opportunity to devote closer attention to particular needs.

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<sup>12</sup> COM(2012)496 final 11.9.2012

## **Coordination, complementarity and synergy**

Coordination between policies and complementarity of interventions is the key condition for successful implementation of CSF funds in Latvia. The management and control systems for 2014-2020 should build on the positive achievements in the period 2007-2013. CSF funds need to jointly address several thematic objectives. Latvian ministries and managing authorities responsible for the implementation of the CSF funds should work closely together on the preparation, implementation, monitoring and evaluation of the Partnership Agreement and Programmes. It is essential that all funds work in an integrated way at the delivery level.

Coordination of policies should be further improved. To that end it is recommended to:

- Ensure strong policy framework through development of binding strategic documents.
- Develop a strong coordination centre to improve enforcement of the development strategy.
- Streamline the implementation structure to ensure clear division of responsibilities and greater accountability of institutions involved. Institutions involved should provide real added value in the management processes.
- The managing authorities should develop in-house expertise for policies in which their OPs intervene.

Community-led Local Development (CLLD) offers an integrated bottom-up approach in response to complex territorial and local challenges through the involvement of local communities. Latvia is invited to explain its approach as regards CLLD across the CSF funds indicating the main challenges, objectives and priorities, the type of territories, the role of local action groups and of different CSF funds and coordination mechanisms, as well as the intended budget. Latvia should also indicate the preparatory support for local actors.

Based on the experience in implementation of local development strategies for the sustainable development of fisheries areas it is recommended to ensure a sufficient budget per local action group for meaningful intervention; to avoid funds being spread to territories with a very small fisheries sector; to enhance elaboration of local development strategies which are more focused and better adapted to the character of the territory concerned.

Where relevant, the CSF funds should exploit potential for synergies with the other EU instruments, such as the Connecting Europe Facility, Horizon 2020, COSME, the European Institute of Innovation and Technology (EIT) and its Knowledge Innovation Communities (KICs) in view of increasing their countries' innovation capacity through a closer integration of the Knowledge Triangle, the Erasmus for All Programme, Marie Skłodowska-Curie Actions, the LIFE programme, the Creative Europe Programme, the Programme for Social Change and Innovation and the Asylum and Migration Fund, NER300 Programme, the Strategic Energy Technology Plan, the Fundamental Rights and Citizen Programme (for anti-discrimination measures).

A coordinated approach should be ensured also as regards financial instruments. Latvia's choice of financial instruments in the next programming period should be more balanced in terms of the risk level and based on an ex-ante market analysis. The assessment should be conducted prior to the establishment of the financial instrument. This will help to avoid overlaps and inconsistencies between instruments implemented at different levels. The assessment would aim at identifying market failures or suboptimal investment

situations and investment needs; it would also assess possible private sector participation and an appropriate investment strategy (including appropriate delivery structures, financial products and target final recipients) to be pursued by the financial instrument in question. It will also assess the level of financing that is actually needed for filling these gaps. This exercise should take into account the funds that already exist, i.e., revolving funds from the 2007-2013 programming period, as well as the Baltic Innovation Fund and instruments set up at the EU level.

The Partnership Agreement should set out the contribution to the integrated approach for territorial development; including – where appropriate – a planned integrated approach to sustainable urban development. It should identify the cities where sustainable urban development strategies will be implemented or the principles established for their identification. In the case of Latvia it is important to pay appropriate attention not only to Riga.

Integrated Territorial Investments (ITI) in Cohesion Policy allows the implementation of parts of programmes in a cross-cutting manner and can provide flexibility below the programme level to implement integrated actions. Where this mechanism is selected, Latvia should define for each ITI an appropriate governance structure and in particular designate a management body. Allocations should be defined in the programmes for the ITI.

Sustainable urban development is a process based on an integrated urban development strategy which harmoniously promotes all dimensions of sustainability (economic, social, environmental and governance) through a comprehensive vision of the city. The meaning of integrated urban development is twofold: it signifies that resources should be concentrated in an integrated manner to target areas with specific urban challenges; and at the same time, that cohesion policy funded projects in urban areas should be integrated into the wider objectives of the programmes.

It is recommended that cities combine the actions supported by the ERDF urban-specific sectoral investment priorities (low-carbon strategies for urban areas, urban environment, sustainable urban mobility, and social inclusion through supporting the physical and economic regeneration of deprived urban areas) and embed them in the integrated urban development strategy, which should also include actions supported by the ESF under its investment priorities.

## **B. ASSESSMENT OF FUNDING NEEDS IN RELATION TO THEMATIC OBJECTIVES**

The following sections present the Commission Services' view on priorities for CSF funds for Latvia. They have been developed on the basis of the Commission services in depth country analysis and selected from the 11 thematic objectives, which stem from the Commission proposal for the Common Provisions Regulation<sup>13</sup> for CSF funds adopted by the Commission on 6 October 2011. These 11 thematic objectives translate the Europe 2020 strategy into operational objectives to be supported by the CSF funds.

