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**Subject: Observations on the Annual Implementation Reports (AIR) 2010,
article 67§4 of EC Regulation 1083/2006**

Ref.: Operational Programmes
2007LV161PO001
2007LV161PO002

Please note that all correspondence should mention the registration number which you will find next to the date

Dear Mr Antonovs

On 17 June 2011, the Commission received the Annual Implementation Reports (AIRs) 2010 for the Operational Programme "Entrepreneurship and Innovations" and Operational Programme "Infrastructure and Services" 2007-2013 which have been approved by the monitoring committee on 13 June 2011.

On 22 June 2011 the Commission declared the Annual Implementation Reports admissible. The Commission services appreciate that the AIRs include a short summary in English.

In line with Article 67 §4 of Regulation (EC) 1083/2006, the Commission services have now finalised the qualitative assessment of the reports and found them satisfactory. However, please find in the attached Annex 1 our comments that have to be taken into consideration for improving the implementation and to be reflected in the current and the forthcoming annual implementation reports. It is specifically noted whether the comment relates to the current or the future reports. Please make the necessary amendments concerning the current report 2010 within 2 month upon reception of this letter.

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Finally, as you might recall, in the previous years we recommended that the future Annual Implementation Reports conclude with a number of proposals to be discussed and adopted by the monitoring committee.

Please see below our suggestions for the points to be included in the next monitoring committees.

Recommendations to the monitoring committee and points to be raised at the Annual Review Meeting

The purpose of the recommendations to the monitoring committee is to try to respond to the challenges and solve possible problems in the implementation of the programmes. Therefore, these recommendations for remedial actions should derive from and reflect the issues raised in the evaluation, risk analysis, and in identifying deviations from the strategic objectives during the implementation. They also have to reflect the Commission observations.

The Commission would, in particular, like to invite the managing authority to report and inform the monitoring committee during the next meetings on:

- (1) Its level of assurance as regards the soundness of financial management in 2010;
- (2) The actions to be taken to remedy the identified risks of deviation from the targeted objectives in implementing the different priorities;
- (3) The actions to be taken in order to better prepare for the post 2013 period, including:
 - Use of the evaluation results (especially the main findings of the ex-post evaluations);
 - Use of cross-coordination approach.
- (4) The actions to strengthen the supervision of:
 - The selection process and proposals to reinforce alignment of the implementation with the objectives;
 - Respect of EU and national regulations as regards public procurement rules, state aid schemes.
- (5) Proposals on evaluation studies to be launched in 2012.

To conclude, I would like to thank the managing authority for its efforts and willingness to improve the Annual Implementation Reports. I would encourage a further exchange between my services and the Latvian authorities in order to streamline the report and make it a useful tool in the programme implementation and monitoring processes.

Yours sincerely

Charlina Vitcheva

Annex: - Comments on the AIRs for Operational Programmes for year 2010

Comments on the Annual Implementation Reports for Operational Programmes 'Entrepreneurship and Innovations' (2007LV161PO001) and 'Infrastructure and Services (2007LV161PO002) for year 2010

If not specified otherwise, the comments relate to both OP 2007LV161PO001 and OP 2007LV161PO002 Annual Implementation Reports.

1. General comments

Simplification of the reporting

The Commission notices that the report has become a rather heavy and formalistic document. The amount of work invested in the reporting should be proportionate to its usefulness and the value added. The analysis provided in the report often concentrates on procedures and processes of organising the actions in certain areas. It would be beneficial to concentrate more on the substance (e.g. achieved results, ongoing issues, remedy actions, etc.) and to reduce as much as possible the formalistic approach. If necessary, it could be further discussed in the next annual examination meeting (AEM) on 13 September 2011.

