

ESTONIA – LATVIA PROGRAMME

2007-2013

Cross-border Co-operation Programme under
European Territorial Co-operation Objective

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Estonia - Latvia Programme 2007-2013

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INTRODUCTION

The Estonia - Latvia Programme (hereafter referred to as the “Programme”) will be implemented under the European Territorial Co-operation Objective. The Programme has been prepared jointly by Estonia and Latvia. The Estonian Ministry of the Interior and the Latvian Ministry of Regional Development and Local Governments are committed to the principle of partnership and this principle has been central in developing the arrangements for preparing and implementing the Programme. Estonia and Latvia are willing to implement the Programme in close co-operation and in the most efficient way for it to result in mutual benefit and success.

The Programme is based on mutual understanding, respect and co-operation. Recognition of a shared historical and cultural heritage forms a sound basis for understanding and co-operation. A similar path of the two countries over the centuries provides an almost uniform platform for development with common strengths and weaknesses, as well as needs for the future.

Estonia and Latvia are aware of the common challenges the states are facing, and share a joint vision for the development of the Programme area. The two countries share a strong will to develop the Programme area into a dynamic and forward looking European Union region, which is both internationally competitive and socio-economically balanced, and is able to react quickly to global economic and environmental challenges. The Programme area shall become more attractive and easily accessible to both its inhabitants and visitors yet preserve its distinctiveness, natural attractiveness and cultural heritage.

Estonia and Latvia have implemented structural changes in various fields during the last 15 years, and for recent several years have been enjoying vigorous economic growth with good prospects at the export markets and low unemployment with steadily increasing real incomes of people. However, due to general depopulation trend and structural employment disparities, the area is facing now a lack of labour force. High levels of economic growth in recent years have increased significantly public revenues, and this, together with the inflow of the EU funds into both states since their accession to the European Union in 2004, has increased the amount of public investments into various lagging-behind sectors. Improvements have been made to protect the environment, invigorate business sector, increase the quality of education and the flexibility of the labour market, modernise agricultural production, enhance local initiative, and induce development in other fields.

The above developments are also characteristic to the Programme area, which has benefited a lot from the recent positive trends. Co-operation within the Programme area has also increased significantly over the recent years when joint efforts have been made to find together the solutions to challenges in different fields. There remain still some problem areas, however, which must be addressed in the forthcoming years to enhance further the integration and development of the Programme area. The area does not function yet as a cohesive region, mainly because of low capacity and connectivity of transport infrastructure and lack of joint services in the region. There are only a few cross-border public transport connections inside the Programme area, and the connections with the majority of locations in the region with the rest of Europe are also limited, leaving the area rather isolated from the rest of the world. Application of modern ICT solutions which could reduce isolation is not equally advanced throughout the Programme area. Besides the

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need for higher cohesion, the Programme area, especially the regions located on the border need to significantly increase their competitiveness in economic terms. Business start-up should be accelerated by promoting entrepreneurship, together with emphasising the necessary shift from basic services and products to innovative, value-added and diverse solutions. Direct link between education facilities and businesses should be established to guarantee skilled labour force, but also to increase the share of research and development in entrepreneurial activities. Attractiveness of the Programme area both to its inhabitants and visitors should be further enhanced by developing tourism and recreation services and facilities, and activating local communities by supporting cross-border projects to enhance community development and organise people-to-people activities. The main interventions from this Programme are envisaged to solve the above problems.

Estonia and Latvia have built an intensive co-operation relationship over the course of implementation of the predecessor to the Programme, the Estonia-Latvia-Russia INTERREG IIIA Priority (“North”) within the Baltic Sea Region INTERREG IIIB Neighbourhood Programme, which was one of the first instruments to provide significant financial support to co-operation activities between Estonian and Latvian border regions, and which resulted in many renewed and new partnerships, and numerous jointly implemented projects in various fields, all aiming at improving the life in the Estonian-Latvian border area. The implementation of the Programme will lead this co-operation into a new level with significantly enlarged budget and the motivation to further accelerate the socio-economic development of the Programme area. The Programme encourages applying a multi-stakeholder approach by involving local, regional and national authorities, non-governmental organisations, and where appropriate, private sector organisations in the projects to address the problems which the Programme area is facing.

The Programme has been prepared in accordance with the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (hereafter referred to as the “General Regulation”), with the Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund (hereinafter referred to as the “ERDF Regulation”), with the Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of the General Regulation and the ERDF Regulation (hereafter referred to as the “Implementing Regulation”), and with the Community Strategic Guidelines on Cohesion Policy in Support of Growth and Jobs during 2007-2013. Community’s renewed Lisbon Agenda and Community’s Gothenburg Agenda were also taken into consideration while preparing the operational programme.

Estonia and Latvia have agreed to set up a new structure for joint implementation of the Programme, situated in Estonia. Estonia and Latvia will lay down rules governing their mutual relations, as well as their relations with the authorities implementing the Programme in the bilateral agreement between the Estonian Ministry of the Interior and the Latvian Ministry of Regional Development and Local Governments.

PROGRAMME SUMMARY AND DESCRIPTION OF PROGRAMMING PROCESS

Programming Process

Active preparation of the Programme started in early 2006, when the Estonian and Latvian relevant authorities scheduled a preliminary time-plan and necessary steps of the programming process and composed a Task Force (TF) for this exercise. The programming process was led by the Estonian Ministry of the Interior. The TF for preparing the programme included also the representatives of the Latvian Ministry of Regional Development and Local Governments and of several Estonian line ministries, as well as the representatives of the regions of the Programme area.

The process of preparing the Programme had been initiated already in summer 2005 when the kick-off meeting of the programming process was held in Tallinn on July 7 between the Estonian and Latvian ministries responsible for implementing European Territorial Co-operation Objective programmes in respective countries. The preliminary time-table and first steps of the preparation process were then agreed upon. The responsible ministries discussed the implementation aspects of the new cross-border co-operation programmes in the Baltic States in more detail in early 2006 in Riga and in Brussels, and in early February 2006 it was agreed that Estonia will host the Managing Authority, Certifying Authority, and Audit Authority of the Estonia – Latvia Programme in 2007-2013. The First TF meeting was held in Tallinn on 28 March 2006, and altogether the TF gathered 5 times for the preparation of the operational programme prior the Programme was submitted to the Commission for approval.

To guarantee the inclusion of wider partnership in the programming process of the Programme, Estonia formed the Territorial Co-operation Task Force by the Ministry of the Interior, which includes representatives from line ministries, regions, and local government level to discuss the strategic questions of the European Territorial Co-operation Objective programmes where Estonia participates during the programming period of 2007-2013. For the same reason, Latvia formed a National Sub-committee (NSC), which includes a wide partnership of national and regional authorities and line ministries who have interest in the preparation of the European Territorial Co-operation Objective programmes.

The responsible ministries in Estonia and Latvia consider of high importance to consult the wider partnership during the programming process. Extensive dialogue was held with institutional and socio-economic partners in a combination of seminars and written consultations. In autumn 2005, regional roundtables were organised in Estonia, where local and regional authorities formulated their proposals for priorities for cross-border co-operation with Latvia. In May 2006, a public seminar to elaborate the SWOT analysis of the Programme area and prioritise co-operation topics of the Estonian regions was organised in Pärnu. On 30 May 2006, a joint seminar for Estonian and Latvian regional, local, and national authorities was organised in Sangaste to compile the joint SWOT table and the joint list of priorities of both countries for the Programme. The conclusions of the above consultations formed a basis for further elaboration of the operational programme at each stage. After the draft operational programme had been prepared, a further public consultation exercise was undertaken in Estonia (from 22 January to 20 February 2007) and in Latvia (from 29

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January to 17 February 2007) to refine the document and inform the wider public about the new Programme. The results of the above public hearings were analysed at the last TF meeting for preparing the operational programme on 27 February 2007 in Tallinn.

Article 48(2) of the General Regulation stipulates the obligation of the Member States responsible for the preparation of the operational programme to jointly carry out the *ex ante* evaluation of the forthcoming Programme. The *ex ante* evaluation shall also include a Strategic Environmental Assessment (SEA) and produce a separate Environmental Report as stipulated in the Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001 on the assessment of the effects of certain plans and programmes on the environment.

The *Ex ante* Evaluation including the Strategic Environmental Assessment of the Programme was opened to public tender and subsequently awarded to the company “DEA Baltika”. The final *Ex ante* Evaluation Report and Strategic Environmental Assessment Report is at Annex 2.

Summary of format and content of the programme

The Programme is divided into 18 chapters.

Chapters 1-3 focus on the description of the Programme area, including a comprehensive analysis of the recent development trends in the Programme area and the overview of co-operation in the region over the last decade.

Chapters 4-6 focus on the content of the Programme, including the elaboration of the Programme strategy, and description of the Priorities and directions of support financed from the Programme. Also the coherence of the Programme with the EU policies and programmes is explained.

Chapters 7-15 set out the implementation structure and procedures of the Programme, including the description of the bodies implementing the Programme (chapter 7), as well as procedures concerning financial aspects of implementation (chapters 10-11), monitoring, evaluation (including *ex ante* evaluation) (chapters 12-13), and information and publicity measures (chapter 15). Also, the definition and responsibilities of the Programme beneficiaries are provided together with the description of the procedures applied in different phases of the operations – generation, application, assessment, selection, contracting, and implementation of operations (chapters 8-9).

Chapter 16 includes the list of acronyms, abbreviations and common technical terms used in the operational programme.

Chapter 17 includes the reference documents used while elaborating the Programme Document.

Chapter 18 includes the list of annexes to the operational programme.

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1. PROGRAMME AREA

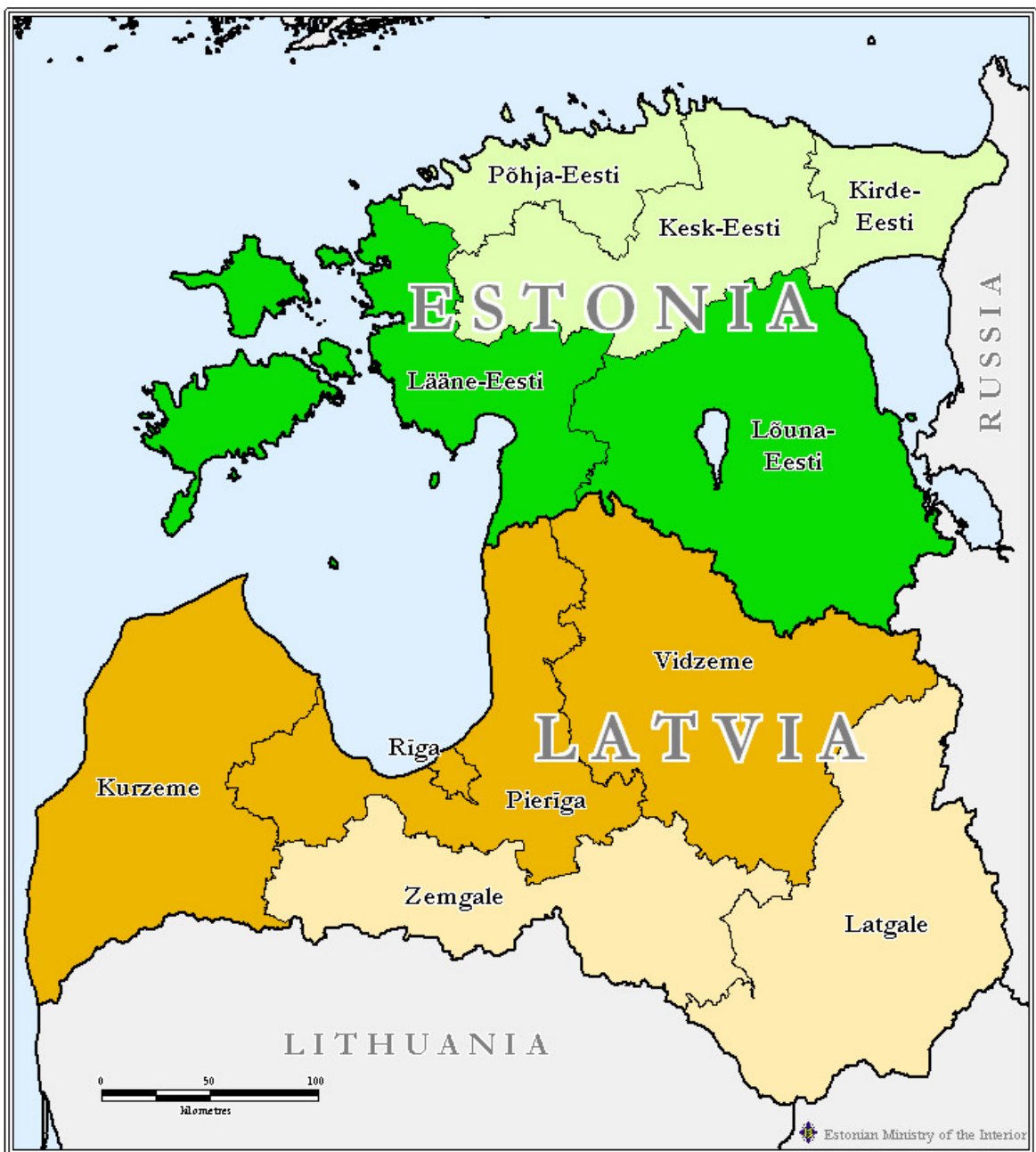
The Programme eligible area includes the following NUTS III regions:

Estonia: Lõuna-Eesti, Lääne-Eesti.

Latvia: Kurzeme, Pierīga, Rīga, Vidzeme.

The Programme area is shown on the map below.

MAP 1: Programme area



2. REGIONAL ANALYSIS¹

2.1. Area

The Programme area is situated in the northern part of Europe, on the coast of the Baltic Sea, which borders the area in the west. In the east, the Programme area extends until the EU external border with Russia. The Programme area includes southern and south-western Estonia and northern and north-eastern Latvia. The eligible area covers the territory of 65,968km², with 26,668km² in Estonia and 39,300km² in Latvia. The area covers only 1.56% of the total land area of the European Union. Estonia and Latvia share the 343km long land border, and 214.3km long sea border. The Programme area has a long coastline in the west, and it includes 1,418 islands and islets, all of them in the Estonian part, but only 13 of them populated. The Programme area is positioned on the large transport routes of Via Baltica and Via Hanseatica and it includes large ice-free deep-sea ports of Liepāja, Riga and Ventspils. The area functions as an important transit corridor for trade relations between the European Union and Russia.

The area is rather flat, mostly composed of low-lying plains, but it includes also the highest points in both countries (Suur Munamägi with 318m above sea level in Estonia, and Gaiziņkalns with 312m in Latvia) as part of the hillier landscape in southern Estonia and northern Latvia, close to the border between the two countries. The terrain is in large part covered with forests, marshes and bogs, and includes also numerous lakes in southern Estonia and northern Latvia. The area is rich in natural resources, which include peat, limestone, dolomite, amber, wood, clay, sand, sea mud, but also arable land and hydropower. The climate in the Programme area is maritime, wet and windy, with moderate winters and rather cool summers. Sometimes flooding occurs in the spring.

2.2. Population

The population of the Programme area is 2,164,994 inhabitants (2005), of this 511,058 in the Estonian and 1,653,936 in the Latvian part of the Programme area. The population of the Programme area is only about 0.44% of the population of the European Union. The population is unevenly distributed throughout the Programme area with 1/3 of the population (33.8%), i.e. 731,762 people living in just one city – Riga. The following larger towns are Tartu with 101,740 and Liepāja with 86,264 inhabitants, but most of the urban settlements in the Programme area have a population under 50,000 inhabitants. The population density of the Programme area is 32.8 inhabitants per km². In contrast to the city of Riga with 2,382 inhabitants per km², the region with lowest population density is Lääne-Eesti with 14.6 inhabitants per km². Regional differences in population density of the Programme area depend on whether a region has a larger city or regional centre on its territory. The concentration of population, especially the youth, into regional centres and national capitals is characteristic to both countries, with several rural locations very sparsely populated (less than 5 inhabitants per km² in boggy areas).

Demographic trends in the Programme area are characterised by negative increase in population due to low birth rates and ageing population. Natural increase in population has been negative in the Programme area since 1992, reaching the negative peak during 1994-1995. Negative increase

¹ See Chapter 17 for reference documents for statistical information used in the operational programme.

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in population is caused by several factors, such as gradual changes in family patterns especially among young urban inhabitants, and higher cost of living in the early 1990s as a result of currency reforms and widespread economic and societal restructuring in both countries. Although increase in population in the Programme area remains negative at -8,026 persons with the decrease of 0.37% of the region's population (2005), the overall negative trend has been slightly improving during recent years. Both Estonia and Latvia are trying to reverse their negative demographic trends via active role taken by the state in guaranteeing sufficient financial support to parents who decide to take parental leave. Life expectancy in the Programme area remains low at around 66 years for men and 77 years for women, therefore about 2/3 of all elderly people in the Programme area are women. The share of elderly people (65 years and above) in the population of the Programme area is 20.34%.

2.3. Historic and cultural links

Estonia and Latvia have shared a very similar path through the history of their territories and later statehoods. The territories of both countries have been part of the German, Danish, Polish, Swedish and Russian states, which all have left their influence on the culture of the region. The regional centres of Riga and Tartu were involved in wide trade co-operation as part of the Hanseatic League. From the mid-14th until the mid-16th century, the central and southern areas of Estonia, and northern areas of Latvia constituted Old-Livonia under the rule of the Livonian Order. The same Estonian and Latvian provinces retained their special status under the Baltic Special Rights in the Tsarist Russian Empire since the 18th century. The local nobility were in charge of all sectors of society and handed down sentences in the courts of law through their own governing bodies and their officials.