The 11 thematic objectives are common for cohesion, rural development and the maritime and fisheries policies; they ensure that interventions under these policies are aligned towards the achievement of joint objectives, those of Europe 2020. They provide a menu of possible funding objectives for the whole of the EU. According to each Member State's specific situation a more focussed selection is then made in agreement

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<sup>13</sup> COM(2011)615 final/2; [http://ec.europa.eu/regional\\_policy/what/future/proposals\\_2014\\_2020\\_en.cfm#1](http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1)

with the national authorities. The challenges and funding areas for Latvia correspond to the following thematic objectives:

<b>Funding priorities</b>	<b>Related thematic objectives</b>
<b><i>Innovative and competitive business and research environment</i></b>	<p>Strengthening research, technological development and innovation</p> <p>Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)</p> <p>Enhancing access to, and use and quality of, information and communication technologies – partly</p> <p>Enhancing institutional capacity and an efficient public administration</p> <p>Promoting employment and supporting labour mobility – partly</p>
<b><i>Modern infrastructure for growth and jobs</i></b>	<p>Promoting sustainable transport and removing bottlenecks in key network infrastructure</p> <p>Supporting the shift towards a low-carbon economy in all sectors - partly</p> <p>Enhancing access to, and use and quality of, information and communication technologies – partly</p>
<b><i>High employment, skilled people and inclusive society</i></b>	<p>Investing in education, skills and lifelong learning</p> <p>Promoting employment and supporting labour mobility</p> <p>Promoting social inclusion and combating poverty</p>
<b><i>Energy efficiency and sustainable management of natural resources</i></b>	<p>Protecting the environment and promoting resource efficiency</p> <p>Supporting the shift towards a low-carbon economy in all sectors – partly</p> <p>Promoting climate change adaptation, risk prevention and management (EAFRD)</p>

**FUNDING PRIORITY: INNOVATIVE AND COMPETITIVE BUSINESS AND RESEARCH ENVIRONMENT**

The objectives of the funding priority **Innovative and competitive business and research environment** will be achieved primarily by thematic objective 'Strengthening research, technological development and innovation', as well as thematic objectives 'Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)', 'Enhancing access to, and use and quality of, information and communication technologies', 'Enhancing institutional capacity and an efficient public administration' and 'Promoting employment and supporting labour mobility'.

**Thematic objective: Strengthening research, technological development and innovation**

<b>Europe 2020 headline target</b>	<b>Current situation</b>	<b>National 2020 target in the NRP</b>
3% of expenditure on research and development	0.6% (2010)	1.5%

**Country Specific Recommendation:**

Continue reforms in higher education, *inter alia*, by implementing a new financing model that rewards quality, strengthens links with market needs and research institutions, and avoids fragmentation of budget resources. Design and implement an effective research and innovation policy encouraging companies to innovate, including via tax incentives, upgrading infrastructure

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Enhancing RTD&I infrastructure and capacities:

- Further rationalisation, consolidation of RTD&I structures and activities on the basis of the smart specialisation strategy to achieve the necessary critical mass of knowledge base allowing better positioning of Latvia in the Baltic States and EU context.
- Opening up the national RTD&I system for international co-operation, including Joint Programming Initiatives in the EUSBSR context and the European Strategy Forum on Research Infrastructure. Only projects with strong international component should be funded on a large scale.
- Investments to improve the quality of research centres to increase their ability to undertake collaborative projects with businesses.
- Creation of transparent and unified evaluation system of excellence according to EU and international standards, transparent reporting and public data about utilisation of resources at public research institutions.

2. Promoting business RTD&I investments:

- Company innovation with a focus on knowledge intensive and high value added goods and services (i.e. eco-innovation, innovative energy efficient and renewable energy technologies, ICT-based innovations, key enabling technologies, innovative waste generation prevention, blue biotechnologies, non-technological innovation etc.).
- Investments in stimulation of private sector's demand for RTD&I and industry's absorption capacity by fostering links between research and industry (i.e. support to competence centres, technology transfer contact points and cooperative partnerships among research, education and innovation actors) with a focus on applied research promoting science commercialisation, including training programmes to bring science and industry together.
- Development of clusters and networks, as well as structural cooperation between cluster organisations and knowledge institutions throughout the whole economy, including agriculture and maritime sectors.
- Investments in advanced manufacturing technologies in order to release the potential of innovation and technological change.
- Promotion of consultancy through business and technology upgrading programmes, and support to acquiring technologies, such as patent rights, prototypes, industrial designs, etc.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Investments should be closely linked to the results of the research and innovation strategy for smart specialisation.<sup>14</sup> The strategy should provide a coherent framework for focused investments and support from the CSF Funds, and leverage private research and innovation expenditure. The emphasis of the strategy, aiming at strengthening Latvia's industrial policy, is expected to concern innovation-driven economic transformation of the country and optimisation of the return on investment. It will also need to incorporate strong cooperation potential and human capital investment.
- Providing access to finance for small businesses by effective use of financial instruments will be of utmost importance in advancing the development of innovative businesses.
- Designing an effective industrial policy, including tax incentives, is a key requisite for fostering innovation activities.
- Policies encouraging state research organisations to become part of universities, as well as educational programmes bringing together university students, research organisations, industry and primary producers can lead to better technology transfer.
- Investments in maritime RTD&I should be fostered in line with the objectives of the Blue Growth initiative<sup>15</sup>.
- Opportunities provided by macro-regional cooperation, especially the EUSBSR, need to be incorporated into the proposed policy measures.
- Investments in energy technologies and solutions should be focused on the market roll-out of new generations of technologies targeted in context of the Strategic Energy Technology Plan.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at ICT, SMEs, low carbon economy, climate change, environment, transport, human capital development, education, social inclusion and institutional capacity.<sup>16</sup>

**Thematic objective: Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)**

**Country Specific Recommendation:**

Design and implement an effective research and innovation policy encouraging companies to innovate, including via tax incentives, upgrading infrastructure and rationalising research institutions.