Complementarity when reporting on priorities

The main idea when reporting on priorities is how to better ensure the achievement of the objectives. The complementarity aspects are of importance in this regard. For example, when reporting on implementation of science and innovation priority, the complementarity with other activities contributing towards the same goal should be used to make the analysis more complete. Another aspect of complementarity relates to the different instruments used. For this purpose the chapter 2.5 reports on complementarity with other financial instruments and actions to ensure demarcation. However, the information on other instruments could also be useful when reporting on priorities. For example, when reporting on energy efficiency, the information on the existing complementary instruments contributing towards similar objectives could be inserted. It is recommended to consider these aspects in the forthcoming AIRs. Ideally, and importantly for the next programming period, the combination of different activities and instruments at hand should lead to better achievement of the objectives.

2007LV161PO001: In addition to the regular reporting on complementarity with other financing instruments as stated in Article 9 (2) of the General Regulation, the chapter 2.5 has been updated by analysis on the complementarity of certain activities and the achieved results. As indicated in the above comment, this additional analysis would be useful if integrated under the reporting on priority objectives. We suggest to make the correction in the current AIR 2010.

2. The strategic aspects

Progress towards the strategic objectives of the OPs

– Innovations

2007LV161PO001: One of the main elements of the OP is to foster innovations. The report would benefit from a clearer reflection on this global objective. Are the currently implemented activities sufficient towards fostering innovations? We would like to turn your attention in general towards the innovation policy in Latvia and ask for a critical assessment whether the measures under the current OP would give the intended

outcome? The experience with the last programming period proved that fostering innovations was not successful. With that in mind and the analysis of the current implementation, please provide comments in the next AIR 2011 on the actions intended to deliver innovations in the current period (please see more comments under the implementation part below).

– Entrepreneurship

2007LV161PO001: Support to enterprises is the main pillar of the OP. Similarly as for the Innovations it would be useful to reflect on the usefulness and effectiveness of the current measures in order to promote entrepreneurship. We note that a significant part of the funding under the priority 2.3 'Promotion of Entrepreneurship' (e.g. 25 Million Euro (25%)) is directed towards participation at the international exhibitions and fairs. The evaluation results from the previous programming period could not prove much of the added value of this activity. During the current implementation period a similar development can be noticed (please see our specific comments under the implementation part below).

Lisbon Policy links of the programme

The reports demonstrate an improved analysis on the Lisbon Policy links, i.e. the assessment of physical progress of different measures has been accompanied by an analysis on reaching the objectives. However, we would like to turn your attention to some points:

2007LV161PO001: One of the Lisbon's objectives is to increase the employment rate. The report mentions business incubators and motivation programmes as the activities contributing towards reaching this goal. Are there any other activities within the OP promoting employment? Some aggregate data, if available, on what is the total contribution of the OP towards increasing the employment rate would be welcome in the next AIR 2011.

2007LV161PO002: A clearer outline on the identified Lisbon objectives would be necessary (similarly as in 2007LV161PO001). Having the objectives as a starting point, a relevant analysis on how the various activities contribute towards each objective are expected in the next AIR 2011.

Baltic Sea Region Strategy

It is beneficial that the reports identify different sectors (such as R&D&I, Transport, ICT, Energy etc.) contributing towards the BSS priority areas. In order to see the whole picture, it would be suggested to consider which, of the OP activities contribute or complement the other ongoing actions/projects directly coordinated under the BSS. The analysis would be more beneficial if, to some extent, it would be made at the individual project level. For the next AIRs it is recommended to further maximise efforts to align OP activities to the actions under the BSS framework.

2007LV161PO001: It is reported (91 and 92 paragraphs) that the implementation of the activities contributing towards the BSS priorities 7 and 8 has been successful. The conclusion is based on the average percentage of financial implementation of both priorities. The figures are distorted by the fact that within the financial instruments activities 100% has been paid out to the final beneficiaries. i.e. the investment fund or a designated financial institution and not to the enterprises. Furthermore, the results of

implementation of priority 7 – to utilise R&D&I potential – are low (only 10.8% of payments have reached final beneficiaries). Thus the conclusion on financial progress does not appear to reflect the real situation. Furthermore, some analysis of the reached and expected results (apart from financial figures) in contribution towards 7 and 8 priorities would be welcome. Please make the necessary corrections in the current AIR 2010.