Estonia and Latvia have shared similar experiences also in a more recent history – experiencing statehood for the first time with the establishment of the independent states at the end of the Tsarist Russian Empire in 1918, the soviet occupation in 1940 and the subsequent annexation into the Soviet Union in 1944, regaining of independence in 1991, and joining of the European Union and NATO in 2004. A shared past has caused the similar development level of the states, providing an almost uniform development platform with similar needs for the future. Daily co-operation between Estonia and Latvia has increased gradually since the regaining of independence of both countries, having been hindered for a short period in the early 1990s mainly by the establishment of national borders and lack of finances to support the co-operation. Although there remain complicating factors to local and regional co-operation on the Estonian-Latvian border, such as the language difference, the need and the will to co-operate with the closest neighbours has been widely recognised.

The links between the two countries derive not only from geographical neighbourhood, but also from a shared history and culture, however, the Programme area is not homogenous and still lacks an identity as a common region. The Programme involves co-operation between well advanced parts of the two countries with strong economy (Riga region in Latvia and Tartu region in Estonia) with areas which are at the periphery in socio-economic development level (extensive rural areas near the national borders). However, the regions are willing to make use of the opportunities offered by the Programme.

2.4. Transport

The connectivity and capacity of transport infrastructure determine the important aspect of the overall competitiveness of a region, namely the area's accessibility in terms of inner connectivity in functioning as a single region, and the connectivity of the area with the rest of the world. Both aspects are of equal importance in increasing the competitiveness of a region. Transport infrastructure must enable unhindered spatial interaction of people for economic, social and cultural activities, as well as the mobility of goods and services to contribute the region's economic performance. Mobility of goods is rather well served in the Programme area by road and rail routes to major ports. However, there are still obstacles to the mobility of services, but especially of people in the Programme area.

Good inner connectivity of a region is especially important for integrating the area into one functioning and competitive region. In this regard, the outlook of the Programme area is rather poor. Except the good quality of national roads and functioning coach connections on the north-south direction of the Programme area on Via Baltica and Via Hanseatica, the connectivity inside the area on the east-west direction, and by other transport modes is unsatisfactory. The roads on the east-west direction are mainly of regional or local nature, and in the outermost regions near the national borders often of poor technical condition or even under gravel coverage. The lack or the poor quality of border-crossing road infrastructure is also one of the main shortcomings of the Programme area, especially as regard to the expected accession of Estonia and Latvia to the Schengen border regime in 2008. During the last 15 years the road traffic between Estonia and Latvia has been via 11 border-crossing points, 2 of these for pedestrians only. Another up to 10 roads which cross the border, have not been in use for over a decade, and need repairing prior taking into use again.

A major hindrance for the Programme area to serve as a functioning region is the lack of cross-border public transport connections inside the region. This has a negative impact also on developing an integrated labour market in the Programme area, because the movement of labour across the national border requires convenient means of commuting between home and office. Public transport connection links are limited in the region, with private cars serving as the main transport mode to cross the border. The only means of regular daily public cross-border transport inside the Programme area are coaches, which operate mainly between major cities of Pärnu, Tartu and Riga under 10 daily return travels, with very few local stops. The only local coach line operates between Võru and Alūksne once a week.

There are 40 ports on the sea coast of the Programme area (including islands), 10 in Latvia and 30 in Estonia, 26 of them international ports with border-crossing and customs facilities. Only 3 of the international ports in the Programme area are large ice-free deep-sea ports (Liepāja, Riga, Ventspils), the remaining are open mostly for smaller ships and yachts, primarily during ice-free period. The duration and extent of ice coverage is hampering the usage of ports in the region - the ice season in the area lasts generally from November to March. Most of the ports in the region are ice-bound during ordinary winters, including all seaports on the Estonian coast of the Programme area. During this period, any shipping service can only be ensured through icebreakers, which keep open certain channels to dedicated ports. There has been a positive development on the sea connections inside the Programme area – since 2005, a regular ferry connection operates between Mõntu (Saaremaa island) and Ventspils ports during summer season, and is enjoying sufficient passenger demand. The Latvian side of the Programme area has also 5 regular ferry-connection lines with other countries – 2 with Germany and 3 with Sweden, operating several times a week

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all-year around for both passengers and cargo transport. In addition to ports which are open to ships and yachts, the Programme area has numerous small fishing ports.

The Programme area is covered with basic rail network crossing the national border in only one location. The rail network is of satisfactory technical condition, however, there are no connections via rail between Estonia and Latvia inside the Programme area. Passenger trains have not operated across the national border between the two states since 2001. The railway network serves mainly cargo transit trains moving from Russia to Europe – the only trains which cross the Estonian-Latvian border, and a limited number of passenger trains on national routes.

The Programme area has 9 airports, 7 of them capable of hosting international flights. Among the 9 airports, 6 are located in Estonia and 3 in Latvia. There is only one seasonal air connection operating between Estonia and Latvia inside the Programme area since spring 2007 – a Kuressaare-Riga flight operating once a week during summer season. The route is very new, thus there is insufficient data available on the passenger demand for the flight to assess whether the connection will become regular. Only 2 of the airports have regular flights to destinations outside of the Programme area (from Kuressaare to Helsinki during summer season and Stockholm all-year around, and from Riga to 38 destinations). It is possible to host international charter, business and general aviation flights in another 5 airports in the Programme area, but only by special calls. The only regular year-around air connection between Estonia and Latvia is between Riga and Tallinn airports.

MAP 2: Transport infrastructure in the Programme area



The Programme area is covered by basic network of technical infrastructure, however, smaller regional and local roads remain in relatively poorer condition. The number of connection links inside the region between different locations is rather limited, leaving many locations unconnected or even isolated. The Programme area is not functioning as a single well-connected region. Less than 10 daily return coach connections between major cities, one seasonal ferry and one seasonal flight connection are insufficient to serve the connectivity of a region, but transport services provided inside the Programme area remain limited. Inner physical integration of the Programme area can only be achieved by creating a wide public transport network with regular connection links and infrastructure facilities to serve it and covering different means of public transport. Improving the inner connectivity of the Programme area is very important for the entire region, but especially for the isolated rural areas as a prerequisite for enhancing the movement of people and increasing business and trade connections.

2.5. Information society

Accessibility of a region can also be measured by the penetration of the information society – the aspect which is today of equal importance with the physical connectivity. Information society is expected to be a key driver of continuous growth and employment as emphasised by the EU Lisbon Strategy. Spatial diffusion and adoption of modern communication technologies such as mobile phone penetration and fast internet access facilitate interaction among people as well as providing more direct access to different goods and services, which increases the convenience of daily life of inhabitants especially in less connected or sparsely populated areas. There is a limited regionalised information available on the information society in Estonia and Latvia, but national statistics can give an overview of the situation in both states, expected to characterise also the Programme area.

Mobile phone penetration is significantly higher in the Programme area compared to fast internet access. Mobile phone penetration was already in 2004 almost 1,000 phones per 1,000 inhabitants in Estonia (comparable to Scandinavian states), with the estimate for Latvia significantly lower with 673 phones per 1,000 inhabitants the same year, but the existing gap is expected to be closed during a couple of years.

Today, 54% of inhabitants in age group 15-74 (and 43.5% of households) have a computer at home in the Estonian part of the Programme area, with in general up to 10% more computer owners in the cities compared to rural areas. Of the whole Estonian population, 54% are internet users, compared to average 43% of internet users in EU25. However, 34% of population or every third person in Estonia has never used internet. The most common place to use internet is at home with about 72% of all internet users in Estonia, followed by workplace with 40% (31.5% in the Estonian part of the Programme area). In Latvia, 40.6% of households have a computer at home (2006) (increase of 14.9% since 2004). In 2006, 59.7% of people in age group 16-74 used computers and 55.5% used internet. Among the Latvian internet users, 42.8% use internet at their workplace and 18.2 % in education institutions.

By the beginning of 2006, 90% of households in Estonia had internet access possibility, but only around 39% of all households actually had connected to internet at home. This estimate remains low compared to 48% of households connected to internet in the EU25 (2005). In comparison, 90% of all enterprises in Estonia are connected to internet. In average, 12% of home-computer owning people and households in Estonia are not connected to internet at home. This estimate is however higher in the Programme area, where 17% of computer-owning people and households in Lääne-Eesti and 25% of people and 29% of households in Lõuna-Eesti do not have internet connection at home. In Latvia, internet was available to 42.2% of households (increase of 27.5% since 2004) and 62.3% of Latvian internet users had connected to internet at home by the end of 2006.

There exist still clear disparities in availability of fast internet access between urban and rural locations in the Programme area. Highest shares of broadband connection can be found in the densely populated areas (Riga, Tartu), the lowest share in rural, especially in sparsely populated areas, although the latter are in greater need of modern telecommunication technologies to have access to other people, goods and services. In Estonia, every public library had a public internet point by the end of 2004, in addition, numerous municipalities have supported the establishment of internet points to general education schools and other appropriate institutions.

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Most active age group in using internet in Estonia and Latvia is youth between 15-24 years with 92% and 95.4% of users in the target group respectively. Most active social group in using internet is students with reported 99% in Estonia and 98.2% in Latvia, compared to 79% of the EU25 average. The social groups with the least access to information society are people with little or no formal education, unemployed people, and older people. In Latvia, 81.2% of people in age group 55-74 have never used a computer and 84.7% have never used internet. However, during recent years, the activity of internet use in Estonia has increased most in age group 50-59, reaching 43% users in the target group. This development is especially welcome in the conditions of aging of population and the subsequent challenges to the society. The share of users among elder population should be further increased to enable more active communication with family and friends, to guarantee easier access to information, and to increase the convenience of daily activities by better access to various goods and services. In this regard, there is scope to enable the use of especially health care and social services in e-environment, which in turn would increase the share of internet users among elderly people.

The main e-services used among regular internet users in Estonia include e-mail and e-banking with 75% (83% for e-mail of all internet users), followed by information search via both search-motors and browsing of internet sites and databases with around 70%, visiting internet portals with 67% and reading online newspapers with 62%. One of the most popular public e-service in Estonia is declaration of taxes. In 2007, 86% of income tax declarations in Estonia were declared in e-environment. In Latvia, the main e-services used among regular internet users include information search with 96.4%, followed by communication with 86.1%, co-operation with state and local government institutions with 49.6%, and purchasing of products and services and internet banking with 44.9%. In order to facilitate equal access to public services from both urban and rural areas, including sparsely populated locations, convenient e-alternatives should be elaborated for a majority of public services to give people a choice whether to use an e-service or a public service on a location.

In Estonia, the technological conditions for wider e-service development exist already today. Introduction of Electronic Identity Cards (e-IDs) in 2002 for official electronic proof of a person's identity, which is mandatory for all Estonian residents, has strongly supported this process. ID-cards can also be used since 2002 to give digital signatures, i.e. to sign electronic documents with a legal signature. By October 2006, one million ID-cards had been issued in Estonia, however, the private use of e-possibilities of the cards remains under-used by majority of card-holders with only 7% of card owners having used the card to identify themselves in e-environment, and only 2% having given a digital signature. The majority of people (82.5%) access various e-services not via ID-card, but via authentication services provided by internet banking. A recent development in the public e-services in Estonia enabled the members of the electorate during the elections to the local government councils in 2005 and during the parliamentary elections in 2007 to cast their vote with an ID-card in the e-environment.

In Latvia, digital signature services are available since October 2006. The issue of digital signature devices for 50,000 state institutions and local government institutions' employees will be financed from the state budget. E-ID cards are planned to be introduced by the end of 2009.

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2.6. Environment and nature

The quality of the environment of the Programme area has improved significantly during the last two decades, benefiting most from the shift from heavy to service industries after Estonia and Latvia regained independence in 1991. Efforts are continued to improve the condition of the environment steadily, not least due to the EU's high environmental cleanliness standards. Prior to their accession to the European Union, Estonia and Latvia closed the EU accession negotiation chapter on environment committing to full enforcement of EU environmental directives in Estonia by 2013 and in Latvia by 2015.

The Programme area enjoys a rather clean natural environment and high bio-diversity with pollution being visibly present mainly in the areas of industrial activities and in larger cities. The Programme area includes large and deep forests, numerous rivers, lakes, marshes, and bogs on the mainland. Almost half of the Programme area is covered with forests, and up to 1/5 with marshes and bogs. The Programme area includes many very sparsely populated areas, thus there are still plenty of untouched nature or well preserved natural sites in the area with approximately 1/10 of the Programme area under environmental protection. The region has long coastal areas and numerous islands in the Baltic Sea on the western part of the Programme area. The Programme area includes two large biosphere reserve areas (North-Vidzeme, West-Estonia Archipelago). A wetland complex involving several nature protection areas and river basin of Gauja-Koiva is situated directly on the Estonian-Latvian border and the bilateral co-operation to protect the nature on the border has taken place over the decade. Latvian "North-Vidzeme Biosphere Reservation" administration signed the co-operation contract with Estonian "Nigula Reservation" in 1996 for joint actions in environmental protection, and since then several projects have been implemented within this co-operation. Bilateral co-operation could be widened to all protected areas of the region because of the similar challenges the areas face.

Low environmental awareness among population is one of the most serious challenges the Programme area is facing. Waste is not sorted and recycled properly and in necessary quantity in the Programme area. People use often the cheaper environment-hazardous consumer goods rather than a more costly environment-friendly alternative, piling up the already large waste load in both countries. There is little awareness on the endangered habitats or the rationale behind the nature protection areas, also, the general education system provides insufficient coverage of these topics. The efforts to change the pattern have been made mainly by non-governmental organisations but remain limited and in need of more attention from various stakeholders in the Programme area. Limited shared responsibility for the protection of the environment is felt among population and joint local actions are undertaken only in case of the environmental crisis. There is a lot of scope to try to change the attitudes of the public through education system, joint regular environment protection activities and wider environmental awareness-raising and know-how dissemination campaigns.

The environment of the Programme area is influenced by the presence and the condition of the Baltic Sea. The settlements on the sea coast in the west are especially sensitive in this regard. The Baltic Sea is a shallow water body with very limited water exchange and thus very vulnerable to any kind of pollution, especially to human burden. The main pollutants of the sea come from agricultural, household and industrial waste produced in the coastal areas. The main problem of the Baltic Sea is its high eutrophication levels, present also in the Gulf of Riga. Many species living in the sea such as wild salmon, seals, several bird species (white-tailed eagle), and benthic organisms have become endangered. Another major concern is accidents and environmental

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hazards, especially the risk of oil spills. The risk of environmental damage increases with intensification of traffic on the sea. However, Estonia and Latvia are not yet very well equipped to react rapidly and jointly in case when such events occur because of the lack of necessary equipment and relevant experience. Coastal seawater is polluted in certain locations, especially near larger harbours. The Programme area has more than 70% of all Estonian inland water bodies located in its territory. Lakes and rivers are also shallow in the Programme area and therefore very sensitive to pollution. Especially smaller lakes in agricultural areas need to be monitored against nutrient input, particularly nitrogen and phosphorus as the result of agricultural activities.

The main environmental problem areas and thus the highest priorities of Estonia and Latvia are the improvement of drinking water quality and sewage system, household and hazardous waste management, as well as reduction of pollution in coastal seawater. The majority of drinking water in the Programme area is provided by groundwater, which is relatively close to the surface layer and therefore in need of special protection. Outside the larger cities the water management infrastructure is outdated in many villages and small towns. This poses a real risk to groundwater and surface sites as it can contaminate groundwater through unprotected wells. The situation has improved significantly since soviet occupation and in connection with the start-up of new water purification plants with the amount of non-purified wastewater discharged to water bodies in 2000 only 1/20 the level of 1980. The pollution load of wastewater decreases steadily, however, some of the wastewater in smaller settlements still reaches natural water bodies.

Estonian waste disposal network must be in accordance with the EU standards by 2009, and instead of the existing sites 5 large modern regional waste disposal sites are planned to open, accompanied by the network of waste recycling and storing plants. The system of waste separation and recycling is not yet widely practiced in Estonia. Waste sorting became legally obligatory to Estonia with its accession to the EU in 2004, and was introduced gradually prior accession. According to the Latvian Ministry of Environment, waste sorting is not obligatory in Latvia. Household waste sorting is a municipal responsibility, but today only up to 20% of municipal waste is sorted and recycled in the Programme area compared to 2/3 in Scandinavia. Both states face serious challenge of increasing recycling and diminishing the amount of waste. However, today only less than 5% of the waste produced in the Estonian part of the Programme area comes from households and the vast majority of waste is the result of industrial actions. In the Latvian part of the Programme area, 50% of the waste produced comes from households. Estonian side of the Programme area has no large-scale industrial activity, which is mainly concentrated to urban settlements of Liepāja, Ventspils and especially in the industrial centre of Riga.

The Programme area has in many parts an inefficient heating system as the legacy of the soviet occupation, which has a negative impact on air quality and is also energy-costly. There is scope for local energy production, especially in the field of renewable energy. It is, however, difficult to assess the consumer demand for local energy at the moment because households have not had the opportunity to choose between different energy providers due to mainly centralised energy systems. Wind energy is used in very single places, for example on the island of Saaremaa and in Lääne-Eesti. Burning of waste for energy is an upcoming trend in the EU but almost unheard of in the Programme area.

2.7. Regional economy

The Programme area is largely a rural area with industrial and commercial centre of Riga, university town Tartu, and several medium and small regional towns. Most of the economic,

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social and cultural activities are concentrated into the urban settlements of the region, leaving the rural areas largely agricultural. A clear characteristic of the Programme area is that urban settlements display measurably more competitive advantages over any rural locations which are often under-populated and lagging-behind in terms of living conditions, employment opportunities, and availability of goods and services.