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Support for productivity growth of SMEs, the agricultural sector, fisheries and aquaculture sector, in particular by facilitating the economic exploitation of new ideas:

<sup>14</sup> The strategy, among other, should take into account priorities identified in the European Research Area Communication (COM(2012) 392 final)

<sup>15</sup> Commission Communication on Blue Growth opportunities for marine and maritime sustainable growth (COM(2012) 494 final)

<sup>16</sup> Thematic objectives 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 according to the draft Regulation

- Support to SME's innovation, improved resource efficiency and promoting greening activities.
  - Support to farm modernisation and innovation aiming at modernisation in all farm size groups, especially small and medium.
  - Support to development of new or improved products, processes, technologies and management and organisation systems across all levels of the supply chain in the fisheries and aquaculture sectors to increase the competitiveness.
  - Support for business advisory services, in particular in areas of business start-up, business transfer, access to new markets, resource efficiency<sup>17</sup>, user-oriented and design-driven innovation, raising innovation management capacity, promote using such services as innovation voucher programmes.
2. Support to facilitate cooperation and internationalisation of SMEs, the agricultural sector, fisheries and aquaculture sector:
- Promote horizontal and vertical cooperation (including integration of primary producers into the food chain), new networking opportunities, setting up producer groups, improving market organisation in the fisheries and aquaculture, development of clusters within the macro-region and EU context and promote new value chains.
  - Promote access to external markets and attract FDI.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- CSF funds' investments in SMEs should be targeted at measures with the highest potential for improving competitiveness and growth performance, based on the relevant analyses.
- Any future investment in the aquaculture sector should be based on a national strategic plan for the sector.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, ICT, low carbon economy, climate change, environment, human capital development, education, social inclusion and institutional capacity.<sup>18</sup>

**Thematic objective: Enhancing access to and, use and quality of information and communication technologies**

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Developing ICT products and services, e-commerce and enhancing demand for ICT:
  - Support to enhancing the take-up of e-commerce.

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<sup>17</sup> i.e. concerning energy, waste, water and other new eco-friendly processes

<sup>18</sup> Thematic objectives 1, 2, 4, 5, 6, 8, 9, 10 and 11 according to the draft Regulation

- Support to ICT applications promoting sustainability and competitiveness in rural areas.
- Raising digital competency in rural areas.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Identification and uptake of already existing ICT applications, for example in the Baltic Sea Region (i.e. Estonia and Finland) will help to avoid duplication of effort and ensure efficient spending of public resources.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objective aimed at RTD&I, SMEs, human capital development, education, social inclusion and institutional capacity.<sup>19</sup>

**Thematic objective: Enhancing institutional capacity and ensuring an efficient public administration**

**Country Specific Recommendation:**

Take measures to improve management and efficiency of the judiciary, in particular to reduce the backlog and length of procedures. Take steps to improve the insolvency regime and the mediation laws.

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Investment in institutional capacity and in the efficiency of public administrations and public services with a view to reforms, better regulation and good governance:
  - Reduce backlog and length of civil procedures (including written procedures, small claims, insolvency procedures and enforcement of decisions).
  - Support for development of reliable quality assurance and data collection and compilation systems for the justice systems.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Only measures that are part of the strategic reform in the public administration, and on which there is political commitment, should be supported.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objective aimed at RTD&I, ICT, SMEs, low carbon economy, transport and human capital development.<sup>20</sup>

**Thematic objective: Promoting employment and supporting labour mobility**

Europe 2020 headline target	Current situation	National 2020 target in the NRP
75% of the population aged 20-64 should be employed	67.2% (2011)	73%

<sup>19</sup> Thematic objectives 1, 3, 8, 9, 10 and 11 according to the draft Regulation

<sup>20</sup> Thematic objectives 1, 2, 3, 4, 7 and 8 according to the draft Regulation

**Country Specific Recommendation:** Take measures to reduce long-term and youth unemployment by fighting early school leaving, promoting more efficient vocational education and training and its apprenticeship component, enhancing the quality, coverage and effectiveness of active labour market policy and its training component and through an effective wage subsidy scheme.

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Access to employment for job-seekers and inactive people, including local employment initiatives and support for labour mobility:
  - Support development and implementation of an inclusive self-employment and business start-up system (including support for young farmers).
  - Promote entrepreneurship in all levels of education.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objective aimed at RTD&I, ICT, SMEs, education, social inclusion and institutional capacity.<sup>21</sup>

#### **FUNDING PRIORITY: MODERN INFRASTRUCTURE FOR GROWTH AND JOBS**

The objectives of the funding priority **Modern infrastructure for growth and jobs** will be achieved primarily by thematic objective 'Promoting sustainable transport and removing bottlenecks in key network infrastructure', as well as thematic objectives 'Supporting the shift towards a low-carbon economy in all sectors' and 'Enhancing access to, and use and quality of, information and communication technologies'.

#### **Thematic objective: Promoting sustainable transport and removing bottlenecks in key network infrastructure**

<b>Europe 2020 headline target</b>	<b>Current situation</b>	<b>National 2020 target in the NRP</b>
20% GHG emissions reduction compared to 1990 <sup>22</sup>	+6% (2010 non-ETS emissions compared to 2005) Based on current policies, in 2020 +18%, 2020 non-ETS projections compared to 2005	+17% (national binding target for non-ETS sectors compared to 2005 )
20% of gross final energy consumption from RES	32.57% (2010)	40%
20% increase in energy efficiency	Gross domestic energy consumption: 4.54 <sup>23</sup> Mtoe in 2010	Energy savings of 0.668 Mtoe, including transformation sector (compared to 2008 level of 4.6 Mtoe)

**Country Specific Recommendation:** Further encourage energy efficiency by implementing measures and providing incentives for reducing energy costs and shifting consumption towards energy-efficient products, including vehicles, buildings and heating systems. Promote competition in major energy networks and improve connectivity with EU energy networks.