Horizontal Priorities

In general, the reporting on most of the HPs demonstrates useful and balanced analysis. In the light of an improved reporting and of the fact that the implementation of the current period is well advanced, it could be suggested to reflect on the currently implemented measures/activities in terms of their capacity to reach the respective HP objectives. Are there any sectors which would deserve more attention? What are the critical areas to be addressed to improve the situation, if not in this period, then, what are the points to take into account for the next programming period? We invite to reflect on these issues in the next AIRs 2011.

– Macroeconomic stability

2007LV161PO001: The reporting demonstrates a balanced analysis with examples of key activities contributing towards the attainment of HP. Given the importance of the HP objective, i.e. to ensure that the investments are directed to the key sectors in order to provide a long term positive impact in the Latvian economy, it would be useful, if more analysis and constructive conclusions would address the progress towards this specific objective (please consider it for the next AIRs). The findings could serve as an input in the preparatory work for the future programming period.

On the technical level, some information reflected in the report is not very clear and should be corrected in the current AIR 2010. The report mentions that 75.4 M Euro is invested in the manufacturing which is the 4th biggest sector where EU funding has been directed. Furthermore, the figure Nr. 20 demonstrates the main investment areas according to NACE codes where the 4th biggest investment area is labelled as Q (Extra-territorial organizations and bodies, according to NACE codes) which is not in line with the above statement. It would be necessary to include the explanation of the codes used in the figure Nr. 20.

Furthermore, the analysis of the external marketing activity should be clarified in the current AIR 2010. The figure Nr. 21 demonstrates that the 66% of the completed projects have targeted sector C which according the NACE codes is mining and quarrying. Is that correct? What kind of investment has been made in this sector? A more clear presentation of information and analysis of how the marketing activity contributes towards the HP in question would be welcome.

Finally, in the next AIR 2011 please include a more explicit analysis of the given information and the figure Nr. 20, e.g. are the targeted investment areas (especially P, N, O, Q and J) in line with the Latvian development strategy? Are there any areas where more investments should be directed in order to attain a long term sustainability and growth? What are the conclusions of the current situation?

2007LV161PO002: The current reporting on the HP Macroeconomic stability demonstrates an approach where each of the Ministries in charge presents its achievements of the HP within separate areas (transport, education, environment). For

the next AIR 2011 it is suggested to add a cross sectoral analysis, illustrated by figures, on how the different investment areas contribute towards HP. It would allow assessing to what extent the current investment priorities are in line with the main HP objective: e.g. to ensure that the investments are directed to the key sectors in order to provide a long term positive impact in the Latvian economy, and what could be improved in the future.

– Sustainable development

2007LV161PO001: Thank you for taking onboard most of our comments to the draft AIR's as regards the HP Sustainable development (SD). To streamline the reporting it would be suggested to make a distinction between the activities directly contributing towards the attainment of the HP, and the activities with an indirect contribution. It is recommended to include more of the analysis on reaching the HP objectives in the next AIR 2011.

Application of 'green procurement' is a positive development. It is reported that within the activities 2.3.2.2, 2.1.2.2.2 and 2.1.2.4 there are 54 projects identified for application of 'green procurement'. 19 projects have already been completed and all of them have applied 'green procurement'. It is suggested to continue to report in the future AIRs on application of 'green procurement' and if possible to insert a good practice example.

2007LV161PO002: Thank you for taking into account our comments to the draft AIRs and streamlining the reporting of this section. It is clear that the Infrastructure and Services OP is a key programme delivering towards SD HP. In the next AIRs it is suggested to include more of a critical assessment whether the investment areas and the distribution of financing across different sectors have been optimal and well targeted in order to successfully achieve the SD HP. An analysis of your findings and conclusions would be a useful element for the next programming period.