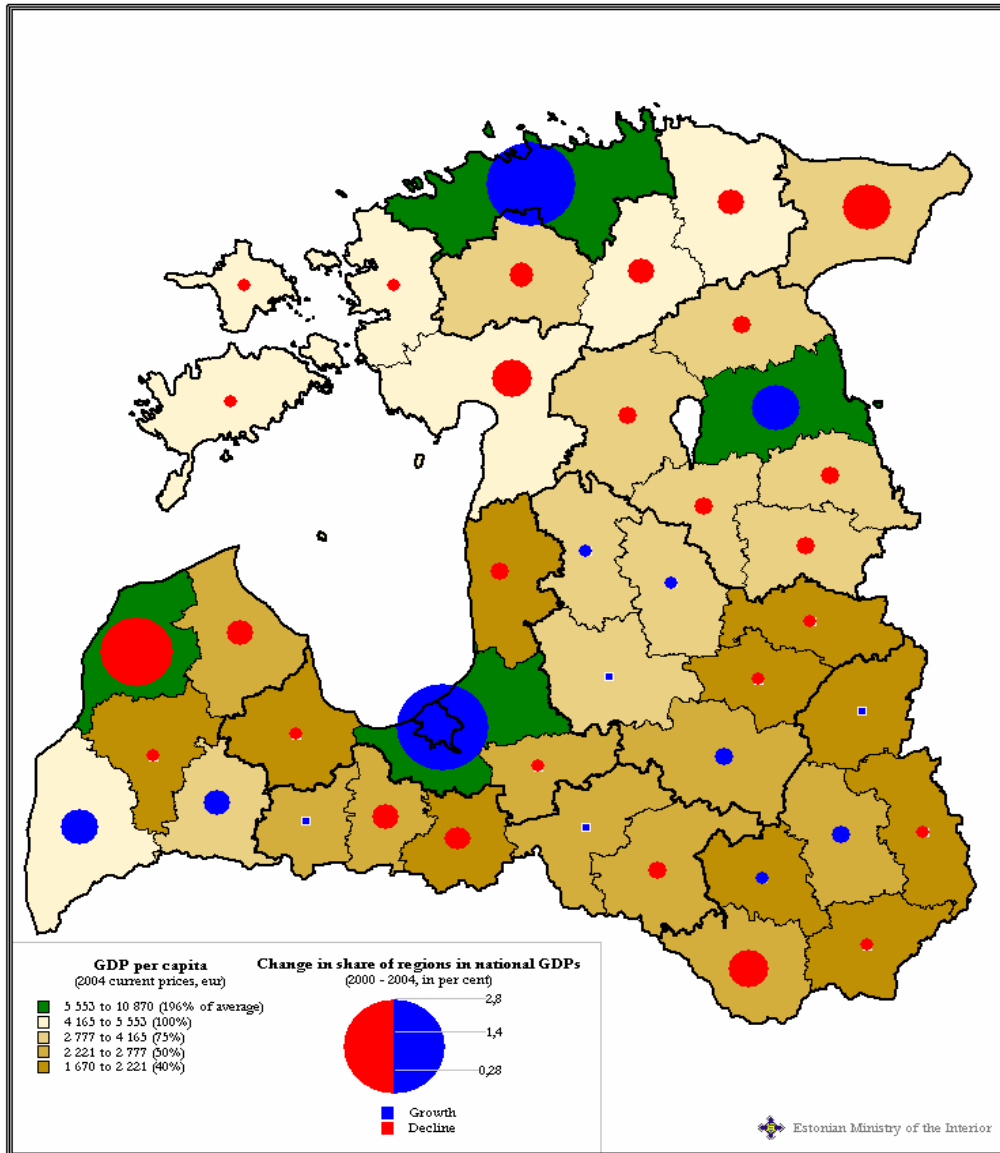
The Programme area is characterised by similar economic structure with the share of agriculture in the GDP of the Programme area at 4%; accordingly, the share of industry is at 23%, and the share of services is at 73% (2003). The exception in the area is Riga region, with 0.5% of the GDP for agriculture, 17.7% for industry, and 81.8% for services (2004). The most important branches in the agriculture are grain and vegetable growing and dairy. In the industry sector, the most important branches include timber and wood processing, food and beverage, and construction. These branches are traditionally advanced in both countries. In addition, there are important industrial enterprises of mechanical engineering and metal working in the Latvian part of the Programme area. Economic activity in the region, especially in agriculture, food production, timber processing, and construction is based in large part on local resources.

The most important branches in the service sector are financial services, trade, transport, tourism and communication networks. Despite a relatively large share of services in the regional GDP, the attainability of services remains unevenly distributed throughout the Programme area, with sufficient choice among different services and consumer products being the reality only in larger cities. Many smaller urban settlements and most of the rural areas remain still without some of the basic public services, such as central heating, water supply, and modern waste disposal and wastewater treatment systems. There is still a lot of scope to contribute to a more even distribution and more varied selection of both public and private services in the Programme area.

The region is characterised by GDP growth several times higher than the EU25 average of 2.9% (2006) compared to 11.5% Estonian average (2006) and about 11% Latvian average (2005). There are differences in economic performance within both countries, and also within the NUTS III level regions. For example, the GDP per capita in Riga region is annually over three times higher than in Vidzeme. Fields related to timber processing (including furniture, print and paper industry) dominate Estonian exports, followed by IT and electronics. It is therefore of great importance for the region to base economic growth on the more sustainable factors to guarantee high GDP growth levels in a longer term perspective, such as the development of knowledge-based economy. At the same time, investments by enterprises into research and innovation activities remain low, especially compared to the EU15.

Although the level of entrepreneurship has increased gradually to 48 enterprises per 1,000 inhabitants in the Programme area (2005), it remains still lower compared to the EU25 average. The economy in the Programme area is based on SMEs with 87% of enterprises being micro businesses with less than 10 employees and 11% of enterprises small businesses with less than 50 employees. The share of large businesses in the region with more than 250 employees is only 0.3%. The number of start-ups in Estonian part of the Programme area has increased from 739 in 2000 to 1,188 in 2003. The majority of start-ups have up to 4 employees and emerge in the fields connected to trade, real estate and processing industry, which are the main fields of entrepreneurship in the region, followed by construction, transport, storage and logistics, and hotels and restaurants. The majority of closures of businesses appear in the same fields as start-ups. Corresponding information is not available for Latvia but it is assumed that the socio-economic structure of SMEs is similar throughout the Programme area. Almost half of both Estonian and Latvian enterprises are operating in the capital cities.

MAP 3: Regional economy



There is a clear need to foster entrepreneurship in the Programme area, starting with the introduction of business principles and spirit of entrepreneurship already at the secondary education level or even to younger pupils, which is lacking at the moment. The region is covered with a wide business support system which provides services for both start-ups and already operating enterprises. There is a constant demand in the region for these services but the scope of provided services could be widened. However, the competitiveness of the regional economy remains low. The growth of recent years has been fuelled by rapid rise in the exports of goods, but more importantly by significant increase in domestic consumption and expanding residential construction and real estate development. Increase in domestic demand has largely been based on low-interest bank loans, which is not expected to guarantee high growth rates in a longer-term perspective. The risks to GDP growth are mainly associated with the continuation of the trend of the vast domestic demand, and the continuing rapid increase in real estate and credit market.

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2.8. Labour market

There have been positive developments in the labour market of the Programme area during recent years. Both Estonia and Latvia have enjoyed relatively high GDP growth levels, which have resulted in the lower unemployment levels also in the Programme area. Employment has grown in all sectors because the growth in Programme area has been relatively broad-based and impacted nearly all fields of activity and manufacturing sub-sectors. Fast GDP growth has had a positive impact also on the growth in employment. In 2006, the total employment growth was one of the fastest in Estonia over the last decade and grew annually over 6%. The biggest share of new jobs has been provided by larger cities. Besides rapid increase of employment in construction by up to 25% in 2006, new jobs were created faster than average in the service sector, where the largest number of new jobs emerged in trade, and transport, storage and logistics. In percent share, the increase in jobs was largest in financial services, followed by hotels and restaurants.

The rate of economic activity has grown during the recent years, but remains still low at around 66.4% in the Estonian part of the Programme area (compared to 70.8% Estonian average)(2006), meaning that around 1/3 of working age population is neither being employed nor looking actively for a job. Among the employed people, 10% work in agriculture, 28% in industry, and 62% in services sector in the Programme area. Although the increase of employment in the service sector has been significant in the recent years, the share of people employed in the service sector in rural districts remains relatively lower at around 55% as compared to 73% in Riga region, characterising a continuing trend of uneven distribution of services throughout the Programme area.

The labour market in the region has continued to perform well during recent years. Unemployment rate has fallen considerably during the last several years from around 13% (2000) to around 6% (2005) in the Programme area, being several percentages lower than the EU25 average at 8.7%. There is still a difference in the unemployment rates between the urban and rural areas, with unemployment slightly higher in rural areas. Former workers of large scale industrial plants and collective farms of the soviet area is the predominant social group among the long-term unemployed people and at the highest risk group for becoming and remaining unemployed. Retraining activities for the long-term unemployed have been carried out steadily in both states, remaining, however, insufficient and in need of much stronger support and more targeted approach from public authorities. Although re-qualification training has been an urgent need for a decade, the undertaken activities have not been sufficient, and the mismatch of available skills and the demands of the labour market remains still a widespread problem in the specific areas of Programme area, which faced large-scale restructuring of economy. However, in general the problem of unemployment of previous years is being replaced by the increasing problem of labour shortage, or shortage of necessary qualifications.

Labour force in the Programme area remains relatively cheaper compared to the EU15. There exist interregional disparities with average salaries being highest in the Riga region. Although the growth in gross salaries over the 2000-2006 period has been very fast with average increase by over 10% annually (in Estonia by 15% in 2005-2006), it has not been accompanied by similar increase in labour productivity, which imposes one of the highest risks for the further GDP growth in the region. Large share of foreign direct investments has come to the Programme area over the last decade mainly due to low salaries, and thus low business costs. This may change, however, in light of continuous salary increase, which in turn should be compensated by higher productivity. Low productivity remains still a considerable problem in both Estonia and Latvia.

2.9. Education, research and development

The situation in the field of general education is rather good in the Programme area – the region is covered by an even network of general education institutions, thus guaranteeing everyone with a possibility to acquire general education near their living place. The Programme area is covered also by a wide network of almost 100 vocational education centres, providing a large variety of skill acquisition possibilities. However, the skills obtained in vocational education courses do not often match with the demand in the labour market. The main reason for mismatch between demand and supply in the labour market are the existing overall shortcomings in the education system of both countries, but especially in the vocational education. Vocational education is oriented in large part to the productive specialities for which the demand in labour market decreases steadily with the increase of service sector in the regional economy. This mismatch results in relatively higher youth unemployment rate at over 13% in Estonia and 14% in Latvia in the age group of 15-24 (2006), with large share of the group without any previous working experience.

Another problem with vocational education is a moderate co-operation between vocational schools and enterprises to provide practical training for students during their studies. Practice opportunities in enterprises are also important for unemployed people who participate in retraining courses so that they would become immediately employable at the end of the course. To overcome the mismatch of demand and supply on the labour market, the region needs a modern education system covering vocational and applied higher education, but also retraining and life-long learning facilities which is able to adjust rapidly to changes in economy and on the labour market. There is a need to link the network of vocational education, but also various re-qualification courses better with the demands of the labour market. Although the connection has improved during the recent years, low skills remain still the main cause of unemployment.

The conditions in higher education can be considered favourable with over 50 higher education institutions, including public universities and their branch colleges, applied higher education institutions, and private higher education facilities situated in the Programme area. The area hosts among others the top universities of both states – Tartu University and the University of Latvia with classical faculties of medicine, natural sciences, philosophy and theology among other study fields, and also some of the best specialised universities, such as Estonian University of Life Sciences with its focus on specialties related to agriculture, forestry and land-use, and Riga Technical University with its wide curricula of technical specialties. All Estonian higher education institutions have introduced e-learning facilities, either in a form of e-courses or e-learning environments where students can directly access study materials.

Besides universities and higher education institutions, there are numerous public and private scientific institutes and organisations, academic centres and science parks in the region, providing a good scientific and applied research potential. The main goal of technology and innovation centres as well as science and technology parks is to create a link between higher education, scientific institutions, and the industry. It is of equal importance to encourage scientific and applied research, promote international research and economic collaboration, and enhance economic development by creating favourable conditions for the emergence of SMEs and industrial enterprises. The first technology-oriented business support structures were established in the Programme area in the beginning of the 1990s.

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Lõuna-Eesti is a region with a high research and development (R&D) potential due to its numerous education facilities. The city of Tartu with its historical university is a growth centre also on a national scale, with value added given by Tartu Science Park, Tartu Biotechnology Park, and the existing strong business support structures. The region has suitable conditions for the emergence of knowledge-intensive clusters and the opportunity to realise the potential of high-tech production. The development of the region is expected to be drawn by the enterprises which have spawned on the basis of scientific institutions in the forthcoming years. However, the direct involvement of Tartu University in the development of entrepreneurship has remained relatively weak. The main weakness of Lõuna-Eesti is the region's logistically disadvantageous location as regards international markets, as it is not situated on the crossroads of the main transport corridors, and the quality of existing road network is of relatively poor quality.

Lõuna-Eesti hosts 6 industrial parks (Raadi, Ravila, Ropka, Vahi, Vastseliina, Viljandi), and 2 industrial zones (Valga/Väike-Laatsi, Võru/Väimela) which are either operating or being still developed. Many enterprises in the region have specialised in timber and furniture industry. Lõuna-Eesti produces 16% of Estonian industrial production.

Lääne-Eesti has in general limited industrial activity, with the exception of the city of Pärnu and its surroundings, considered the fourth largest industrial region in Estonia. However, most of the industrial activities in the region are in declining low-tech labour-intensive sectors. The region has a limited number of real estate facilities suitable for industry, and it is regarded in general as a nature protection area, thus the development of industry has a number of limitations.

Lääne-Eesti hosts 6 industrial parks (Paikuse, Pärnu, Reldori, Roomassaare, Sindi, Vändra) and 2 industrial zone (Sauga, Uuemõisa) which are either operating or being still developed. Lääne-Eesti produces 8% of Estonian industrial production.

The scientific potential of Riga and Pierīga is strong and significant. Although the main location of the research institutions in Latvia is Riga, there are several establishments also in the areas outside of the capital region. Vidzeme University College in Valmiera is conducting research in socio-technical systems engineering and radio frequency identification. Liepāja's Academy of Pedagogy Development in Kurzeme foresees the development of international research programmes in history of culture, environment, tourism, and other fields.

The main innovative business support institutions in Latvia are the Latvian Technological Centre, which offers services and support for technology oriented firms, the Latvian Technology Park, which has a scientific potential in chemistry and biology, mechanics and engineering industry, electrical engineering, computer science, energy, and electronics, and the Business Innovation Centre of Latvian Electronic Industry, which constantly provides manufacturers, scientific institutes, industrial enterprises and other local or international institutions with information about participation opportunities in different projects. Riga Biomaterial Innovation and Development Centre opened in 2006. The centre plans to produce small-volume bio-materials and to make the implants what could be used in the medical treatment in stomatology and facial surgery, and for the treatment of bone tissue and blood-vessel illnesses. It will be the training-base for students and will facilitate innovative entrepreneurship – a business incubation. In 1996, the Latvian Association of Technology Parks, Centres and Business Incubators was established as a public organisation. Business support structures for the technology and innovation centres, science and technology parks and business incubators have had a major impact on the foundation of new enterprises in Latvia. The existing structures have offered considerable support to the new knowledge-based and technology-oriented enterprises.

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There are 30 industrial parks in different development status in Latvia (2006), among which 18 industrial parks had tenants. Only part of all industrial parks in Latvia meet commonly accepted principles of industrial parks. All Latvian industrial parks are private entities.

Today, there are 6 main industrial parks in Riga (Riga Industrial Park, NP Industrial Village, Nordic Technology Park, Riga Free Port Industrial Park Vega, Granīta Industrial Park, Rīga International Airport Business Park), and 2 in Pierīga (Business Park Siva in Ogre, Nordic Industrial Park in Olaine).

Kurzeme region hosts 5 main industrial parks (3 of them in Liepāja: Karosta Industrial Park, Pulvera Street Business Park and Pumac Industrial Park, and 2 in Ventspils: High Technology Park and Ventspils Industrial Park). Ventspils Industrial Park and Pulvera Street Business Park in Liepāja are located on the territory of special economic zones. Kurzeme region hosts also the Ventspils industrial zone.

In 2005, Estonia allocated 0.94% and Latvia 0.57% of their GDP to R&D, which remains very low compared to EU25 average (1.85% of GDP) in the same year. The aim of both states is to increase this share annually so that total allocation to R&D would reach 1.9% of GDP in Estonia and 1.5% of GDP in Latvia by 2010. However, these targets remain still low in comparison to the objective set by the Lisbon Strategy to increase the EU total allocation to R&D up to 3% of the EU's GDP by 2010. Estonia aims to achieve this objective by 2014. The Programme area could use the existing potential of educational and other research institutions much more strategically for the development of the region by stimulating more active involvement of researchers in finding solutions to the existing economic, social and other problems.

2.10. Tourism

The Programme area has a strong tourism potential with rich and diverse nature, distinctive cultural heritage, and various recreation possibilities. A long and attractive coastline with its beaches, islands and vast areas of untouched nature with valuable habitats are the main destinations of nature tourists. The Programme area has a long coastline in the west with many public or deserted beaches. The majority of public beaches in the region have the Blue Flag of environmental cleanliness and service for several years. The area includes 1,418 islands and islets of which 13 are populated, being also popular tourism destinations with distinctive culture and numerous health and recreational facilities. Centuries old manor houses and the historical wooden architecture of smaller regional towns, but also the vast art nouveau heritage of Riga city is an attractive asset for culture tourists. There are several Hanseatic towns in the region united by the League's distinctive history. The Programme area has also a wide and continuously extending network of recreation and health services including winter sports facilities in southern Estonia and northern Latvia, and numerous spas and health centres throughout the region, but especially in the coastal areas.