<sup>21</sup> Thematic objectives 1, 2, 3, 9, 10 and 11 according to the draft Regulation

<sup>22</sup> 30% if the conditions are right

<sup>23</sup> Gross inland consumption of primary energy excluding non-energy uses

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Supporting a multimodal Single European Transport Area by investing in the Trans-European Transport Network (TEN-T):
  - Construction of a new fully interoperable UIC<sup>24</sup> higher speed railway connection to central Europe – ‘Rail Baltica’ (the TEN-T Baltic-Adriatic Corridor), electrification and upgrading of the existing TEN-T core and comprehensive rail networks, including the implementation of the European Rail Traffic Management System (ERTMS), the purchase of modern rolling stock<sup>25</sup> and other measures for a more efficient and competitive rail sector.
  - Construction and reconstruction of missing links in the TEN-T core road network, including implementation of traffic management systems, as well as road pricing and user charging systems to ensure adequate resources for maintenance.
  - Construction of multi-modal and interoperable nodes (i.e. cities and ports), as well as logistic centres including comprehensive information systems, especially along the TEN-T Baltic-Adriatic Corridor.
2. Developing environment-friendly and low-carbon transport systems and promoting sustainable urban mobility:
  - Development of multimodal, integrated, intelligent and low carbon public and urban transport systems, including measures promoting the use of public transport over private cars and the upgrading of the public road transport fleet to use renewable energy sources.
  - Development of low-carbon transport infrastructure (i.e. fuelling and charging), other innovative projects and measures that promote the usage of low-carbon and latest generation vehicles that embody technology with higher fuel efficiency.
3. Enhancing regional mobility through connecting secondary and tertiary nodes to the TEN-T infrastructure:
  - The construction and reconstruction of those roads that play an important role in long-distance traffic flows (i.e. bypassing urban areas), integrating main urban and economic centres, interconnecting with other transport modes, connecting the comprehensive network with regional infrastructure, including implementation of traffic management systems, as well as road pricing and user charging systems to ensure adequate resources for maintenance.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- The aim of the EU transport policy is to promote sustainable mobility that is efficient, safe and with reduced negative effects on the environment. Therefore, any future support from the CSF Funds to the transport infrastructure should be based on a comprehensive, integrated, intermodal and evidence-based national transport plan with appropriate prioritisation of projects according to their contribution to mobility, sustainability, reduced GHG emissions and the highest EU added-value. The quality

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<sup>24</sup> International Union of Railways

<sup>25</sup> In line with the EU guidelines on State aid for railway undertakings

and timely finalisation of the transport plan is crucial as it should serve as the main reference document for transport investment decisions in Latvia<sup>26</sup>.

- Only measures complying with the TEN-T guidelines<sup>27</sup> shall be eligible.
- Implementation of the ‘user pays’ principle to ensure proper maintenance. As a starting point it is recommended that Latvia introduces a road charge applicable to heavy goods vehicles, with a significant share of the revenues earmarked to the maintenance of the transport infrastructure<sup>28</sup>.
- Taking into account the enormous financing requirements of the national transport infrastructure and the equally large funding shortfall, the national transport plan should consider also additional financing arrangements to meet infrastructure and service needs (i.e. public-private partnership, financial engineering).

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, low carbon economy, climate change, environment, social inclusion and institutional capacity.<sup>29</sup>

**Thematic objective: Supporting the shift towards a low-carbon economy in all sectors**

Europe 2020 headline target	Current situation	National 2020 target in the NRP
20% GHG emissions reduction compared to 1990 <sup>30</sup>	+6% (2010 non-ETS emissions compared to 2005) Based on current policies, in 2020 +18%, 2020 non-ETS projections compared to 2005	+17% (national binding target for non-ETS sectors compared to 2005 )
20% of gross final energy consumption from RES	32.57% (2010)	40%
20% increase in energy efficiency	Gross domestic energy consumption: 4.54 <sup>31</sup> Mtoe in 2010	Energy savings of 0.668 Mtoe, including transformation sector (compared to 2008 level of 4.6 Mtoe)
<b>Country Specific Recommendation:</b> Further encourage energy efficiency by implementing measures and providing incentives for reducing energy costs and shifting consumption towards energy-efficient products, including vehicles, buildings and heating systems. Promote competition in major energy networks and improve connectivity with EU energy networks.		

<sup>26</sup> The transport plan should include chapters on all main modes (railway, road, maritime and air transport) intermodal aspects (including public transport and intelligent transport systems), as well as urban mobility and transport development (with appropriate attention not only to the capital city) by indicating necessary coordination arrangements for any cross-border infrastructure. It should address such issues as energy, climate change, intermodality, maintenance, fuel pricing, integrated user charging, avoidance, mitigation or compensation for any negative externalities and accessibility for persons with disabilities, as well as provisions for capacity building

<sup>27</sup> COM/2011/0650 final/2 - 2011/0294 (COD)

<sup>28</sup> In accordance with the provisions of Directive 1999/62/EC, all new road charging schemes which apply to heavy goods vehicles on at least part of the TEN-T and/or motorway network must be notified to the Commission at least 6 months before their introduction. In addition, electronic tolling arrangements must comply with the legislation on the European Electronic Toll Service (EETS) - [Directive 2004/52/EC](#) and Decision 2009/750/EC

<sup>29</sup> Thematic objectives 1, 4, 5, 6, 9, and 11 according to the draft Regulation

<sup>30</sup> 30% if the conditions are right

<sup>31</sup> Gross inland consumption of primary energy excluding non-energy uses