– Equal opportunities

2007LV161PO001: Paragraph 127 requires clarification as it does not provide clear understanding on correct share of activities with an impact on equal opportunities (EO) (currently it states that 54% of all activities have not a direct impact on EO. At the same time it is noted that some of these activities have an impact on EO). It is advised to use division of projects based on description in paragraph 125. The information would also require more extensive and quantified analysis on project types and numbers, as well as a description of main problems regarding application of EO approach. Please make the necessary corrections in the current AIR 2010.

2007LV161PO002: Paragraph 139 requires clarification as it does not provide clear understanding on correct share of activities with an impact on equal opportunities (EO) (currently it states that 20% and 10% of all activities have not a direct impact. At the same time it is noted that some of these activities have an impact on EO). It is advised to use division of projects based on description in paragraph 138. The information would also require more extensive and quantified analysis on project types and numbers, as well as a description of main problems regarding application of EO approach. Please make the necessary corrections in the current AIR 2010.

3. Implementation of the priorities (achievement of the objectives and reporting on indicators)

On a general line, it is strongly recommended to speed up the implementation progress on the ground of both Operational Programmes. Moreover, it should be reminded that the analysis of implementation has to be based on financial and physical indicators (core, output and impact) and complemented with the identification and interpretation of the bottlenecks and major factors impacting the progress of each priority and measure: the substance should concentrate more on qualitative assessment than on description. It is recommended to take these aspects into account for the next AIRs

– Science Research and Development

2007LV161PO001: Thank you for including the additional analysis according to our comments to the draft AIR. In the next AIR the analysis could be further complemented by reflection on achievement of indicators. It is reported that the implementation of the activity 'Development of Science Infrastructure' will start during this year. In the light of the importance of this activity it will be necessary in the next AIR to include a detailed assessment on how the implementation is advancing, as well as the report on implementing SMOU conditions. Furthermore, it is suggested to pay more attention in to the qualitative analysis, especially the effectiveness and added value of the established 9 National Scientific Centres and the impacts of the science commercialisation projects.

– Innovations

2007LV161PO001: As regards innovations measure, in the next AIR it is suggested to streamline and complement the reporting with more analysis. Information on two activities 'development of new products' and 'creation of contact points for transfer of technologies' is given, but lacks coherence and reflection on the other activities within the same measure. In addition, as already indicated above, a global reflection on the usefulness, appropriateness and efficiency of the activities to deliver innovations could be valuable to include in the next AIR.

– Access to finances

2007LV161PO001: The Report mentions that no progress has been achieved concerning approved projects, concluded contracts and payments (paragraph 423). The given information is irrelevant as 100% of the financing has already been paid out to the final beneficiaries within this priority. It would be more useful to report on the achieved progress on the ground, e.g. how much of the financing has reached the enterprises? Therefore it is suggested in the current AIR 2010 to include the information on the level of financing reached the enterprises for each of the instruments and the relevant eligible expenditure, taking into account an appropriate multiplier for the guarantee instrument.

Furthermore, a short analysis, where appropriate, mentioning the main reasons for delays would benefit the current report. It is also suggested to demonstrate the overall leverage for each of the instruments, i.e. how much of structural funds and private financing is used to issue loans and equity investments under each financial instrument. Finally, it is reported that 32 loans for 28.3 M Euro have been issued for the enterprises within the 2.2.1.4 activity. Please add an assessment whether the progress is acceptable in terms of reaching the objective of the instrument for this activity as well as for the activity 2.2.1.1.

– Entrepreneurship

2007LV161PO001: The activity on participation in international events and exhibitions shows a very quick absorption. The indicator is already achieved by 695%. 278

businesses have been supported so far (out of 330 planned for 2013). It is recommended in the next AIR, to the extent possible, to include an analysis on the added value of this activity, especially in terms of the actual results for the enterprises (e.g. increased turnover, productivity, exports). The indicator on the number of enterprises participating at exhibitions and fairs can not be considered as a success of the activity.