Estonia and Latvia have both experienced extensive inflow of tourists with the number of tourists multiplying after the accession to the EU. Higher demand in tourism is characterised by the increase in accommodation (up to 1,284) and bed places (up to 53,384) between 2000 and 2005 by about 2.5 times, including hotels, camp sites, holiday dwelling and other collective accommodation. The number of visitors staying overnight in the Programme area has similarly increased about 2.5 times between 2000 and 2005 (excluding city of Riga). Besides high level of

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inner tourism, the majority of foreign tourists come to the Programme area from Germany, Finland and Sweden. The attractiveness of the Programme area has increased significantly over the last several years for both foreign and domestic tourists, thus creating a further need to improve the connection links inside, as well as the access from outside to the Programme area. Tourist flows are increasing steadily also between Estonia and Latvia along with the improvement of living standards and the increase in new tourism facilities in the region. However, a large majority of foreign tourists in Estonia and Latvia visit only the capital cities, and the ones who travel outside of the national capitals often visit other places during one-day tours. In order to fulfil the tourist potential of the region, Estonian and Latvian joint marketing actions are needed to attract the tourists to enter the Programme area not only from the capital cities but also from the other side of the border, and thus stay in the Programme area for more than one day.

The region enjoys rapidly growing potential for domestic tourism with increasing number of city people spending their holidays in rural areas, which has resulted in the increase of accommodation facilities also in rural areas. Rural and eco-tourism is a growing trend among domestic tourists in both countries. There is a scope to create new and develop further existing tourism products and services in the natural environment such as near rivers and lakes, forests and hills, but strictly in accordance with the environment protection principles. The region has an abundance of untouched nature which can be developed into the eco-tourism destinations.

The main shortcoming of the tourism sector in the region is the concentration and variability of tourism services and products mainly in the larger cities. Most of the region's tourism companies operate largely in urban areas. Although the region is covered with the network of tourism information centres, the surveys indicate a lack of information in general, including a lack of information in foreign languages, and too little information on the internet. The internet marketing is more advanced in accommodation sector in Estonia compared to Latvia. The share of accommodation facilities having an internet homepage in 2005 was 91% in Estonia, compared to 65% in Latvia. In 2005, 48% of Estonian accommodation facilities received orders via internet compared to 20% in Latvia. There is a scope for developing an integrated tourism information system for the region and multiplying marketing measures and promotion campaigns. There could also be stronger co-operation between tourism operators and municipalities in marketing the region.

The increased demand in tourism has not, however, so far been followed by sufficient ease in transport connections. The introduction of Schengen border regime is expected to raise the demand for cross-border movement, thus satisfactory conditions must be created. Insufficient number of transport connections inside the Programme area and from the outside to the region, and often poor quality of infrastructure, is also hindering tourism development in the region. Increase of maritime tourism, which has a strong potential as the area is situated on the coast of the Baltic Sea, would require the improvement of often outdated infrastructure on the coast. There are shortcomings also in tourism infrastructure with poor quality or insufficient number of signs, toilets, parking and camping places, bicycle roads and general tourism infrastructure. Tourism related infrastructure such as paths and bikeways, signposts and direction signs (also in foreign languages) need to be further developed as do the accommodation facilities.

3. HISTORY OF CO-OPERATION BETWEEN ESTONIA AND LATVIA

Cross-border co-operation is becoming almost a daily reality in the Programme area with the number of local and regional authorities with established co-operation relationships across the national border is increasing constantly. Although financial resources are sometimes scarce, finding jointly solutions to similar problems has gradually become an appreciated practice in the border regions of Estonia and Latvia. However, cross-border co-operation has not always been as common as today, especially because it has been dependent on the available financial support.

Cross-border co-operation in the Programme area has intensified gradually since the launch of EU's different complementary financing instruments in the early 1990s. Cross-border co-operation activities in Estonia and Latvia started to receive support in 1994 when the PHARE Baltic Sea Region Cross-Border Co-operation (CBC) Programme was introduced as a complementary instrument to INTERREG II programmes. The programme was implemented in Estonia and Latvia for over a decade (the last projects finished in 2006), being the most essential financial instrument to provide possibilities for and raise the capacity in cross-border co-operation in both states prior their accession to the European Union. Additionally, cross-border co-operation has been facilitated by several other programmes. In 1995, the European Commission introduced a new innovative facility, the PHARE Baltic Small Projects Facility (PHARE BSPF) to support small-scale co-operation projects in the Baltic Sea Region. The success of this facility and the clear indication that it met very real needs encouraged the Commission to develop this approach with the provision of additional funds as part of the 1996 PHARE Baltic Sea Region Cross Border Co-operation Programme (CBC) and the extension of the innovative approach to the Tacis Cross-border Co-operation (CBC) Programme to cover new types of activity. PHARE CREDO Programme, which was implemented between Estonia and Latvia during 1996-1999, was the first financial instrument which was targeted directly at the border areas of the two states, and it enhanced the development of cross-border structures and common cross-border development planning in the region. Funding from the ECOS-Overture Programme, which encouraged decentralized co-operation among local actors, became available for the three Baltic States in the period of 1997-1999. The programme was funded by the ERDF for the EU partners and by PHARE for Central and Eastern European partners, preparing the cities and regions of EU candidate countries towards a successful integration into the European Union.

Estonia-Latvia-Russia INTERREG IIIA Priority ("North") within the Baltic Sea Region INTERREG IIIB Neighbourhood Programme, which was implemented during 2004-2006, was the first financial instrument to provide broad possibilities for close co-operation between the immediate border areas of the two countries. Both Estonia and Latvia had participated in a joint INTERREG A strand programme before – the states together with Lithuania participated in Southern-Finland Coastal Zone INTERREG IIA Programme during 1995-1999. However, Estonia and Latvia had not yet had an experience with the financial instrument focusing directly on only the immediate border areas of the two countries, and having a genuine co-operation as a core requirement of financing joint projects.

The implementation of the Estonia-Latvia-Russia INTERREG IIIA Priority in Estonia and Latvia intensified the co-operation between the partners, who had been tied with earlier joint actions, but more importantly – widened the area of intensive cross-border co-operation also to the regions which are not situated on the border or in its closest proximity. The priority resulted in a number of concrete results and laid ground for new project ideas to be implemented in the new programming period, as many projects focused their activities on planning, both on general and

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detailed level. In addition to "soft" co-operation, several projects included remarkable infrastructure component. Such investments were mostly targeted at improving the living quality of the people living in the border areas. In addition, several objects with tourism potential were reconstructed. Implementation of the priority taught local actors an important lesson of co-operation on the EU internal borders, which helped to form a strong basis of local know-how and active partnerships for the new programming period.

Estonian-Latvian Intergovernmental Commission for Cross-border Co-operation was established in 2004 to discuss and analyse cross-border co-operation between the two states, promote the implementation of cross-border co-operation strategies and the creation of entrepreneurial-friendly environment in the regions, facilitate the crossing of the border, and to resolve single problems of the border regions. The commission has established task forces to work on specific issues.

Local and regional people-to-people contacts between Estonia and Latvia have increased considerably over the recent years, some of them however having deeper roots in history. These contacts are gradually shifting from random joint activities to regular daily co-operation, joint development projects, and to signing of long-term partnership agreements. One of the most popular co-operation fields between Estonia and Latvia is education and culture, with more and more joint cultural events organised each year, ranging from schools co-operation to larger regional thematic events. Even though the Programme area is rather compact, it has significant cultural variety which should be preserved and further promoted. Another increasingly popular co-operation field is management of environment and addressing of joint environment problems. This co-operation could have even more scope because of the joint environmental challenges the Programme area is facing. One of the most important co-operation topics is the raising of the environmental awareness among population, starting from schoolchildren and covering all social groups, being currently very low throughout the Programme area. Co-operation in developing and marketing joint tourism products and services, and enhancing new business contacts are also popular co-operation fields in the Programme area. In general, the number of people-to-people contacts and local co-operation projects has increased significantly during recent years, however, it has more often remained organising one-off events, rather than developed into durable cross-border partnership.

The experiences with cross-border co-operation in the Programme area are relatively wide, especially in the form of bilateral projects implemented mainly at the municipal basis under the Estonia-Latvia-Russia INTERREG IIIA Priority. Estonian and Latvian immediate border areas already have the experience of implementing genuine joint projects and establishing longer-term contacts across the border. The Programme has a task to bring these experiences to a deeper level of co-operation on a daily basis in pursuing mutual opportunities and tackling joint challenges. Local co-operation could shift under this Programme from random cross-border activities towards more regular co-operation in addressing joint development problems by long-term planning and elaborating joint solutions. The Programme area is in large part a rural area with sparse population, with often poor attainability of various goods and services. Local co-operation between Estonia and Latvia should try to increase the attractiveness of such areas as living and working environments by increasing the availability and quality of public services in the areas, vitalising community life with regular cultural events and other social activities, involving local inhabitants more into community development. It is of vital importance to accelerate socio-economic development especially outside of the larger cities in the Programme area, in the mostly rural border regions, and try to balance the unequal development level and living standards between centres and peripheral locations.

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4. VISION AND STRATEGY

The summary of the conclusions based on the above description is included in the table below. The SWOT analysis contains only the elements of cross-border relevance as it is envisaged that the mainstream development of the border regions will be addressed through Convergence Objective programmes in both Member State.

4.1. SWOT

STRENGTHS	WEAKNESSES
<ol style="list-style-type: none"> 1. Common historical background and traditions with cultural variety 2. Similar background, socio-economic structure, development level and problems in most sectors 3. Region with above average economic growth levels of EU25 4. Economic activity (mainly SMEs) based on local resources (timber, food, natural resources) 5. Higher education and science potential 6. Good logistic location as regard to important transport routes 7. Region increasingly covered with access to modern communication technologies 8. Clean and diverse natural environment, attractive coastal landscape 9. Tourism potential and a functioning basic tourism infrastructure 10. Developed network of recreation and health services 11. Increasingly stronger civil society 12. Unique twin-city Valga/Valka situated on the Estonian-Latvian border 	<ol style="list-style-type: none"> 1. Actual and perceived peripherality and poor socio-economic development level of the region in the European Union 2. Sparsely populated rural areas and ageing population 3. Low level of entrepreneurship and poor competitiveness of businesses at the EU market 4. Mismatch of demand and supply in the labour market and low labour productivity (1/3 of the EU15 average) 5. Large share of economically inactive inhabitants among labour force 6. Poor connection between vocational education system and labour market demands 7. Insufficient cross-border transport network and poor inner connectivity of the region 8. Poor technical condition of transport infrastructure 9. Uneven development of ICT sector and e-services 10. Uneven attainability of services and consumer products in rural areas 11. Low environmental awareness among population 12. Isolation and marginalisation of local communities and inactive village life
OPPORTUNITIES	THREATS
<ol style="list-style-type: none"> 1. Schengen Agreement's entry into force 2. Scope for generating new business initiatives; wider promotion of entrepreneurship 3. Development of niche markets and adding value to and diversifying local products and services; developing sectors with higher growth potential 4. Inclusion of marginalised groups and economically inactive people in the regional economy 5. Enhancing the link between education and labour market 6. More active involvement of the higher education and science potential in the development of the region 7. Increasing inner and outer connectivity of the region by creating new transportation links and improving transport infrastructure 8. Potential of advanced ICT applications for e-learning, tele-working, e-business and marketing 9. Increased importance of the principles of sustainable development and environment protection 10. Joint development and marketing of the region as a 	<ol style="list-style-type: none"> 1. Remaining a relatively poor and unattractive province in the periphery of the European Union 2. Growing disparities between rural and urban areas; remaining large areas of rural deprivation 3. Continuing negative population growth and out-migration of labour force to centres and abroad; rural depopulation 4. Slowing down of economic growth 5. Concentration of economic activity in low value added sectors and inward-looking attitude of indigenous SMEs; reduced survival rate of SMEs 6. Traditional sectors facing intense competition from the European Union 7. Marginalisation of people with low education/re-training attainment; little targeted action to increase the employability of low-skilled and economically inactive people 8. Concentration of social infrastructure and public services into the regional centres 9. Climate changes and constant increase in the prices of primary energy

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single tourism destination for both foreign and domestic tourists	10. Increase in environmental damage and pollution and deterioration in the condition of the Gulf of Riga
11. Increasing the potential of rural areas as attractive living and working environments	11. Seasonal nature of tourism and increasing wild tourism
12. Increase in local initiative and action among people, NGOs and local communities	12. Erosion of community identity and social cohesion; increasing poverty and exclusion

4.2. Programme vision

The vision of the Programme is to develop a dynamic and forward looking EU region within the area of the Baltic Sea, which is internationally competitive, socially and economically balanced, capable of reacting quickly to global economic and environmental challenges, attractive and easily accessible to both its inhabitants and visitors, and is tempting to preserve its distinctiveness, natural attractiveness and cultural heritage as an asset.

The Programme area has developed rapidly over the last 15 years and has enjoyed high economic growth levels during the recent years. Regional economy is growing, labour market conditions are becoming more favourable, and real incomes of people are increasing continuously. Despite strong economic performance during the recent years, there are still many challenges facing the development of the Programme area.

The main challenge of the Programme is to make a shift from a largely peripheral, socially and economically lagging-behind and sparsely populated area into economically competitive region, which is attractive in terms of its quality of life, social and economic development, environment, and its communication links – a region where people enjoy living and working. Although the region's economy is growing rapidly, all-in-all it is still falling behind the level of growth in capital regions of both Member States. There is a significant gap between capitals and regional centres compared to rural areas in terms of the availability of job opportunities, recreation possibilities, and general living conditions, which must be overcome in order to stop out-migration of youth from rural areas and small towns.

Another challenge is to develop the co-operation area into one cohesive region, where borders (physical, as well as cultural and mental borders) do not constitute a barrier to the balanced development and integration of the region. Despite wider local and regional co-operation during recent years between southern parts of Estonia and northern parts of Latvia, the Programme area does not yet function as a cohesive region, due to poor transport connections and lack of co-operation in service provision. This situation should be overcome by breaking down both physical and other barriers through creating new connection links and deepening existing and new co-operation contacts into solid cross-border partnerships to the mutual benefit of the border areas.

4.3. Programme strategy

The strategy of the Programme is to support joint operations which provide coherent and efficient response to detected weaknesses, develop further the identified strengths and specific competitive advantages of each region, and take maximum use of attainable opportunities to contribute to the overall development of the Programme area. Co-operation between Estonia and Latvia in this Programme is motivated by the wish to accelerate socio-economic development of the Programme area and to make cross-border co-operation a part of daily life in the border regions.

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The overall objective of the Programme is to promote sustainable development and economic competitiveness of the Programme area through achieving an integrated and cross-border approach to economic, social and environmental development in ways, which involve and benefit local people and communities.

In order to reach its overall objective, the Programme is divided into three priorities focusing on accessibility, competitiveness, and active communities. The selection of priorities is based on regional analysis, which has identified poor physical accessibility, low economic competitiveness, and unattractiveness of large part of the area as living and working environment as the major challenges facing the Programme area. The above challenges will be addressed each respectively by a separate priority in the Programme. The *ex ante* evaluation of the operational programme concluded that the priorities and directions of support chosen by the Programme reflect well and respond to the main disparities and gaps identified in the regional analysis of the Programme area.

A wide range of activities under the above topics will be addressed by the Convergence Objective programmes in Estonia and Latvia. This Programme addresses only the aspects of the above challenges, which need intervention at the cross-border level, excluding operations, which could be implemented independently on each side of the border with similar results. Many problems of national importance can receive additional benefits when cross-border approach is applied to solve them, and the Programme provides an opportunity to address the challenges jointly by partners from two countries. The Programme finances both infrastructure investments with clear cross-border impact, as well as small-scale people-to-people activities in addressing joint problems.

In order to fully use the opportunities provided by the Programme, the priorities address the topics where the common interest is the largest, expected outputs are the highest, and where the chance of reaching the strategic vision of the Programme is most likely. In order to realise the overall objective of the Programme, the supported operations must have a strong cross-border character and very high project quality. Cross-border co-operation must create new synergy by addressing the chosen challenges most efficiently. The implementation of joint cross-border projects involving partners from both Member States should gradually contribute to the territorial cohesion of the Programme area and create conditions to the acceleration of socio-economic development.

Impact of the Programme as regards to increasing the intensity of co-operation, shall be measured by the number of projects respecting the following criteria:

- Joint development
- Joint activities
- Joint staffing

The target of the indicator is 75 projects respecting the above criteria financed from the Programme. Baseline for measuring the impact is 0.

Cross-border co-operation under the Programme should in large part shift away from the exchange of experience and organising one-off events to regular co-operation under established cross-border partnerships in planning and implementation of development activities with tangible results for regions on both sides of the border.

An important feature of the Programme is the mainstreaming of sustainable development, equal opportunities to all social groups including gender equality, and non-discrimination. These horizontal objectives must be taken into account in all aspects of the implementation of the Programme. All projects that are financed from the Programme must as far as possible integrate the above issues into their activities.

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Adequacy of the Programme strategy will be monitored by the following context indicators:

- Cross-border transport connection links
- Geographical coverage with internet access
- Share of waste recycling
- Area of protected territories
- Change in GDP per capita
- Number of enterprises per inhabitants
- Number of visitors in the Programme area
- Employment rate
- Population density
- Number of non-governmental organisations

Baseline for monitoring the change in the context in which the Programme is implemented is statistics from year 2007. The above context indicators reflect the general development trends in the region and are monitored to guarantee that the Programme strategy remains adequate during the entire Programme implementation period. The context indicators are monitored to assess whether the chosen strategy continues to address appropriately the needs of the Programme area, and whether any changes in the strategy are needed in the changed conditions. The context indicators are not used to measure the success of the Programme.