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Developing smart distribution systems at low voltage levels and promoting distribution of renewable energy sources:
  - Build and upgrade low-voltage distribution networks, including smart grids and integration of distributed generation with the grid.
  - The upgrading of networks to ensure uptake from renewable energy sources.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Any future energy efficiency actions supported by the CSF Funds should be focused on carefully determined areas where the economic and technical potential for reductions is the highest for the money invested. Benefits derived from energy efficiency investments should be increased by introducing the legal and fiscal framework necessary for energy performance contracting and the related cost-optimal methodology.
- To meet the RES target, Latvia should make further progress in enforcing a coherent, stable and predictable renewable energy support framework established under the National Energy Efficiency Action Plan that would facilitate the integration of distributed RES production in the electricity grid and local heating networks.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, SMEs, environment, transport, education and institutional capacity.<sup>32</sup>

<b>Thematic objective: Enhancing access to and, use and quality of information and communication technologies</b>
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For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Extending broadband deployment and the roll-out of high-speed networks:
  - Roll-out of open, affordable and future-proof Next Generation Access Infrastructure that is accessible to all in under-served areas and in the economic centres of the less developed regions.
  - Improvement and expansion of the broadband infrastructure, especially in remote areas.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

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<sup>32</sup> Thematic objectives 1, 3, 6, 7, 10 and 11 according to the draft Regulation

- Any future CSF funds' investments should be based on priority actions where the market fails to deliver, as identified by the national digital growth strategy and broadband deployment plan.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, SMEs, human capital development, education, social inclusion and institutional capacity.<sup>33</sup>

#### **FUNDING PRIORITY: HIGH EMPLOYMENT, SKILLED PEOPLE AND INCLUSIVE SOCIETY**

The objectives of the funding priority **High employment, skilled people and inclusive society** will be achieved primarily by thematic objectives 'Promoting employment and supporting labour mobility', 'Promoting social inclusion and combating poverty' and 'Investing in education, skills and lifelong learning'.

#### **Thematic objective: Promoting employment and supporting labour mobility**

<b>Europe 2020 headline target</b>	<b>Current situation</b>	<b>National 2020 target in the NRP</b>
75% of the population aged 20-64 should be employed	67.2% (2011)	73%
<b>Country Specific Recommendation:</b> Take measures to reduce long-term and youth unemployment by fighting early school leaving, promoting more efficient vocational education and training and its apprenticeship component, enhancing the quality, coverage and effectiveness of active labour market policy and its training component and through an effective wage subsidy scheme.		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF Funds:

1. Access to employment for job-seekers and inactive people, including local employment initiatives and support for labour mobility:
  - Increase ALMP coverage and activation rate.
  - Support implementation of the youth guarantee within four months after leaving school.
  - Increase employment rate of older people.
  - Increase the share of flexible modes of work.
  - Increase regional mobility.
  - Support for diversification into non-agricultural and non-fisheries activities in rural and fisheries dependent areas, as well as enhance mobility between maritime sectors.
  - Create jobs in fisheries and coastal communities by adding value to fisheries' activities and products and in aquaculture by increasing unit value through improved quality, better marketing, additional processing and development of new species, quality farmed fish etc.

<sup>33</sup> Thematic objectives 1, 3, 8, 9, 10 and 11 according to the draft Regulation

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- CSF Funds should assist active measures; support to public works-type measures should be limited.
- ALMP and social assistance needs to be effectively coordinated to reach the difficult target groups.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, ICT, SMEs, education, social inclusion and institutional capacity.<sup>34</sup>

<b>Thematic objective: Promoting social inclusion and combating poverty</b>
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<b>Europe 2020 headline target</b>	<b>Current situation</b>	<b>National 2020 target in the NRP</b>
Reducing the number of people at risk of poverty or exclusion by 20 million in the EU	19.3% (share of persons at risk of poverty or 97 000 lifted out the risk of poverty and/or jobless households by 2011)	21% (share of persons at risk of poverty or by lifting 121 000 people out of the risk of poverty and/or jobless households)
<b>Country Specific Recommendation:</b> Tackle high rates of poverty and social exclusion by reforming the social assistance system to make it more efficient, while better protecting the poor. Ensure better targeting and increase incentives to work.		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF Funds:

1. Active inclusion:
  - Reduce barriers to employment (e.g. discrimination, caring obligations, health problems, transportation problems) for disadvantaged groups to increase integration in the labour market.
  - Strengthen social integration of disadvantaged groups.
  - Promote inclusive education<sup>35</sup>.
  - Support for social inclusion through community-led local development strategies, building on the Leader approach and local action groups currently applied under EAFRD and EMFF.
2. Enhancing access to affordable, sustainable and high-quality services, including health care and social services of general interest:
  - Improve targeting of social assistance benefits to ensure that they effectively reach the poor.
  - Support development of social assistance data management and monitoring system.
  - Improve availability, quality and effectiveness of social work.

<sup>34</sup> Thematic objectives 1, 2, 3, 9, 10 and 11 according to the draft Regulation

<sup>35</sup> Inclusive education as a process whereby the school systems, strategic plans, and policies adapt and change to include teaching strategies for a wider more diverse range of children and their families

- Reduce share of people in institutional care.