– Energy efficiency of housing

2007LV161PO002: It is reported that the achieved energy saving rates are: 50.4% for the multi-apartment residential buildings and 30.4% for the social residential buildings which is a very good achievement of the target.

It is furthermore reported that there is a risk that the number of targeted social residential buildings will be lower than planned (60 out of 73). Are there any plans to carry out some targeted actions (i.e. raise interest amongst the municipalities etc.) in order to fulfil the target? If not, some information on how the saved financing is planned to be used should be included in the next AIR.

– ICT infrastructure and services

2007LV161PO002: When reporting on the progress of the ongoing ICT activities in the next AIR, it would be beneficial to include an analysis on how each of the activities contributes towards achievement of the priority objectives. The reporting should concentrate more on the substance and achievements of objectives and not purely on financial implementation. Another comment derived from the Report is that Latvia seem not to work into the direction of creation of integrated emergency centers with a unified number 112. The activity 3.1.5.2 reinforces the notion of separate call centers for the medical emergency with a number 113 which is not in line with the current developments in EU where the Member States gradually abolish the old emergency numbers and work towards an integrated system with a single 112 number. Please include your views in the next AIR 2011 in this regard.

4. Compliance with legal and regulatory framework

– Public procurement

Commission appreciates the proposed improvements of the mechanisms regarding procurement complains and invites to continue reporting on the introduced mechanisms and other related actions concerning strengthening of the public procurement.

It is reported that Procurement Monitoring Bureau (PMB) monitors and invites for an open procurement. It would be useful to include the information on the progress in this regard in the next AIR and to provide the data, if possible, on the number of foreign companies participating / winning procurement contract in the EU funded projects.

Centralisation and promotion of e-procurement is reported as one of the actions taken towards strengthening the public procurement. It would be useful to continue to include the information in the next AIRs on the developments in this regard, including the progress towards reaching an international e-procurement practice.

It is reported that the most frequent irregularities within the procurement documentation and procedure are related to unreasonable demands of qualifications, certificates, extensive experience requirements, as well as acceptance of non-compliant offers. The

mentioned facts lead to a conclusion that in certain cases procurement processes are biased and there is still a great room for improvement. In addition to the reported actions, what is still planned to do in order to further address the above-mentioned problems (please consider the comment for the next AIR 2011)?

In the light of an increased capacity of the PMB during the 2010, it would be useful to include in the next AIRs the analysis of the results achieved, including an assessment of the efficiency of the created functions and possible improvements.

As a result of the review of the work of the audit authority (AA) by the Directorate-General for Regional Policy auditors (2 missions carried out in June 2011) it was agreed that public procurement still represents one of the most risky and high audit priorities. The Directorate-General for Regional Policy has recommended specific improvements in the public procurement audit checklists and intensification of the checks performed by both the managing and auditing authorities with particular focus on the:

- (a) Use of shortened deadlines;
- (b) Use of selection criteria which are discriminatory;
- (c) Additional works/services awarded which are linked to 'unforeseen circumstances';
- (d) Exclusion of low bidders during the evaluation process without clear justification;
- (e) Retrospective projects.

It is recommended to include in the next AIRs the information on how the above recommendations have been followed up.

The Commission has further asked from the AA to prioritize the audits of the key bodies involved in the public procurement (contracting authorities) and the PMB (September 2011). The information on the results would be necessary to include in the next AIRs.

Finally, Latvian authorities should clarify whether the opinions provided by the PMB during the ex-ante public procurement verifications or during complaints submitted by potential tenderers are always binding for all the contracting institutions or have just a consultative character. We could discuss it during the next AEM on 13 September 2011.

– Management of waste and water

2007LV161PO002: Thank you for a clear and concise reporting on the status of the Environmental infrastructure projects and compliance with the EU Environment Directives. The Commission appreciates the extensive efforts made towards the implementation of the EU Environment Directives.