5. PRIORITIES

The Programme is divided into three priority axes, each of these covering several directions of support. The priorities are elaborated in accordance with Article 6 of the ERDF Regulation.

The Programme will only support operations if these include at least one beneficiary from both Estonia and Latvia. Each of the beneficiaries shall contribute to the operation financially. According to Article 19(1) of the ERDF Regulation, these beneficiaries shall co-operate in at least two of the following ways for each operation:

- joint development;
- joint implementation;
- joint staffing;
- joint financing.

In accordance with Article 19(1) of the ERDF Regulation, operations fulfilling the above conditions may be implemented on the territory of only one Member State within the Programme area, provided that they include partners from both Member States and have a clear cross-border impact.

The more detailed description of the activities to be supported from the operational programme is included in the Programme Manual.

5.1. Priority 1. Increased cohesion of the Programme area

The priority is contributing to the overall objective of the Programme by targeting better physical integration of the Programme area. The priority is aimed at better physical cohesion of the

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Programme area by increasing both internal and external connectivity and reducing the impacts of the existing national border.

INDICATORS			
Indicator	Objective	Baseline 2007	Target 2015
Number of projects creating new or improving the existing cross-border transport connection links	Improved physical connectivity of the Programme area	0	10
Number of projects improving access to ICT networks or services	Improved physical connectivity of the Programme area	0	10
Number of projects developing joint use of infrastructure	Enhanced joint management of public services and resources in the Programme area	0	5
Number of projects developing collaboration in the field of public services	Enhanced joint management of public services and resources in the Programme area	0	5
Number of projects finding joint solutions to similar environmental problems	Enhanced joint management of public services and resources in the Programme area	0	10
Number of people participating in joint education or training activities	Increased knowledge and capacity of the target group	0	300 thereof at least 50% female

5.1.1. Direction of support 1.1. Reducing isolation through improved internal and external connectivity of the Programme area

The eligible area of the Programme is covered with a basic network of technical infrastructure, but the number of connection links both inside the Programme area between different regions, as well as accessibility to the area from outside should be increased. The aim of the direction of support is to elaborate and apply new transport and logistics solutions in the Programme area, repair and restore unused connection links, advance development along the international transport corridors passing through the area, and apply innovative ICT solutions and services to improve the overall connectivity of the region. In regard to transportation, the emphasis is put on developing local connections on road, rail, water, and where appropriate air. The majority of the Programme area is covered with rural and often peripheral settlement areas, thus it is of great importance to improve the connectivity of these regions into the overall transport, information and communication networks.

5.1.2. Direction of support 1.2. Enhancing joint management of public services and resources

One of the strengths of the border regions of Estonia and Latvia is their rich natural resources, shared and enjoyed mutually by people from both countries. However, this must be protected and displayed to visitors with great care. Also, majority of public services, such as energy and water supply, health care, fire brigades, and other services must be provided similarly on both sides of the border. The aim of the direction of support is to find joint solutions and enhance joint

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management of public services and resources in order to create synergy and advance coherence of the border region. Finding joint solutions to similar environmental problems, managing together protected areas and nature reserves, as well as water, energy, and other resources, is financed under the direction of support. Elaborating joint public services to be provided similarly on both sides of the border is also covered by this direction of support.

5.2. Priority 2. Higher competitiveness of the Programme area

The priority is contributing to the overall objective of the Programme by targeting higher economic competitiveness of the Programme area. The priority is aimed at improving the environment for business activities and adapting to structural changes in the economy and on the labour market.

INDICATORS			
Indicator	Objective	Baseline 2007	Target 2015
Number of projects promoting entrepreneurial spirit and skills	Increased overall economic competitiveness of the Programme area	0	15
Number of projects supporting the development of economic activities with higher value added	Increased overall economic competitiveness of the Programme area	0	20
Number of projects encouraging the development of cross-border trade	Increased overall economic competitiveness of the Programme area	0	10
Number of co-operation projects between enterprises and research or education institutions	Increased overall economic competitiveness of the Programme area	0	10
Number of new or improved joint tourism products or services	Increased attractiveness of the Programme area for visitors	0	20
Number of projects developing joint use of infrastructure	Increased attractiveness of the Programme area for visitors	0	10
Number of entrepreneurs benefiting from the projects aimed at improving the business environment	Increased capacity of business operators in the Programme area	0	300
Number of people participating in joint education or training activities	Increased knowledge and capacity of the target group	0	1,400 thereof at least 50% female

5.2.1. Direction of support 2.1. Facilitating business start-up and development

Despite relatively high economic growth rates in both Member States, the Programme area is characterised by low levels of entrepreneurship, accompanied by rather poor competitiveness of enterprises at the EU scale. The undergoing economic activity (mainly SMEs) is directed primarily at the local or national markets, with emphasis on providing simple services and

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manufacturing basic products based on local resources. The aim of the direction of support is on the one hand to facilitate new business initiatives by promoting entrepreneurship spirit among young people and wider population, and guarantee an efficient business support system (both service and infrastructure) for start-ups. On the other hand, the direction of support is aimed at adding value to and diversifying the existing products and services, developing niche markets, as well as extending already operating business activities in order to contribute to the overall competitiveness of the businesses in the Programme area. It is of great importance to improve the flexibility and innovativeness of the business sector in the Programme area, as well as to concentrate on currently undeveloped sectors and on those with higher growth potential.

5.2.2. Direction of support 2.2. Increasing the attractiveness of the Programme area

The Programme area has a strong tourism potential both to domestic and foreign visitors. The tourist flows to the region and within the region have increased significantly over the years, and it is acknowledged that there is still scope for the development of the tourism market. The aim of the direction of support is to increase the attractiveness of the Programme area to visitors by utilising the characteristic strengths of the region such as diverse natural resources, attractive coastal landscape and a long coastline, islands, and an abundance of wild untouched nature. The direction of support covers the variety of tourism sectors, including nature, maritime, and cultural tourism, as well as recreation and sports. The direction of support is aimed at developing further the existing tourism infrastructure (including cultural heritage), however, it is of equal importance to diversify existing and create new tourism services and products. All tourism development activities should be accompanied by joint marketing actions promoting areas and packages, which include tourism destinations in both Member States.

5.2.3. Direction of support 2.3. Enhancing employable skills and human resources

Human resource development forms an important part of the Programme, especially as regards the skills needed to become and remain competitive on the labour market. The labour market in the Programme area is characterised by mismatch of demand and supply, skills gaps, and low productivity of labour force. Moreover, there is a large share of economically inactive people among labour force of the border regions. Therefore, the aim of the direction of support is to enhance employable skills among the labour force by developing the link between educational institutions and enterprises, cross-border education infrastructure, system of life-long learning and retraining activities, involving and educating new generation (vocational and higher education); therefore keeping them in the region, and bringing economically inactive people back to the labour market. As the Programme area is in large part covered with sparse population, each and every member of the labour force is valued for contributing to the economic growth of the region. It is thus important to create a flexible, competitive and effective labour market in the border regions of Estonia and Latvia and to ensure the development of human capital by vocational training and higher education establishments, enrolling students from the neighbouring regions across the border, and improving material basis and co-operation between educational institutions.

5.3. Priority 3. Active, sustainable and integrated communities

The priority is contributing to the overall objective of the Programme by targeting attractiveness of the Programme area as a valued living and working environment. The priority is aimed at

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improving the sustainability of the Programme area by promoting vitality of the local communities and supporting cross-border social and cultural interactions.

INDICATORS			
Indicator	Objective	Baseline 2007	Target 2015
Number of projects improving services for the communities	Improved availability of services in the Programme area	0	10
Number of projects increasing the activity of local communities	Increased activity of the local communities	0	10
Number of rural municipalities involved in project implementation	Increased activity of local communities in the Programme area	0	80
Number of non-governmental organisations involved in project implementation	Increased activity of local communities in the Programme area	0	40
Number of participants benefiting from joint social and cultural activities	Increased social and cultural integration of the people in the Programme area	0	40,000 thereof at least 50% female
Number of people participating in joint education or training activities	Increased knowledge and capacity of the target group	0	300 thereof at least 50% female

5.3.1. Direction of support 3.1. Improving the environment for active and sustainable communities

The Programme area is in large part covered with sparse population in mostly small rural settlements with often poor availability of public services. Deprived rural areas and small towns are an unattractive living environment especially for young people, the majority of whom move to live and to work in the regional centres. The aim of the direction of support is to improve the attractiveness of rural and deprived urban or small-town areas as a qualitative living and working environment, to activate local communities so that they become vital and sustainable, and to increase local initiative among population, NGOs and communities in developing these areas. The direction of support finances cross-border co-operation projects for community development in various aspects such as long-term and sustainable planning, improving the (rural) life environment, including the accessibility and quality of public services and recreational infrastructure, establishing multifunctional village centres, preserving the cultural value of settlements, as well as strengthening of the local identity.

5.3.2. Direction of support 3.2. Promoting grass-root level actions

Although cross-border people-to-people contacts and interaction between Estonian and Latvian border regions have increased significantly over the recent years, there is still scope for more small-scale activities. Supporting grass-root level actions is especially important to revitalise local community life with different cultural events, establish new contacts, such as school exchanges,

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and address jointly various everyday problems in the border regions. For these aims, new contacts across the border have to be sought and co-operation relations formed or deepened. The aim of the direction of support is to enhance the creation of new and intensify already existing cross-border contacts into durable co-operation relations by supporting small-scale activities in various topics.

5.4. Priority 4. Technical Assistance

Technical Assistance (TA) is an essential resource for contributing to the overall efficient implementation of the Programme. The priority is aimed at ensuring smooth, flexible and transparent management of the Programme.

In compliance with Article 46 of the General Regulation, Technical Assistance is used to finance the preparatory, management, monitoring, evaluation, information, and control activities of the operational programme, together with the activities to reinforce the administrative capacity for implementing the funds. The activities financed from the TA of the Programme include meetings of the Programme's Monitoring Committee, activities of the Managing Authority, Certifying Authority, Audit Authority, and the Joint Technical Secretariat. The majority of the Technical Assistance funds are used to finance the operation of the Joint Technical Secretariat carrying out the majority of tasks related to the implementing the Programme, including various information activities and dissemination of the Programme results. Technical Assistance funds cover also costs such as evaluation, and installation of computerised systems for management, monitoring and evaluation.

In accordance with Article 46 of the General Regulation, the limit for Technical Assistance is set at 6% of the total amount allocated to the Programme under the European Territorial Co-operation Objective.

Further details on financing of the Technical Assistance are included in the financial plan of the Programme.

INDICATORS			
Indicator	Objective	Baseline 2007	Target 2015
Percentage of all projects approved for funding implemented successfully	Efficient assessment, selection and monitoring procedures of the Programme	0	95%
Number of events, seminars and trainings organised for the publicity, information and capacity building about the Programme	Increased knowledge and capacity of the target group about the Programme	0	32
Number of participants to different Programme events (conferences, workshops, seminars, trainings)	Increased knowledge and capacity of the target group	0	1,200 thereof at least 50% female

6. COHERENCE WITH EU POLICIES AND PROGRAMMES

The Programme has been prepared in coherence with the Community Strategic Guidelines on Cohesion Policy in Support of Growth and Jobs during 2007-2013. According to the Guidelines, the improvement of existing transport and communication infrastructure and the development of new links are the pre-conditions for establishing or developing cross-border contacts, and would thus be a good starting point for reducing the obstacles created by the borders. Priority 1 of this Programme is directly focused on reducing the impacts of the existing national border between Estonia and Latvia by directing assistance to repairing and restoring unused connection links, and applying new and innovative solutions to improve the overall connectivity of the Programme area.

According to the above Guidelines, cross-border co-operation should also focus on strengthening the competitiveness of the border regions by directing assistance on actions which bring added value to the cross-border activities, such as increasing cross-border competitiveness through innovation and R&D. Priority 2 of this Programme is targeting higher economic competitiveness of the Programme area by directing assistance to improving the flexibility and innovativeness of the business sector, and helping to create a flexible, competitive and effective labour market in the region.

During the programming period 2007-2013, several Structural Funds programmes with a similar territorial coverage and support to similar topics are implemented in parallel to this Programme. In order to ensure that EU funding is used and channeled in an optimum way to promote sustainable development as required by the Sustainable Development Strategy adopted by the European Council on 15-16 June 2006, co-ordination mechanisms with all relevant programmes will be set up to exchange information and enhance complementarities and synergies, and to prevent overlapping of activities and double-financing of operations supported from different EU programmes implemented in the region. The co-ordination measures include regular cross-checking with relevant programmes prior the financing decisions on the operations are made by the Monitoring Committee on whether the operations applying for funding from the Programme have not already received financing from other programmes, and publicizing the list of supported operations at the Programme homepage. The co-ordination mechanisms will guarantee that the activities financed from this Programme and the activities financed from other EU programmes and plans complement and not duplicate each other.

During the programming period 2007-2013, Estonia will implement three thematic operational programmes under the Convergence Objective specifying the activities financed from the Structural Funds and the Cohesion Fund:

- 1) Operational Programme for the Development of Living Environment (ERDF; Cohesion Fund);
- 2) Operational Programme for the Development of Economic Environment (ERDF; Cohesion Fund);
- 3) Operational Programme for Human Resource Development (ESF).

The Operational Programme for the Development of Living Environment finances activities in the fields of environmental protection, energy, local and regional development, education, and the development of health and welfare infrastructure. The Operational Programme for the Development of Economic Environment supports the development and productivity growth of enterprises, research and development (R&D) capability, tourism and creative industries, development of national R&D programmes targeted at long-term economic development and

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initiation of national programmes within prioritised trends, as well as the development of the transport infrastructure of domestic and international routes, and the development of information society. The Operational Programme for Human Resource Development finances the activities that encourage progress towards a knowledge-based economy and society by support to education, R&D, youth work, labour market development, enterprises, and increase in administrative capacity.

Although several of the above topics are supported also from this Programme, none of the activities designed for the absorption of the Convergence Objective resources will be duplicated by the European Territorial Co-operation Objective resources. The Programme will be implemented as a complementary instrument to the Convergence Objective programmes. The Programme will contribute to the achievements of the national policy objectives but support only the activities with clear cross-border impact, utilising the added value of cross-border co-operation in the selected directions of support.

Co-ordination with the Estonian Convergence Objective programmes will be achieved by the Joint Technical Secretariat of the Programme performing regularly cross-checking with the Estonian Register of Structural Assistance "SFOS" prior the financing decisions on the operations are made by the Monitoring Committee of the Programme on whether the operations applying for funding from the Programme have not already received financing from any of the operational programmes under the Convergence Objective.

There will be three thematic operational programmes implemented in Latvia under the Convergence Objective:

- 1) Operational Programme for the Development of Human Resources and Employment (ESF);
- 2) Operational Programme for the Development of Entrepreneurship and Innovations (ERDF);
- 3) Operational Programme for the Development of Infrastructure and Services (ERDF; Cohesion Fund).

The Operational Programme for the Development of Human Resources and Employment finances the activities targeted at the development of education and science, fostering of employment, social integration and health of labour force, and the strengthening of administrative capacity. The Operational Programme for the Development of Entrepreneurship and Innovations is focused on three main activity areas: development of the capacity of science and research sector to provide new ideas, encouraging co-operation between researchers and businesses, as well as support to emerging merchants and improvement the competitiveness of existing companies. The Operational Programme for the Development of Infrastructure and Services will provide support in a framework of seven priorities. The priorities co-financed from the Cohesion Fund will support the development of the Trans-European transport network in Latvia and the development of sustainable transport, establishment and improvement of large-scale environmental infrastructure, as well as improvement of energy efficiency and production, and use of renewable energy. The priorities co-financed from the ERDF will provide complementary support to the Cohesion Fund in transport, environment and energy efficiency sectors, supporting the development of transport networks of regional significance, implementation of small-scale environmental projects, as well as energy efficiency of housing. Besides, the ERDF will provide support for the development of information and communication technologies and services, as well as facilitating the creation of information society in Latvia. Within the framework of the operational programme, tourism

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development will be promoted, and activities will be carried out for the maintenance and improvement of the cultural environment.

The priorities of the Convergence Objective programmes are related to the co-operation priorities within this Programme, but the activities are going to take place within the territory of a single country and are aimed at the fulfilment of national objectives. This Programme will be implemented as a complementary instrument to the Convergence Objective programmes. The Programme will contribute to the achievements of the national policy objectives but support only the activities with clear cross-border impact, utilising the added value of cross-border co-operation in the selected directions of support.

Co-ordination with the Latvian Convergence programmes will be achieved in co-operation between the Joint Technical Secretariat of the Programme, Latvian Ministry of Regional Development and Local Governments, and Latvian respective national authorities. Prior the financing decisions on the operations are made by the Monitoring Committee of the Programme, the Latvian respective national authorities perform the cross-check upon official request from the JTS to the Latvian Ministry of Regional Development and Local Governments on whether the operations applying for funding from the Programme have not already received financing from the operational programmes under the Convergence Objective.

The Programme partly supports the same sectors as the Rural Development Plans of Estonia and Latvia financed under the European Agricultural Fund for Rural Development (EAFRD). The Programme must in particular avoid possible duplication with Priority Axis 3 “The quality of life in rural areas and diversification of the rural economy” of the Estonian and Latvian Rural Development Plans, which include the measures for diversification of economic activities in the rural areas, as well as for the renewal and development of the villages – also covered by this Programme. Similarly, possible duplication with Priority Axis 4 “LEADER”, which supports inter alia different initiatives implementing the local development strategies and international co-operation between the Local Action Groups (LAGs), must be avoided.