Assuring performance of investments by CSF Funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Recommendations of the World Bank research "Latvia: Who is Unemployed, Inactive or Needy? An Assessment of Post-Crisis Policy Options" and outcomes of the dialogue with the European Commission in this context should be taken into account regarding improvement of the social assistance system.
- Support to the most vulnerable groups should be also provided when they are in a job in order to avoid rotation between low quality jobs and unemployment/inactivity.
- Employers should be more actively engaged to increase work opportunities for vulnerable groups.
- Expertise from non-governmental organisations (NGOs) should be used when designing and implementing social integration measures.
- Sustainability of community based care should be ensured.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, ICT, SMEs, transport, human capital development and education.<sup>36</sup>

**Thematic objective: Investing in education, skills and lifelong learning**

Europe 2020 headline target	Current situation	National 2020 target in the NRP
The share of early school leavers should be under 10%	11.8% (2011)	13.4%
At least 40% of 30-34 years old should have completed a tertiary education	35.7% (2011)	34-36%
<p><b>Country Specific Recommendations:</b> Take measures to reduce long-term and youth unemployment by fighting early school leaving, promoting more efficient vocational education and training and its apprenticeship component, enhancing the quality, coverage and effectiveness of active labour market policy and its training component and through an effective wage subsidy scheme.</p> <p>Continue reforms in higher education, <i>inter alia</i>, by implementing a new financing model that rewards quality, strengthens links with market needs and research institutions, and avoids fragmentation of budget resources. Design and implement an effective research and innovation policy encouraging companies to innovate, including via tax incentives, upgrading infrastructure and rationalising research institutions.</p>		

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF Funds:

1. Reducing early school-leaving and promoting equal access to good quality early-childhood, primary and secondary education:
  - Support implementation of strategies for fighting early school-leaving encompassing prevention, intervention and compensation.

<sup>36</sup> Thematic objectives 1, 2, 3, 7, 8 and 10 according to the draft Regulation

- Raise skills and competence of teachers, including provision of induction to new teachers. Increase use of modern teaching methods and development of creative skills.
  - Support implementation of national career guidance system.
2. Improving the quality, efficiency and openness of tertiary and equivalent education with a view to increasing participation and attainment levels:
    - Increase share of mathematics, science and technology studies' graduates.
    - Strengthen co-operation with employers in design and delivery of programmes and quality assurance, placements and internships, workplace learning.
    - Support development of strategic partnerships with research sector and businesses for innovation.
  3. Enhancing access to lifelong learning, upgrading the skills and competences of the workforce and increasing the labour market relevance of education and training systems:
    - Raise participation rate in VET.
    - Raise skills and competence of VET teachers, including provision of induction to new teachers. Increase use of modern teaching methods and development of creative skills.
    - Support development and implementation of VET in-company apprenticeship system.
    - Increase participation rate in lifelong learning, including for low skilled, disadvantaged, pre-pension age.
    - Support diversification of the training offer (including new training, for example, green skills<sup>37</sup>, blue economy skills and ICT) in relevance to labour market needs and introduction of flexible modes of delivery (evening classes, distance learning, modular learning).
    - Support effective implementation of the qualification framework and the system for validation of non-formal and informal learning.
  4. Investing in education, skills and lifelong learning by developing education and training infrastructure:
    - Support for investments in education and training infrastructure particularly with a view to optimisation of the education system, as well as reducing territorial disparities and increasing the responsiveness of education and training systems to evolving patterns of skills needs and demands.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Career counselling provided by the career guidance system should be independent, impartial and in the best interests of the student. Solid co-operation between education and labour market institutions as well as employers in this area is crucial.

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<sup>37</sup> Skills for transition to a low-carbon and climate resilient economy

- Any future CSF funds' investments in education infrastructure should build on a comprehensive strategy for education system development, including evaluation results of past investments in the field.
- The VET system should be brought in compliance with the European Quality Assurance Reference Framework for VET (Recommendation 2009/C 155/01 of the European Parliament and the Council).
- VET should provide its students with both vocational competences and broader key competences, including transversal competences, to enable them follow further education and training.
- Scholarship-type measures in VET should be targeted at inclusion of the disadvantaged for greater sustainability.
- For more labour markets relevant VET partnership among education and labour market institutions and employers should be strengthened.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, ICT, SMEs, low-carbon economy, human capital development and social inclusion.<sup>38</sup>

**FUNDING PRIORITY: ENERGY EFFICIENCY AND SUSTAINABLE MANAGEMENT OF NATURAL RESOURCES**

The objectives of the funding priority **Sustainable management of natural resources and efficient use of energy** will be achieved primarily by thematic objective 'Protecting the environment and promoting resource efficiency' as well as thematic objectives 'Supporting the shift towards a low-carbon economy in all sectors' and 'Promoting climate change adaptation, risk prevention and management'.

**Thematic objective: Supporting the shift towards a low-carbon economy in all sectors**

Europe 2020 headline target	Current situation	National 2020 target in the NRP
20% GHG emissions reduction compared to 1990 <sup>39</sup>	+6% (2010 non-ETS emissions compared to 2005) Based on current policies, in 2020 +18%, 2020 non-ETS projections compared to 2005	+17% (national binding target for non-ETS sectors compared to 2005 )
20% of gross final energy consumption from RES	32.57% (2010)	40%
20% increase in energy efficiency	Gross domestic energy consumption: 4.54 <sup>40</sup> Mtoe in 2010	Energy savings of 0.668 Mtoe, including transformation sector (compared to 2008 level of 4.6 Mtoe)

**Country Specific Recommendation:** Further encourage energy efficiency by implementing measures and providing incentives for reducing energy costs and shifting consumption towards energy-efficient products, including vehicles, buildings and heating systems. Promote competition

<sup>38</sup> Thematic objectives 1, 2, 3, 4, 8, and 9 according to the draft Regulation

<sup>39</sup> 30% if the conditions are right

<sup>40</sup> Gross inland consumption of primary energy excluding non-energy uses