To comply with the Landfill Directive 1999/31/EC requirement on reduction of biodegradable waste by 25% as from the 1995 levels you have mentioned that there are data available only for 2004-2009 period. We understand that the data for 2010 will be available only this year and you will include that in the next AIR. However, it would be necessary to indicate in the current report already whether the compliance in 2009 was achieved?

As regards compliance with the Urban Waste Water Directive 91/271/EEC it is reported that Riga agglomeration fulfils the requirements for both organic waste water treatment and phosphorous concentrations. However, in 2011 a project is planned to start in order

to reduce the Nitrogenous concentrations. It will be useful to receive updates as regards the project implementation in the next AIRs. Once the project is implemented, will a full compliance in Riga agglomeration be achieved?

Likewise it will be necessary to report in the coming AIRs about the project implementation progress as regards the three outstanding agglomerations (10.000-100.000 p.e.) e.g. Tukums, Ogre and Limbazi where the full compliance has to be achieved by the end 2011. Taking into account the timeframe of ongoing projects, our understanding is that to attain full compliance by the end 2011 is unrealistic.

Furthermore, it is reported that in a number of agglomerations (paragraph 249) where there are many treatment systems the degree of compliance varies depending on the rate of worn-out of the old equipment. It would be necessary to clarify in the current report whether the statement relates to the 63 smaller agglomerations (2000-10.000 p.e.) which have to fully comply by the end 2015? What is your estimate of current compliance of these agglomerations?

The next AIR 2011 should indicate the planned time frame for achievement of the indicated connection rates, e.g. 97.8% in Riga and 100% in Daugavpils.

Finally, as for the compliance with the Drinking Water Directive 98/83/EC it is reported that there are four outstanding agglomerations (10.000-100.000 p.e.), e.g. Jelgava, Jurmala, Tukums and Limbazi. The expected compliance in Jelgava will be achieved by end 2012. The planned time frame to achieve compliance for the other three agglomerations should be specified in the next report.

5. Management and control

– Simplification measures

A number of simplification measures during 2010 have taken place and the satisfaction surveys are underway. It is recommended to include an analysis of the survey results in the next AIR2011. The Commission will be interested to follow the developments on simplification measures in the next AIR2011, in particular, on the measures with the biggest impact and result.

– On-the-spot checks

AIRs 2010 report that 373 on-the-spot checks within the 2OP and 600 – within 3OP were performed during 2010. Most of the results, e.g. around 67% were positive, 22% respective with reservations and 11% - negative (on average for both OPs). A number of most frequent deficiencies are reported. Deficiencies affecting sustainability and achievement of the planned project results are most of the interest. A more detailed analysis, including remedy actions, to address the discovered deficiencies could be included in the next reports.

6. Information and publicity

It is reported in great detail on the implementation of all the 8 strategic measures according to the Communication Strategy. In the next AIRs it would be useful to include an analysis whether the strategic measures have had the planned effect? If not, what could be improved or changed in order to achieve more impact? In addition, an analysis on the main challenges/difficulties encountered in order to implement the Communication Strategy 2007-2015 and how to deal with them would benefit the future reports.

In addition as for the next AIRs, it would be desirable to insert financial data about expenses on information and publicity needs in the report. E.g. how much was it spent on information and publicity in the reporting year? Specify the amount in absolute terms and as percentage of the total allocation for communication 2007-2013 (e.g. 300.000 Euro, which amounts to 30% of the ERDF/CF allocation [to be calculated without national funding]).

7. Technical remarks

2007LV161PO00: In 115 paragraph the wording 'equal opportunities' should be replaced with macroeconomic stability.

Paragraphs 418-420 would better suit under the analysis of 2.1.1 measure and not under 2.1.2

2007LV161PO002: Paragraphs 400-401 would better suit after the paragraph 403 where the subject of complaints is discussed.

Paragraph 508 on road quality should be moved under the heading on accessibility and transport system.