The Programme may have some risks of duplication also with the Fisheries Development Plans of Estonia and Latvia financed under the European Fisheries Fund (EFF). Possible duplication must be avoided as regards the operations aiming at adding more value to fish products and entering foreign markets, targeting employment and restructuring the fishing sector, developing coastal fishing areas and fishing tourism (including infrastructure and services), as well as the international co-operation between the Fishing Activity Groups.

Possible duplications between the operations supported from the Programme and the operations financed by the EAFRD and EFF in Estonia and Latvia will be avoided by setting up a co-ordination mechanism between the Joint Technical Secretariat of the Programme and the Estonian Agricultural Registers and Information Board implementing the Rural Development Plan and Fisheries Development Plan in Estonia, and the Rural Support Service implementing the above plans in Latvia. The co-ordination with the above plans will be achieved by the Joint Technical Secretariat performing the cross-check with the Estonian Agricultural Registers and Information Board, and the Latvian Rural Support Service via Latvian Ministry of Regional Development and Local Governments prior the financing decisions on the operations are made by the Monitoring Committee of the Programme on whether the operations applying for funding from the Programme have not already received financing under the measures of the Rural Development Plan or the Fisheries Development Plan of either Member State.

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The cross-border Central Baltic Programme will be implemented under European Territorial Co-operation Objective in parallel to this Programme, covering partly the same territory and similar topics of co-operation. Although the focus and geography of the two programmes is in general different, it is however important to avoid the overlaps with the Central Baltic Thematic Sub-programme, which involves the same eligible regions from both Estonia and Latvia as this Programme, and allows also bilateral co-operation between the two countries. Co-ordination of the two programmes will be achieved by providing clear guidance to the applicants on the differences of operations stipulated under this Programme and the Central Baltic Thematic Sub-programme, and by the Joint Technical Secretariat of the Programme performing regularly cross-checking with the Joint Technical Secretariat of the Central Baltic Programme prior the financing decisions on the operations are made by the Monitoring Committee of the Programme on whether the operations applying for funding from the Programme have not already received financing from the Central Baltic Programme.

Latvia will participate in the Latvia - Lithuania Cross-border Co-operation Programme under European Territorial Co-operation Objective. The territory of the Latvia - Lithuania Programme will cover part of the eligible area of this Programme. Also, the co-operation priorities of the two programmes are rather similar. The two programmes should complement each other. The co-ordination of the two programmes will be achieved by the Joint Technical Secretariat of the Programme performing the cross-check with the Joint Technical Secretariat of the Latvia-Lithuania Programme prior the financing decisions on the operations are made by the Monitoring Committee of the Programme on whether the operations applying for funding from the Programme have not already received financing from the Latvia - Lithuania Programme.

Estonia and Latvia will co-operate with Russia in the Estonia-Latvia-Russia Cross-border Co-operation Programme under the European Neighbourhood and Partnership Instrument (ENPI). The programme could be seen as the follow-up of the co-operation between the three states under the Estonia-Latvia-Russia INTERREG IIIA Priority ("North") within the Baltic Sea Region INTERREG IIIB Neighbourhood Programme, which was implemented during 2004-2006. The Estonia-Latvia-Russia ENPI Programme will support sustainable development and encourage co-operation for improving socio-economic cohesion and competitiveness of the border region by utilising its potential and addressing common challenges as it is determined by the ENPI legal framework. An important aspect of the programme is a strategic partnership with Russia that aims at improving cross-border co-operation along the EU's eastern external border. The ENPI programme is a trilateral programme, but may include bilateral activities which support co-operation between one Member State (Estonia or Latvia) and a partner country (Russia). The programme will not support bilateral co-operation between Estonia and Latvia. Some topics financed from this Programme overlap partly with the Estonia-Latvia-Russia ENPI Programme, thus a co-ordination mechanism between the two programmes will be set up. The co-ordination of the two programmes will be achieved by the Joint Technical Secretariat of the Programme performing the cross-check with the Joint Technical Secretariat of the Estonia-Latvia-Russia ENPI Programme prior the financing decisions on the operations are made by the Monitoring Committee of the Programme on whether the operations applying for funding from the Programme have not already received financing from the Estonia-Latvia-Russia ENPI Programme.

Estonia and Latvia will participate also in the transnational Baltic Sea Region Programme and in the interregional INTERREG IVC Programme where both states are eligible with entire territories and may co-operate with each other under several topics which are partly similar to the topics financed from this Programme. Estonian and Latvian participation in the above programmes is

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possible, however, only as part of a wider partnership. Also, the operations funded from the above programmes are focusing on a different and much wider geographical context, thus providing sufficient safeguards to avoid duplication with this Programme. However, the Joint Technical Secretariat of the Programme will perform regularly cross-checking with the Joint Technical Secretariat of the Baltic Sea Region Programme, as well as with the Joint Technical Secretariat of the INTERREG IVC Programme prior the financing decisions on the operations are made by the Monitoring Committee of the Programme on whether the operations applying for funding from the Programme have not already received financing from the above programmes.

In addition, if regions in the Programme area are involved in the Regions for Economic Change initiative, the Managing Authority commits itself to:

- a) make the necessary arrangement to support innovative operations with cross-border impact that are related to the results of the networks;
- b) foresee a point in the agenda of the Monitoring Committee at least once a year to discuss relevant suggestions for the Programme, and to invite representatives of the networks (as observers) to report on the progress of the networks' activities; and
- c) describe in the Annual Report actions included within the Regions for Economic Change initiative that have a cross-border nature and are relevant for the Estonia-Latvia Programme.

Special attention shall be given to the services provided by the INTERACT II Programme. This EU-wide programme focuses on the good governance of territorial co-operation and provides needs-based support to stakeholders involved in implementing programmes under the European Territorial Co-operation Objective. The target groups for INTERACT are primarily the authorities to be established according to the General Regulation and the ERDF Regulation as well as other bodies involved in programme implementation. In order to ensure maximum benefit from the INTERACT II Programme for the implementing bodies of this Programme, the use of INTERACT services and documentation as well as the participation in INTERACT seminars will be encouraged. Related costs are eligible under Technical Assistance.

The Programme has been prepared in accordance with the EU common policy. Main components of the common policy which were followed during preparation of the Programme and must be monitored during its implementation are the EU policy towards sustainable development, equal opportunities for all social groups, competition, and public procurement. These horizontal policies must be taken into account in all aspects of implementation of the Programme. All operations supported from the Programme should integrate the above principles into their activities as far as possible.

Appropriate management arrangements shall ensure at all levels of Programme implementation, that - beyond the legally required absolute minimum standards - possible effects which are unsustainable or unfavourable to environment, especially as concerns impacts on climate change, the maintaining of biodiversity and ecosystems, and the drawing on natural resources, are avoided or kept as low as possible, so that the environmental charges of the operational programme, in total, will in the end be climate- and resource-neutral. The operational programme's positive effects and potentials for synergies in the sense of optimising its contribution to an environmentally sustainable development shall be exploited at best and, wherever possible, strengthened.

The Programme area includes coastal zones as eligible areas, therefore attention shall be paid during the Programme implementation on the Communication from the Commission to the

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Council and the European Parliament on "Integrated Coastal Zone Management: A Strategy for Europe" and on the proposal for a European Parliament and Council Recommendation concerning the implementation of Integrated Coastal Zone Management in Europe (COM/00/545 of 8. September 2000; recommendation adopted by Council and Parliament on 30 May 2002).

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7. IMPLEMENTATION OF THE PROGRAMME

Estonia and Latvia have agreed to set up a new structure for implementing the Programme.

In accordance with Article 12(8) of ERDF Regulation applicable to this Programme, the Programme shall contain implementing provisions, including:

- a) designation by the Member States of all the authorities referred to in Article 14 of the ERDF Regulation;
- b) a description of the monitoring and evaluation systems;
- c) information about the competent body for receiving the payments made by the Commission and the body or bodies responsible for making payments to the beneficiaries;
- d) a definition of the procedures for the mobilisation and circulation of financial flows in order to ensure their transparency;
- e) the elements aimed at ensuring the publicity and the information of the operational referred to in Article 69 of the General Regulation;
- f) a description of the procedures agreed between the Commission and the Member States for the exchange of computerised data to meet the payment, monitoring and evaluation requirements laid down by the General Regulation.

7.1. Programme management

In accordance with Article 59 of the General Regulation, Estonia and Latvia shall designate for implementing the Programme the following authorities:

- a Managing Authority (MA) within the meaning of Article 60 of the General Regulation;
- a Certifying Authority (CA) within the meaning of Article 61 of the General Regulation;
- an Audit Authority (AA) within the meaning of Article 62 of the General Regulation.

In accordance with Article 63 of the General Regulation, Estonia and Latvia shall set up a joint Monitoring Committee, which shall satisfy itself as to the effectiveness and quality of the implementation of the Programme.

In accordance with Article 14(1) of the ERDF Regulation, the Managing Authority shall set up a Joint Technical Secretariat, which shall assist the Managing Authority and the Monitoring Committee, and, where appropriate, the Audit Authority, in carrying out their respective duties.

In accordance with Article 62 of the General Regulation and Article 14(2) of the ERDF Regulation, the Audit Authority will be supported by the Group of Auditors.

Estonia and Latvia have decided to set up the joint implementation structure of the Programme in Estonia. The Ministry of the Interior has been designated to act as the Managing Authority, the Certifying Authority, and the Audit Authority of the Programme. To provide for the respect of the principle of separation of functions between the Managing Authority, the Certifying Authority,

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and the Audit Authority (Article 58(b) of the General Regulation), the Ministry of the Interior ensures within its organisational framework that all three functions are fulfilled by three separate departments of the ministry.

Separation of the functions between the departments in charge of the authorities is ensured by the Directive of the Minister for Regional Affairs which nominates the respective three departments within the ministry to carry out the functions of the three authorities, and authorises the head of each department to serve as the head of the respective authority. This authorisation includes the signature right in all matters concerning the functions of the authorities being delegated to the respective head of department, who signs all documents the respective authority issues. By the above directive, the head of each department is being conferred powers to carry out the tasks of the respective authority independently from the ordinary subordination within the ministry.

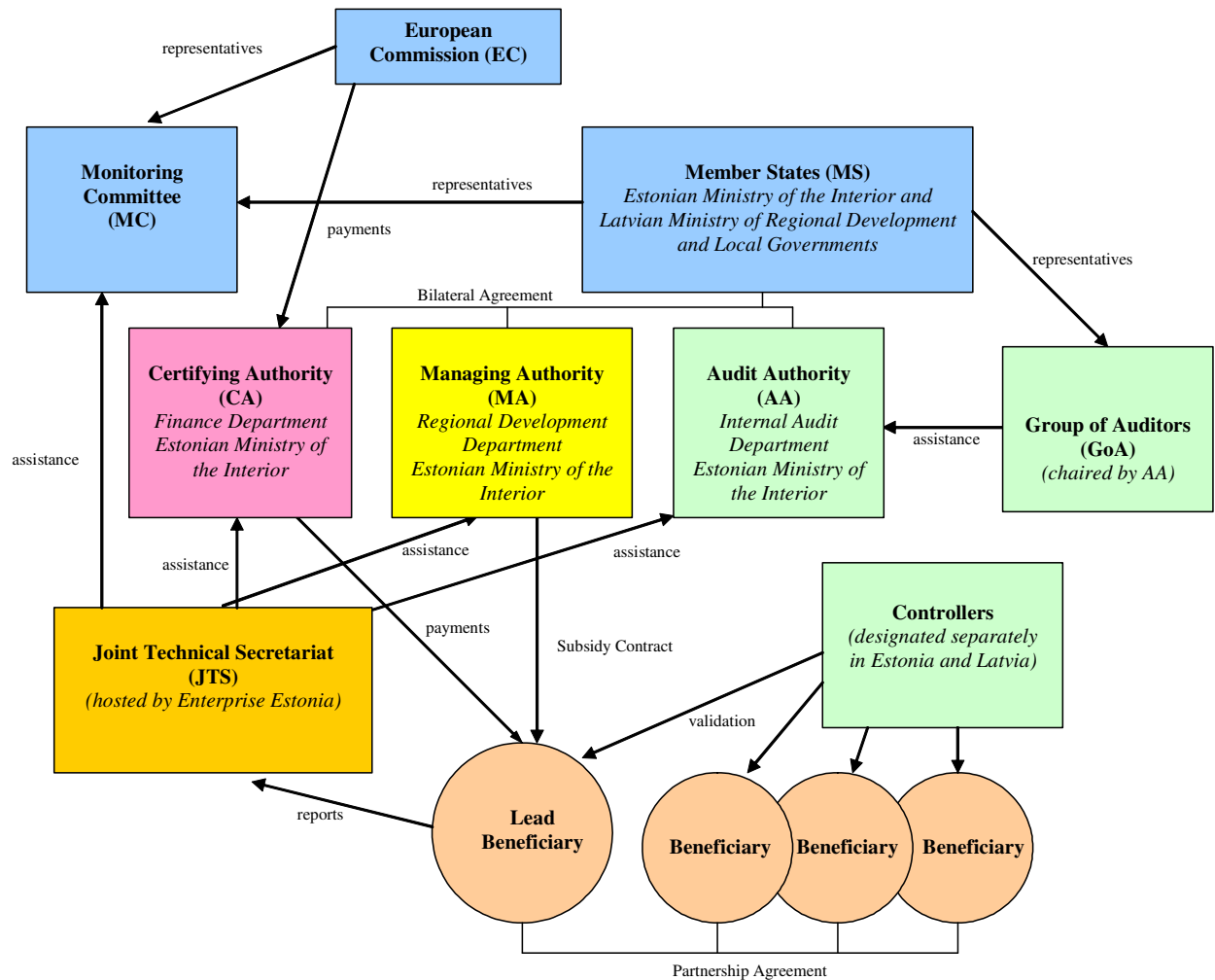
In accordance with Article 59(3) of the General Regulation, the above authorities shall carry out their tasks in full accordance with the institutional, legal, and financial systems of the Republic of Estonia.

The official language for implementing the Programme is the English language.

More detailed provisions on implementation of the Programme, supplementing the rules laid down in the following chapters of the operational programme, shall be included in the Programme Manual. The Programme Manual shall be adopted by the Monitoring Committee at its first meeting. The provisions of the Programme Manual shall be binding both to the authorities implementing the Programme, and to the lead beneficiaries and other beneficiaries of the Programme.

The following chart illustrates the implementation structure of the Programme as described below.

CHART 1: Programme implementation structure



7.2. Managing Authority

7.2.1. Designation of the Managing Authority

Estonia and Latvia decided to designate the

Ministry of the Interior
Regional Development Department
Tallinn
Estonia
www.siseministeerium.ee

to fulfil the functions of the Managing Authority.

7.2.2. Functions of the Managing Authority

In accordance with Article 60 of the General Regulation and Articles 14(1) and 15 of the ERDF Regulation, a single Managing Authority shall be responsible for managing and implementing the

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operational programme in accordance with the principle of sound financial management in particular for:

- a) ensuring that operations are selected for funding in accordance with the criteria applicable to the operational programme and that they comply with applicable Community and national rules for the whole of their implementation period. For the purpose of the selection and approval of operations to be funded under Article 60(a) of the General Regulation, the Managing Authority shall ensure that beneficiaries are informed of the specific conditions concerning the products or services to be delivered under the operation, the financing plan, the time limit for the execution, and the financial and other information to be kept and communicated. It shall satisfy itself that the beneficiary has the capacity to fulfil these obligations before the approval decision is taken by the Monitoring Committee (Article 13(1) of the Implementing Regulation);
- b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3) of the General Regulation. In this regard, the Managing Authority shall satisfy itself that the expenditure of each beneficiary participating in an operation has been validated by the controller referred to in Article 16(1) of the ERDF Regulation (Article 15(1) of the ERDF Regulation);
- c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the operational programme and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation is collected; the accounting records of operations and the data on implementation shall include the information set out in Annex III to the Implementing Regulation. The Certifying Authority and the Audit Authority shall have access to this information (Article 14(1) of the Implementing Regulation);
- d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- e) ensuring that the evaluations of operational programmes referred to in Article 48(3) of the General Regulation are carried out in accordance with Article 47 of the General Regulation;
- f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90 of the General Regulation. In this regard, Articles 15 and 19 of the Implementing Regulation shall be observed;
- g) ensuring that the Certifying Authority shall receive all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;

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- h) guiding the work of the Monitoring Committee and providing it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals. In this regard, According to Articles 66(1) and 66(2) of the General Regulation, the Managing Authority together with the Monitoring Committee shall ensure the quality of the implementation of the operational programme and shall carry out monitoring by reference to financial and other indicators specified in the operational programme.
- i) drawing up and, after approval by the Monitoring Committee, submitting to the Commission the annual and final reports on implementation in accordance with Article 67 of the General Regulation. The issues related to submission and contents annual reports are regulated in more detail in Article 67 of the General Regulation, and the procedures for annual examination of operational programmes together with the Commission are regulated in more detail in Article 68 of the General Regulation and Article 11(2) of the Implementing Regulation;
- j) ensuring compliance with the information and publicity requirements laid down in Article 69 of the General Regulation and in Chapter II, Section 1 of the Implementing Regulation.