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Promoting energy efficiency and renewable energy use and promoting low-carbon strategies:
  - Deep energy efficiency retrofitting in the public buildings and housing sectors, including integrated RES solutions and investment in the wider use of Energy Performance Contracting.
  - Energy efficiency measures in economic activities, i.e. industry, services, agriculture, especially in SMEs, together with renewable energy use.
  - Energy savings in production, transmission and distribution of energy, including modernisation of district heating systems, co-generation units, efficient lightning infrastructure in public areas and accurate energy measurements for individual consumption. Promotion of renewable energy use in district heating in synergy with efficiency improvements in local co-generation plants and district heating networks.
  - Support to targeted agri-environmental measures to enhance carbon sequestration (forests, soils, peatlands and grasslands), including ecosystem based approaches.
  - Support to sustainable manure storage, lower use of nitrogen fertilisers to reduce emissions from agricultural soils.
2. Promoting the production of renewable energy sources:
  - Support for environmentally friendly renewable energy production both at the energy system level (e.g. wind, bio-energy, solar energy, offshore) but also for own consumption and local supply (e.g. biogas, biomass from agricultural and forestry residues)<sup>41</sup>.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Any future energy efficiency actions supported by the CSF Funds should be focused on carefully determined areas where the economic and technical potential for reductions is the highest for the money invested. Benefits derived from energy efficiency investments should be increased by introducing the legal and fiscal framework necessary for energy performance contracting and the related cost-optimal methodology.
- To meet the RES target, Latvia should make further progress in enforcing a coherent, stable and predictable renewable energy support framework established under the National Energy Efficiency Action Plan that would facilitate the integration of distributed RES production in the electricity grid and local heating networks.

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<sup>41</sup> In full compliance with the birds and Habitat Directives and avoiding risk of non-sustainable intensification of forestry, land take for biofuels and biomass and short rotation coppice

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, SMEs, environment, transport, human capital development, education and administrative capacity.<sup>42</sup>

**Thematic objective: Protecting the environment and promoting resource efficiency**

For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Addressing the significant needs for investment in the water sector to meet the requirements of the environmental *acquis*:
  - Investments in waste water treatment infrastructure and collection networks to ensure compliance with the Directive 91/271/EEC, including proper sludge management.
  - Investments in drinking water infrastructure, including reductions of leakages from networks, to ensure compliance with Directive 98/83/EC.
2. Addressing the significant needs for investment in the waste sector to meet the requirements of the environmental *acquis*:
  - Pursue changes in the waste management system in line with the waste hierarchy, for example by reducing the amount of landfilled waste and increasing the share of recycling, implementing Waste Management Plans, encouraging resource recovery and diversion of biodegradable municipal waste from landfills, as well as development of more efficient waste-to-energy systems.
3. Protecting biodiversity, including marine biodiversity, soil protection and restoration, promoting ecosystem services, including NATURA 2000, green infrastructure, aquaculture and the marine environment:
  - Promote collective approaches for provision of environmental public goods, promote greening activities and continue biodiversity preservation measures by supporting sustainable farming practices, including organic farming and prevention of farmland abandonment.
  - Development of designation proposals and management plans including, where necessary, fisheries management measures for maritime NATURA 2000 sites.
4. Promoting sustainable and resource-efficient fisheries and aquaculture and integrated maritime policy:
  - Development of sustainable coastal fishing communities in Latvia (i.e. fishing at Maximum Sustainable Yield, introduction of a discard ban strategy, improvement of data collection for resource conservation purposes, strengthening the control of the implementation of CFP rules and continuation of effective reduction of overcapacity).
  - Promote the Maritime Spatial Planning and Integrated Coastal Zone Management<sup>43</sup>, access to marine knowledge, integrated maritime surveillance, as well as the sustainable innovative exploration and exploitation of marine resources.

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<sup>42</sup> Thematic objectives 1, 3, 6, 7, 8, 10 and 11 according to the draft Regulation

<sup>43</sup> Implementing the Spatial Planning Law (2011) and the Strategy for Spatial Development of Coastal Area (2011)

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- Direct results orientation of investments in order to achieve the environmental *acquis*, with a clear link between these results and end-users (i.e. the real connection of the population to the centralised water and waste water networks).
- Investments should be based on optimal territorial solutions (as determined by i.e. River Basin Management Plans, Regional Waste Management Plans) and optimal technologies, leveraging the latest technological achievements, best value for money invested and minimum environmental impact of human activities.
- Due to its special geographical, climatological, and oceanographic characteristics, the Baltic Sea is highly sensitive to the environmental impacts of human activities, including fishing. Therefore, cooperation and coordination among the Baltic Sea countries under this thematic objective is of utmost importance, in order to maximise the intervention impact and minimise the inefficiencies of duplicated efforts. Moreover, investments under this thematic objective should be clearly linked with achieving the targets of the EUSBSR and the Blue Growth initiative<sup>44</sup>.
- CSF Funds financing to NATURA 2000 should be consistent with the prioritised action framework<sup>45</sup>.
- Land uptake, deforestation and soil degradation should be limited with priority given to restoration of brownfields.
- Latvia should set in place and/or expand/improve economic instruments in the field of environment (in particular, waste and water) to help ensure full implementation of the EU environmental legislation and to encourage a more efficient use of these resources in line with the Roadmap to a Resource Efficient Europe<sup>46</sup>.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, SMEs, low-carbon economy, climate change and transport.<sup>47</sup>

<b>Thematic objective: Promoting climate change adaptation and risk prevention and management</b>
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For this thematic objective the funding priority translates into the following priorities and specific objectives reflecting country specific challenges to be supported by the CSF funds:

1. Supporting dedicated investment for adaptation to climate change:
  - Invest in ecosystem-based risk prevention and management and adaptation measures, including the integration of climate change adaptation and risk prevention.
2. Promoting investment to address specific risks, ensuring disaster resilience and developing disaster management systems:

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<sup>44</sup> Commission Communication on Blue Growth opportunities for marine and maritime sustainable growth (COM(2012) 494 final)

<sup>45</sup> Art. 8 of the Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora

<sup>46</sup> COM(2011) 571 of 20.9.2011

<sup>47</sup> Thematic objectives 1, 3, 4, 5 and 7 according to the draft Regulation

- Support to specific risk prevention, as identified by the national adaptation strategy, including use of ecosystem-based adaptation, address potential new pests and diseases and green infrastructure.

Assuring performance of investments by CSF funds under this thematic objective requires meeting the relevant ex-ante conditionalities. In addition the following general considerations would improve governance and delivery:

- In adaptation, risk prevention and risk management activities cooperation across regions and Member States is particularly important and should be pursued, especially through the EUSBSR.

Actions under this thematic objective may contribute, if relevant, to related interventions identified under thematic objectives aimed at RTD&I, SMEs, environment and transport.<sup>48</sup>

## C. ADMINISTRATIVE ARRANGEMENTS

### General assessment of administrative capacities

Over the past years Latvia has demonstrated administrative capacity to manage and implement the CSF funds. There is however still a need to increase administrative capacity of responsible institutions.

The key principle of **sound financial management** remains the basis for the development of management and control systems (MCS) in the next programming period. For the CSF funds, Latvia is encouraged to reflect on how sound financial management could be further enhanced by the application of simplification, improved coordination of funds and programmes, better addressing potential conflicts of interests, favouritism and corruption, cutting administrative costs and burden for the beneficiaries and, for cohesion policy, by the wider use of e-cohesion possibilities.

Regarding CSF funds management Latvia should reinforce the strategic input and improve efficiency of the **decision making**. Likewise, Latvia should ensure a sufficient capacity to set ambitious future targets and secure their implementation under an appropriate level of **monitoring and control**. More flexibility and well supervised delegation of responsibilities to the ministerial level (as opposed to the Cabinet of Ministers) is also needed.

The MCS for 2014-2020 should build on the positive achievements in the 2007-2013 period. The planned simplification of the CSF funds' institutional set-up should ensure real efficiency gains, sufficient continuity of the administrative capacity to deliver and be content (thematic objective/priority) based. In any set-up, the managing authority should have the mandate to assure its role in monitoring, with a focus on quality and value-for-money, in evaluation and controls. It would strengthen the MCS if for the management of the ERDF, CF and ESF, the managing authority and auditing authority would be placed in separate public bodies.

The current institutional set-up for the Latvian rural development measures could be adequate for the new programming period. However, Latvia should ensure that the verifiability and controllability of the rural measures proposed are confirmed in advance by the services responsible for implementation and controls.

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<sup>48</sup> Thematic objectives 1, 3, 6 and 7 according to the draft Regulation

Important changes will be required in the institutional set-up of the MCS for the EMFF due to the shift to the delivery system which is currently in place for EU funding for agriculture and rural development, as well as due to the incorporation of financial instruments for fisheries data collection, fisheries control and common market measures under the shared management, instead of the previous direct management by Directorate-General for Maritime Affairs and Fisheries.

With regard to **the implementation of the EUSBSR**, the managing authorities of the CSF funds and the Ministry of Foreign Affairs should build the necessary cooperation platforms with other Member States for contributing better to the strategic design of the Partnership Agreement and programmes in this respect.

For the CSF funds, Latvia should continue to strengthen its administrative capacity, in particular in **evaluation and monitoring** as well as public procurement and specific technical competences related to transport and environmental infrastructure. Latvia should also assure adequate staffing levels and availability of competent staff for CSF funds management. High staff turnover should be prevented through effective human resource management policies.

The Management Information System (MIS) should be adjusted in line with administrative changes and should be developed to the effect that all data exchange between beneficiaries and authorities responsible for management and control of programmes can be carried out solely electronically.

### **Project delivery**

To ensure smooth delivery of projects it is recommended to expand the project pipeline initiatives providing tailored assistance for project beneficiaries as regards the project preparation and management, in particular in RTD&I and development of low carbon transport systems (especially railway infrastructure).

### **Administrative burden**

Administrative capacity of beneficiaries is good. However, information and advice provided by the Latvian authorities managing CSF funds should be improved.

More efforts to reduce **administrative burden** for beneficiaries need to be undertaken. Some measures in this respect have been already implemented in the 2007-2013 programming period. However, the MCS are still very complex and so are most procedures put in place by the intermediate bodies. In the view of the Commission, further simplification efforts are necessary.

Latvia is invited to fully explore possibilities of simplified cost options as well as use of Joint Action Plan (JAP). If applied correctly, these provisions could be an essential element of simplification for both beneficiaries and management bodies.

### **Partnership**

It is important to strengthen **partnership** among economic and social partners, regional and local partners, NGOs, including environmental ones and bodies responsible for promoting equality and non-discrimination in the programming, implementation, monitoring and evaluation of the CSF funds.

Substantial ESF support for strengthening capacity of social partners has been provided in the previous periods. ESF has also supported NGOs and regional partners. Effectiveness and sustainability of this support, however, remains to be fully assessed and so are real needs for continued support. Involvement of partners in 'thematic projects', however, has proven valuable and should be continued.