Furthermore the Managing Authority shall

- set up a Joint Technical Secretariat (Art. 14(1) of the ERDF Regulation);
- lay down the implementing arrangements for each operation in agreement (subsidy contract) with the lead beneficiary (Article 15(2) of the ERDF Regulation) after respective financing decision by the Monitoring Committee (Article 19(3) of the ERDF Regulation);
- in collaboration with the Monitoring Committee, carry out monitoring by reference to financial indicators and the indicators referred to in Article 12(4) of the ERDF Regulation specified in the operational programme (Article 66(2) of the General Regulation);
- in collaboration with the Commission, annually examine the progress made in implementing the operational programme, the principle results achieved over the previous year, the financial implementation and other factors with a view to improving implementation (Article 68(1) of the General Regulation);
- inform the Monitoring Committee of the comments made by the Commission after the annual examination of the operational programme as defined in Article 68 of the General Regulation (Article 68(2) of the General Regulation);
- in collaboration with the Audit Authority, draft the description of the management and control systems of the operational programme as required by Article 71(1) of the General Regulation and Articles 21-24 of the Implementing Regulation;
- draw up a communication plan of the operational programme in consultation with the Monitoring Committee (Article 4(1) of the Implementing Regulation);
- ensure that all the supporting documents regarding expenditure and audits on the operational programme concerned are kept available for the Commission and the Court of Auditors for a period of 3 years following the closure of an operational programme (Article 90 of the General Regulation).

7.3. Certifying Authority

7.3.1. Designation of the Certifying Authority

Applying Article 59(4) of the General Regulation, whereby some or all authorities referred to in Article 59(1) of the General Regulation may be part of the same body, Estonia and Latvia decided to designate the

Ministry of the Interior
Finance Department
Tallinn
Estonia
www.siseministeerium.ee

to fulfil the functions of the Certifying Authority.

7.3.2. Functions of the Certifying Authority

In accordance with Article 61 of the General Regulation and Articles 14(1) and 17(2) of the ERDF Regulation, a single Certifying Authority of the operational programme shall be responsible in particular for:

- a) drawing up and submitting to the Commission certified statements of expenditure and applications for payment in accordance with Articles 78, 79(2), 81(1), 82(2), and 89(1)(a) of the General Regulation, and Articles 20(1) and 20(3) of the Implementing Regulation;
- b) certifying that:
 - i) the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;
 - ii) the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the operational programme and complying with Community and national rules;
- c) ensuring for the purposes of certification that it has received adequate information from the Managing Authority on the procedures and verifications carried out in relation to expenditure included in statements of expenditure;
- d) taking account for certification purposes of the results of all audits carried out by or under the responsibility of the Audit Authority;
- e) maintaining accounting records in computerised form of expenditure declared to the Commission;
- f) keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation. Amounts recovered shall be

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repaid to the general budget of the European Union prior to the closure of the operational programme by deducting them from the next statement of expenditure.

Furthermore the Certifying Authority shall be responsible for

- receiving the payments made by the Commission (pre-financing, interim payments and the payment of the final balance as defined in Article 76(2) of the General Regulation) and making payments to the lead beneficiaries (Article 14(1) of the ERDF Regulation);
- receiving the payments made by the Member States participating in the Programme to co-finance Technical Assistance budget;
- at the latest by 30 April each year, sending the Commission a provisional forecast of its likely applications for payment for the current financial year and the subsequent financial year (Article 76(3) of the General Regulation);
- posting any interest generated by the pre-financing to the operational programme, being regarded as resource for the Member States participating in the operational programme in the form of a national public contribution. It shall be declared to the Commission at the time of the final closure of the operational programme (Article 83 of the General Regulation);
- sending requests for interim payments, as far as possible, on three separate occasions a year. For a payment to be made by the Commission in the current year, the latest date on which a application for payment shall be submitted is 31 October (Article 87(1) of the General Regulation);
- ensuring that the lead beneficiaries receive the total amount of the public contribution as quickly as possible and in full. No amount shall be deducted or withheld and no specific charge or other charge with equivalent effect shall be levied that would reduce these amounts for the lead beneficiaries (Article 80 of the General Regulation);
- without prejudice to the Member States' responsibility for detecting and correcting irregularities and for recovering amounts unduly paid, ensuring that any amount paid as a result of an irregularity is recovered from the lead beneficiary (Article 17(2) of the ERDF Regulation);
- By 31 March each year as from 2008, sending to the Commission a statement on withdrawn and recovered amounts and pending recoveries as defined in Article 20(2) of the Implementing Regulation.

7.4. Audit Authority

7.4.1. Designation of the Audit Authority

According to Article 14(1) of the ERDF Regulation, the single Audit Authority shall be situated in the Member State of the Managing Authority, i.e. in Estonia.

Estonia and Latvia decided to designate the

Ministry of the Interior
Internal Audit Department
Tallinn
Estonia
www.siseministeerium.ee

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to fulfil the functions of the Audit Authority.

7.4.2. Functions of the Audit Authority

In accordance with Article 62 of the General Regulation, a single Audit Authority of the operational programme shall be responsible in particular for:

- a) ensuring that audits are carried out to verify the effective functioning of the management and control system of the operational programme;
- b) ensuring that audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared. The audits shall be carried out in accordance with Articles 16 and 17 of the Implementing Regulation;
- c) presenting to the Commission within nine months of the approval of the operational programme an audit strategy covering the bodies which will perform the audits referred to under points a) and b), the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period. The audit strategy shall be established in accordance with Article 18(1) of the Implementing Regulation;
- d) by 31 December each year from 2008 to 2015:
 - i) submitting to the Commission an annual control report setting out the findings of the audits carried out during the previous 12-month period ending on 30 June of the year concerned in accordance with the audit strategy of the operational programme and reporting any shortcomings found in the systems for the management and control of the operational programme. The first report to be submitted by 31 December 2008 shall cover the period from 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 shall be included in the final control report supporting the closure declaration referred to in point (e);
 - ii) issuing an opinion, on the basis of the controls and audits that have been carried out under the responsibility of the Audit Authority, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.

The annual control report and the opinion referred to in i) and ii) shall be drawn up in accordance with Articles 17(4), 17(6), 18(2), and 18(4) of the Implementing Regulation;

- iii) submitting, where applicable under Article 88 of the General Regulation, a declaration for partial closure assessing the legality and regularity of the expenditure concerned; the declaration referred to in Article 88 of the General Regulation shall be drawn up in accordance with Article 18(5) of the Implementing Regulation and submitted with the opinion referred to in point d) ii).

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- e) submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which shall be supported by a final control report. The closure declaration and the final control report shall be drawn up in accordance with Articles 18(3) and 18(4) of the Implementing Regulation.

The Audit Authority shall ensure that the audit work takes account of internationally accepted audit standards (Article 62(2) of the General Regulation).

Where the audits and controls referred to in point (a) and (b) are carried out by a body other than the Audit Authority, the Audit Authority shall ensure that such bodies have the necessary functional independence.

Furthermore the Audit Authority shall

- before the submission of the first interim application for payment to the Commission by the Certifying Authority or at the latest within twelve months of the approval of the operational programme, submit to the Commission a description of the management and control systems as defined in Article 72(1) of the General Regulation and Articles 21-24 of the Implementing Regulation. The description shall be accompanied by a report setting out the results of an assessment of the setting up of the systems and giving an opinion on their compliance with Articles 58-62 of the General Regulation (Articles 71(2) and 71(3) of the General Regulation);
- issue the report and the opinion referred to in Article 71(2) of the General Regulation. To fulfil this task, the Audit Authority may contract a public or private body functionally independent of the Managing Authority and Certifying Authority; this body shall carry out its work taking account of internationally accepted audit standards (Article 71(3) of the General Regulation). The report and the opinion referred to in Article 71(2) of the General Regulation shall be drawn up in accordance with Article 25 of the Implementing Regulation;
- meet the Commission on a regular basis, at least once a year unless otherwise agreed, in order to examine together the annual control report and opinion presented under Article 62 of the General Regulation and to exchange views on other issues relating to the improvement of the management and control of the operational programme (Article 72(1) of the General Regulation);
- chair the Group of Auditors (Article 14(2) of the ERDF Regulation); i.a., chairmanship shall include convening the Group of Auditors to meetings at regular intervals, setting up the respective agenda, etc.

7.5. Group of auditors

The Audit Authority of the Programme shall be assisted by a Group of Auditors comprising the representatives of the Audit Authority and of the Internal Audit Department of the Latvian Ministry of Regional Development and Local Governments, and carrying out the duties provided for in Article 62 of the General Regulation. The Group of Auditors shall be set up within three months of the decision approving the Programme at the latest. It shall draw up its own rules of procedure. It shall be chaired by the Audit Authority of the Programme (Article 14(2) of the ERDF Regulation).

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The auditors shall be independent of the control system referred to in Article 16(1) of the ERDF Regulation.

7.6. Monitoring Committee

In accordance with Article 63 of the General Regulation, the Member States participating in the operational programme shall set up a joint Monitoring Committee, in agreement with the Managing Authority, within three months from the date of the notification to the Member State of the Commission's decision approving the operational programme.

7.6.1. Tasks of the Monitoring Committee

In accordance with Article 65 of the General Regulation, the Monitoring Committee shall satisfy itself as to the effectiveness and quality of the implementation of the operational programme, in accordance with the following provisions:

- a) it shall consider and approve the criteria for selecting the operations financed within six months of the approval of the operational programme and approve any revision of those criteria in accordance with programming needs;
- b) it shall periodically review progress made towards achieving the specific targets of the operational programme on the basis of documents submitted by the Managing Authority;
- c) it shall examine the results of implementation, particularly achievement of the targets set for each priority axis and the evaluations referred to in Article 48(3) of the General Regulation;
- d) it shall consider and approve the annual and final reports on implementation referred to in Article 67 of the General Regulation;
- e) it shall be informed of the annual control report, and of any relevant comments the Commission may make after examining that report;
- f) it may propose to the Managing Authority any revision or examination of the operational programme likely to make possible the attainment of the Funds' objectives referred to in Article 3 of the General Regulation or to improve its management, including its financial management;
- g) it shall consider and approve any proposal to amend the content of the Commission decision on the contribution from the Funds.

Furthermore the Monitoring Committee shall

- approve the Programme Manual and any substantial changes to it;
- approve the application package before the procedure for submission of applications is launched by the Joint Technical Secretariat. The Committee shall be informed about amendments made to the application package by the Joint Technical Secretariat henceforth and may comment on it;

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- give advice to proposals for operations prepared by applicants and submitted to the Committee by the Joint Technical Secretariat;
- select operations for funding (Article 19(3) of the ERDF Regulation);
- approve the use of the Technical Assistance budget and the annual working plan of the JTS;
- decide on the execution of evaluations as referred to in Article 48(3) of the General Regulation to be financed from the budget for technical assistance (Article 47(4) of the General Regulation);
- approve the communication plan as defined in Article 2(2) of the Implementing Regulation and drawn up by the Managing Authority before it is sent to the Commission;
- confirm the draft description of the management and control systems of the operational programme as required by Article 71(1) of the General Regulation and Article 23 of the Implementing Regulation before it is submitted to the European Commission by the Audit Authority;
- Establish Task Forces for specific needs of the Programme implementation if and as appropriate.

7.6.2. Composition of the Monitoring Committee, chairmanship, and decision making

In accordance with Article 14(3) of the ERDF Regulation, each Member State participating in the operational programme shall appoint representatives to sit on the Monitoring Committee within 3 months of the Commission's approval of the operational programme.

A joint Monitoring Committee will be set up for the Programme. The Monitoring Committee of the Programme shall have a limited number of representatives from national, regional, or local level of both Member States, and of socio-economic partners to ensure efficiency and broad representation. Both Member States should be represented equally. The Committee shall strive for a balanced representation of men and women.

More specifically, the Monitoring Committee shall be composed of:

Maximum 7 representatives from both Estonia and Latvia (including, as a minimum requirement, a representative of the national authority responsible for the administration of European Territorial Co-operation Objective programmes in the respective country, and maximum 2 representatives of socio-economic partners from each Member State);

At its own initiative or at the request of the Monitoring Committee, a representative of the Commission shall participate in the work of the Monitoring Committee in an advisory capacity (Article 64(2) of the General Regulation). Representatives of the Managing Authority, the Certifying Authority, and, where appropriate, the Audit Authority, shall participate in the work of the Monitoring Committee in an advisory capacity. The Joint Technical Secretariat shall assist the work of the Monitoring Committee.

The Monitoring Committee shall have a chairman and a co-chairman, representing the national authorities responsible for the administration of European Territorial Co-operation Objective programmes in the Member States. Applying a rotation principle, chairmanship and co-chairmanship shall alternate annually between the Member States. The order of chairmanship and co-chairmanship will be determined in the Rules of Procedure of the Monitoring Committee.

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Decisions by the Monitoring Committee shall be made by consensus among the national delegations of both Member States participating in the Programme (one vote per delegation). Meetings of the Monitoring Committee shall be held at least twice a year. Decisions may be taken via written procedure.

The Monitoring Committee will be assisted by the Joint Technical Secretariat. The JTS will be responsible for the preparation of all documentation relating to the meetings. In principle, the documents required for the Monitoring Committee shall be available at latest three weeks before the date of the meeting.

Details on composition, chairmanship, and decision making in the Monitoring Committee will be determined in the Rules of Procedure of the Monitoring Committee.

7.6.3. Rules of procedure of the Monitoring Committee

At its first meeting after the Commission's approval of the Programme, the Monitoring Committee shall draw up its Rules of Procedure and adopt them in agreement with the Managing Authority in order to exercise its missions in accordance to the General Regulation and the ERDF Regulation.

7.6.4. Conflict of interest

Financing decisions will be made, and the Programme implementation is monitored by the members of the Monitoring Committee. Any decisions and assessment has to be free from bias and must not be influenced by partial interest of any of the individual members of the Monitoring Committee. To avoid any conflict of interest, individual members must not act as a lead beneficiary, nor as any of the other beneficiaries. They must not be financially involved in the project, i.e. as lead beneficiary, project manager, expert or consultant subcontracted by the lead beneficiary. To this end, each member of the Monitoring Committee will sign a declaration of confidentiality and impartiality when being nominated and at each of its meetings.

7.7. Joint Technical Secretariat

7.7.1. Set-up and operation

In accordance with Article 14(1) of the ERDF Regulation, the Managing Authority shall set up a Joint Technical Secretariat (JTS). The JTS shall assist the Managing Authority and the Monitoring Committee, and, where appropriate, the Audit Authority, in carrying out their respective duties (Article 14(1) of the ERDF Regulation).

The Joint Technical Secretariat of the Programme will be hosted by Enterprise Estonia. Enterprise Estonia is a separate legal entity (foundation), established by the Estonian Government and controlled by state authorities. Enterprise Estonia is acting under private law according to agreements (concluded under public law) with relevant ministries.

The office of the Joint Technical Secretariat shall be located in Tartu, Estonia.

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The Joint Technical Secretariat shall be supported by the Information Point (IP) located in Riga, Latvia.

The JTS shall be led by the Head of Secretariat. The JTS shall have international staff, which will be recruited on a proportional basis, including both Estonian and Latvian nationals. The staff of the JTS shall be employed by the Enterprise Estonia. The number and qualification of staff shall correspond to the tasks defined below. Staff of the JTS shall cover all relevant languages – Estonian, Latvian, and English.

The JTS shall be funded from the Technical Assistance budget.

More detailed rules on the operation of the JTS shall be included in the Bilateral Agreement between the Managing Authority and Enterprise Estonia and in the Rules of Procedure of the Joint Technical Secretariat.

7.7.2. Tasks of the Joint Technical Secretariat

The Joint Technical Secretariat shall be the central contact point both for the public interested in the operational programme, potential beneficiaries, selected and running operations. The JTS is in charge of the day-to-day implementation of the Programme and acts as a secretariat for the Monitoring Committee. The JTS shall assist the Managing Authority and the Monitoring Committee, and, where appropriate, the Audit Authority and the Certifying Authority in carrying out their respective duties. Moreover it shall

- distribute information about the operational programme;
- assist and organise activities to promote the operational programme and to support generation, development and implementation of operations;
- advise (potential) beneficiaries and lead beneficiaries on the operational programme;
- manage the project application process for all projects, incl. information and advice to applicants, receiving, registering, checking and assessment of applications for operations, and informing partners of decisions;
- act as a secretariat of the Monitoring Committee, i.a. organise its meetings, draft the minutes, prepare, implement and follow up its decisions, including running written procedures, etc;
- to provide advice and assistance to financed operations regarding the implementation of activities and financial administration;
- monitor progress, including financial progress, made by financed operations by collecting and checking project monitoring reports, monitoring outputs, results and financial implementation;
- monitor commitments and payments of ERDF funds at the Programme level;
- distribute information on the Programme and its projects and implement the publicity measures of the Programme;
- co-operate with organisations, institutions and networks relevant for the objectives of the operational programme.

The tasks of the JTS will be carried out under the responsibility of the Managing Authority.

8. PROGRAMME BENEFICIARIES

8.1. Definition of lead beneficiaries and other beneficiaries

Taking into account Article 2(4) of the General Regulation, whereby the term “beneficiary” is defined as “an operator, body or firm, whether public or private, responsible for initiating or initiating and implementing operations”, the following legal entities may be funded by the Programme as beneficiaries of an operation:

- (a) local and regional authorities;
- (b) state organisations;
- (c) non-governmental organisations;
- (d) private enterprises (under Priority 1 and 2 only);
- (e) public equivalent bodies (definition provided in the Programme Manual).

The participation of private enterprises in the Programme will be supported in conformity with *de minimis* rule as defined in the Commission Regulation (EC) No 1998/2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid.

Legal entities not falling in one of the above categories are welcome to participate in operations additionally (“additional partner”). Additional partners have to finance their activities from own resources and are not entitled to receive ERDF funding from the Programme.

The term “lead partner” used in this Programme shall be a synonym for the term “lead beneficiary” as defined in Article 20(1) of the ERDF Regulation, and the term “project partner” shall be a synonym for the term “other beneficiary” as defined in Article 20(2) of the ERDF Regulation.

8.2. Location of lead beneficiaries and other beneficiaries

As a basic principle, lead beneficiaries and other beneficiaries must be located in one of the eligible areas (territory of the Member States participating in the Programme, which belongs to the Programme area as defined in Chapter 1 to be entitled to receive ERDF funding from the Programme.

The detailed eligibility criteria of potential beneficiaries shall be defined in the Programme Manual.

8.3. Responsibilities of lead beneficiaries and other beneficiaries

For each operation as defined by Article 2(3) of the General Regulation, a lead beneficiary shall be appointed by the beneficiaries among themselves.

In accordance with Article 20(1) of the ERDF Regulation, the lead beneficiary shall assume the following responsibilities:

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- (a) it shall lay down the arrangements for its relations with the beneficiaries participating in the operation in an agreement comprising, *inter alia*, provisions guaranteeing the sound financial management of the funds allocated to the operation, including the arrangements for recovering amounts unduly paid;
- (b) it shall be responsible for ensuring the implementation of the entire operation;
- (c) it shall ensure that the expenditure presented by the beneficiaries participating in the operation has been incurred for the purpose of implementing the operation and corresponds to the activities agreed between those beneficiaries;
- (d) it shall verify that the expenditure presented by the beneficiaries participating in the operation has been validated by the controllers;
- (e) it shall be responsible for transferring the ERDF contribution to the beneficiaries participating in the operation.

In accordance with Article 20(3) of the ERDF Regulation, each beneficiary participating in the operation shall:

- (a) assume responsibility in the event of any irregularity in the expenditure which it has declared (Article 20(2)(a) of the ERDF Regulation);
- (b) repay the lead beneficiary any amounts unduly paid in accordance with the agreement existing between them (Article 17(2) of the ERDF Regulation);
- (c) be responsible for information and communication measures for the public as laid down in Article 8 of the Implementing Regulation;
- (d) keep available all documents related to the operation in accordance with the requirements of Article 90 of the General Regulation.

The responsibilities of the lead beneficiaries and other beneficiaries resulting from the ERDF rules and regulations shall be defined in the subsidy contract.

9. GENERATION, APPLICATION AND SELECTION OF OPERATIONS

The Joint Technical Secretariat will proactively support the Lead Beneficiaries and other beneficiaries throughout the life cycle of the operations, i.e. during preparation starting from development of an application, implementation of the operation until complete finalisation of the respective operation. The JTS will also assist the assessment process of applications submitted to the Programme for funding.

9.1. JTS support to generation of operations

The JTS will apply the following measures to support the generation of operations:

- (a) everyday contact of JTS with applicants to answer technical questions, such as eligibility of ideas, partner composition, selection criteria, budgetary aspects, application conditions etc;
- (b) operation of a Programme website, including a section on frequently asked questions (FAQ) and a project idea database;
- (c) organisation of regular information seminars for potential applicants;
- (d) organisation of thematic seminars, focusing on one or several priorities or themes.

9.2. Submission of applications

The Joint Technical Secretariat shall develop the application package to be approved by the Monitoring Committee. Project applications will be submitted to the JTS by the lead beneficiary according to the procedure defined in the Programme Manual.

9.3. Assessment of applications

The assessment procedure applied in the Programme consists of a technical eligibility check and a quality evaluation process of applications.

The technical eligibility check based on a check-list of minimum technical eligibility criteria will be carried out by the JTS on behalf of the Managing Authority.

The quality evaluation process will be based on the predefined quality assessment criteria and strategic relevance of the operation. The JTS will be responsible for the quality evaluation, such as eligibility of the topic, number and consistency of the partners, the lead beneficiary's capacity to manage the project implementation, the eligibility and consistency of the proposed budget plan, etc. For the above evaluation, external expertise will be used if needed. The assessment of the strategic relevance of project applications will be undertaken by the Monitoring Committee at its meetings.

The assessment criteria for the technical eligibility check and the quality assessment shall be defined in the Programme Manual.

9.4. Decision making

The Monitoring Committee comprising of members from both Estonia and Latvia, with the representatives of the Commission, the Managing Authority, and the JTS in an advisory capacity, will select operations for funding.

Major projects as defined in Article 39 of the General Regulation shall not be implemented within the Programme and thus not be selected for funding.

9.5. Contracting of operations

Following the decision of the Monitoring Committee to approve an application for funding, the Managing Authority will prepare a subsidy contract to be made with the lead beneficiary of the approved operation.

9.6. JTS support during implementation of operations

The JTS will apply the following measures to support the implementation of operations:

- (a) lead beneficiary seminars with management focus (e.g. project management, financial management and auditing, communication) to provide the lead beneficiaries with knowledge on how to implement operations;

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- (b) ad-hoc meetings with project managers and financial managers to discuss the progress of implementation of a respective operation;
- (c) quality workshops and content related training for on-going operations, either thematic or cross-thematic (1) to steer the operations towards the results expected at the Programme level, (2) to accumulate the expertise of the operations for the Programme needs, and (3) to allow for exchange of ideas among owners of operations;
- (d) database of approved operations (with information to be uploaded from the operations);
- (e) intensive use of various mailings lists and feed-back channels.

10. FINANCING OF ACTIONS

10.1. Financing from Member States

The total eligible budget of the Programme is 51,083,917 EUR, of which 38,228,549 EUR (in current prices) is EU-financing from the European Regional Development Fund (ERDF), 9,948,072 EUR is national public and 2,907,296 EUR national private financing from the Member States. Of the total ERDF budget 35,934,836 EUR will be allocated to the Priorities 1-3 and 2,293,713 EUR of ERDF funds will be allocated to Technical Assistance (TA). The contribution from ERDF shall be calculated in relation to total eligible funding.

Of the ERDF budget about 47% will be allocated to Priority 1, 38% to Priority 2, 9% to Priority 3, and 6% to Priority 4 (Technical Assistance).

The ERDF co-financing rate for the Priorities 1-3 may be granted up to 85% of eligible expenditure. In case of private enterprises and revenue generating projects, ERDF co-financing rate may be granted up to 50% of eligible expenditure. The ERDF co-financing rate for the Priority 4 (Technical Assistance) is 36%. The average ERDF co-financing rate for all four Priorities is 75%.

10.2. Technical Assistance

The total amount allocated for the Technical Assistance is 6,413,396 EUR, which is a sum of 2,293,713 EUR of ERDF and 4,119,683 EUR of national contribution of the Member States.

The Member States will contribute to the Technical Assistance budget in proportion to their indicative share of total ERDF funding. The share of the Technical Assistance attributable to the total ERDF budget is 6%. Co-financing rate provided by the Member States to the Technical Assistance is 64%.

10.3. Eligibility of expenditure

In accordance with Article 56(1) of the General Regulation, expenditure shall be eligible for a contribution from the ERDF if it has actually been paid between the 1 January 2007 and 31 December 2015. Operations co-financed by ERDF must not have been started and completed before 1 January 2007.

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In accordance with Article 56(3) of the General Regulation, expenditure shall be eligible for funding only where incurred for operations selected by the Monitoring Committee of the Programme based on selection criteria fixed by the committee and only for operations that have signed a subsidy contract with the Managing Authority.

Detailed rules on the eligibility of expenditure financed by the Programme will be provided in the Programme Manual. These eligibility rules will be applicable in the entire Programme area. Expenditure eligibility rules applicable to the Programme are based on the provisions laid down in Article 56 of the General Regulation, Articles 7 and 13 of the ERDF Regulation, Articles 48-52 of the Implementing Regulation, and in this operational programme. The Programme might apply stricter rules than foreseen by the EU regulations or national legislation.

10.4. Procedures for the mobilisation and circulation of financial flows in order to ensure their transparency

The Certifying Authority is responsible for receiving payments from the Commission and for making payments to the lead beneficiaries. Each lead beneficiary of an operation is responsible for allocating subsidies received from the Certifying Authority to the beneficiaries of its operation.

To be entitled to claim payments by the Certifying Authority, each lead beneficiary is obliged to regularly present progress reports to the Joint Technical Secretariat. This obligation will be determined in the subsidy contract. Details on the reporting procedure will be defined in the Programme Manual.

Estonia and Latvia will transfer the national co-financing of the Technical Assistance to the trust account of the Programme once a year.

The Managing Authority submits regular reports to the Monitoring Committee about the use of the Technical Assistance funds once a year. Summary of the above reports is included in the annual report on the implementation of the Programme which the Managing Authority sends to the Commission.

11. FINANCIAL MANAGEMENT AND CONTROL

General provisions with regard to the Member States' responsibilities for the management and control of operational programmes under the European Territorial Co-operation Objective have been laid down in Articles 70 and 71 of the General Regulation and in Chapter 3, Section 3 of the ERDF Regulation, in particular Articles 16 and 17(3) thereof.

This section of the Programme is intended to define how these provisions shall apply to the Estonia - Latvia Programme.

11.1. Validation of expenditure (1st level control)

In accordance with Article 16(1) of the ERDF Regulation, each Member State shall set up a control system making it possible to verify the delivery of the products and services co-financed, the soundness of the expenditure declared for operations or parts of operations implemented on its territory, and the compliance of such expenditure and of related operations, or parts of those operations, with Community rules and its national rules.

For this purpose Estonia and Latvia shall designate the controllers responsible for verifying the legality and regularity of the expenditure declared by each beneficiary (lead beneficiary or other beneficiary) participating in the operation.

11.1.1. Designation of the controllers

Estonia decided to designate the

Ministry of the Interior
Regional Development Department
Interreg Programmes Supervision Bureau
Tallinn
Estonia
www.siseministeerium.ee

to fulfil the functions of the controller responsible for verifying the legality and regularity of the expenditure declared by each Estonian beneficiary (lead beneficiary or other beneficiary) participating in the operation.

Latvia decided to designate the

State Regional Development Agency
Cross-border Project Control Department
Riga
Latvia
www.vraa.gov.lv

to fulfil the functions the of controller responsible for verifying the legality and regularity of the expenditure declared by each Latvian beneficiary (lead beneficiary or other beneficiary) participating in the operation.

Considering Articles 21 – 24 of the Implementing Regulation, in particular Articles 22(d) and 24(a), Estonia and Latvia shall draw up a description of the control system set up in accordance with Article 16(1) of the ERDF Regulation. These descriptions shall be submitted to the Audit Authority and the Managing Authority at the latest within three months after the Commission's decision approving the operational programme. They shall be incorporated in the description of the management and control systems referred to in Article 71(1) of the General Regulation.

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Taking into account that

- a) according to Article 15(1) of the ERDF Regulation the Managing Authority shall satisfy itself that the expenditure of each beneficiary participating in an operation has been validated by the controller referred to in Article 16(1) of the ERDF Regulation;
- b) there will be only one subsidy contract for each operation between the Managing Authority and the lead beneficiary (“lead partner principle”);

verification of the delivery of the products and services co-financed can be carried out only in respect of the entire operation. Accordingly, such verification shall be performed by the controller of the Member State where the lead beneficiary of the respective operation is located (Article 16(1) of the ERDF Regulation).

The lead beneficiary shall verify that the expenditure presented by the beneficiaries participating in the operation has been validated by the controller. Estonia and Latvia shall ensure that the expenditure can be validated by the controllers within a period of three months (Article 16(2) of the ERDF Regulation).

Guidelines on validation of expenditure shall be developed by the Managing Authority in co-operation with the Audit Authority.

11.2. Irregularities

In accordance with Article 28(4) of the Implementing Regulation, irregularities shall be reported by the Member State in which the expenditure is paid by the beneficiary implementing the operation. The Member State shall at the same time inform the Managing Authority, the Certifying Authority, and the Audit Authority.

With regard to irregularities, detailed procedures will be included in the Programme Manual.

11.3. Recovery of ERDF funding

Without prejudice to the Member States’ responsibility for detecting and correcting irregularities and for recovering amounts unduly paid (Article 70(1)(b) of the General Regulation), the Certifying Authority shall ensure that any amount paid as a result of an irregularity is recovered from the lead beneficiary. The beneficiaries shall repay the lead beneficiary any amounts unduly paid in accordance with the agreement existing between them (Article 17(2) of the ERDF Regulation).

If the lead beneficiary does not succeed in securing repayment from a beneficiary, the Member State on whose territory the beneficiary concerned is located shall reimburse the Certifying Authority for the amount unduly paid to that beneficiary (Article 17(3) of the ERDF Regulation).

12. MONITORING

The Managing Authority and the Monitoring Committee will ensure the quality of the implementation of the Programme. They will carry out monitoring by reference to financial indicators and the indicators referred to in Article 12(4) of the ERDF Regulation specified in the Programme (Articles 66(1) and 66(2) of the General Regulation). In addition to the indicators defined in the Programme, the projects should establish additional indicators adjusted to their specific needs and targets.

To identify at an early stage unforeseen adverse effects, and to be able to undertake appropriate remedial action, the relevant operations shall monitor their significant environmental impact on the environment. The relevant operations will be identified by the Monitoring Committee while selecting the operations for funding.

Lead beneficiaries of the operations will submit progress reports to the JTS regularly. These reports will be the central source to monitor progress in implementation of operations. Detailed reporting procedure shall be described in the Programme Manual.

The JTS on behalf of the Managing Authority and the Certifying Authority will provide all relevant information to the Monitoring Committee to ensure proper implementation of the Programme. For monitoring of progress, the JTS will regularly provide a report on the progress of the operations. Furthermore, the JTS will regularly report on commitments and payments.

13. EVALUATION

13.1. *Ex ante* evaluation

In accordance with Article 47(2) of the General Regulation, the *ex ante* evaluation of the Programme was carried out by company “DEA Baltika”, Latvia, under the responsibility of the Joint Task Force for preparing the Programme.

The *ex ante* evaluator was selected through an open call for tenders, which was opened in April 2006. Based on the selection criteria defined in the tender documents, the national contact-persons of the Joint Task Force, in co-operation with the MA/JS of the Baltic Sea Region INTERREG IIIB Neighbourhood Programme as the financier of the evaluation, made the selection of the *ex ante* evaluator out of the three proposals received for carrying out the *ex ante* evaluation.

The *Ex ante* Evaluation Report is included as Annex 2 of the Programme. The results of the evaluation are also published on the Programme website.

13.2. Strategic environmental assessment

The Strategic Environmental Assessment under the Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001 on the assessment of the effects of certain plans and programmes on the environment (SEA Directive) was included as a part of the *ex ante* evaluation and was carried out also by company “DEA Baltika”.

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For conducting the SEA procedure in Estonia, a representative of the Ministry of the Environment was nominated into the programming Task Force, who acted also as the national environmental contact person for further consultation of the SEA aspects of the Programme in Estonia. Consultations were held between the SEA evaluator and the Estonian environmental contact person prior the compilation of the draft SEA report. For conducting the SEA procedure in Latvia, a representative of the Ministry of Environment was nominated to the Latvian National Sub-committee, who provided consultations in the field of SEA on the national level in Latvia. The draft SEA Report was prepared by the evaluator in January 2007 and was sent out for information and commenting to the Estonian Ministry of the Environment and Latvian Environment State Bureau. Public hearings of the operational programme were held in Estonia (from 22 January to 20 February 2007) and in Latvia (from 29 January to 17 February 2007), during which also the draft SEA Report was subject to public reviewing.

The Final Report on the Strategic Environmental Assessment including the SEA statement is included as Annex 2 to the Programme Document.

13.3. Evaluations during the programming period

During the programming period, and in accordance with Article 48(3) of the General Regulation, the Managing Authority on behalf of Estonia and Latvia will arrange evaluations linked to the monitoring of the Programme, in particular where the monitoring reveals significant deviation from the goals initially set or where proposals are made for the revision of this Programme, as referred to in Article 33 of the General Regulation.

During the implementation of the Programme, one or two evaluations will be made. The scope of the evaluations will be targeted to specific needs of the Programme identified during the monitoring, e.g. to impacts of the finalised operations and of the Programme.

The Monitoring Committee shall decide on the execution of such evaluations. The evaluations shall be carried out by external experts. The results of the evaluations will be sent to the Member States and the Commission.

13.4. *Ex Post* evaluation

According to Article 49(3) of the General Regulation, the Commission will carry out an *ex post* evaluation of the operational programme. The evaluation will be completed by 31 December 2015.

14. PROCEDURES FOR THE EXCHANGE OF COMPUTERISED DATA TO MEET THE PAYMENT, MONITORING AND EVALUATION REQUIREMENTS

Computerised systems will be installed, operated and interconnected. This data base system will meet special requirements. The database is prepared for:

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- the input and the processing of the data at operation level as well as of the main data at the project partner level;
- the input and processing of information received by the lead beneficiary's activity and financial reports;
- supporting the Joint Technical Secretariat in meeting its monitoring and reporting duties with various data report sheets.

Data exchange between the Commission and the Member States for the purpose as defined in Article 66 of the General Regulation will be carried out electronically in accordance with Articles 39-42 of the Implementing Regulation (Article 66(3) of the General Regulation). The database provides the form and content of accounting information as requested in the Regulation.

In order to transfer computer files to the European Commission, the administration system of the database will have the ability to generate data required by the Structural Funds Common (SFC) Database.

15. INFORMATION AND PUBLICITY

According to Article 69(1) of the General Regulation, the Member States participating in the Programme and the Managing Authority will provide information on and publicise operations co-financed by the Programme. The information will be addressed to the European Union citizens and beneficiaries with the aim of highlighting the role of the Community and will ensure that assistance from the Funds is transparent.

The Managing Authority will designate the contact persons to be responsible for information and publicity and inform the Commission accordingly (Article 10(1) of the Implementing Regulation).

15.1. Communication plan

A communication plan as defined in Article 2(2) of the Implementing Regulation, as well as a major amendment to it will be drawn up by the Managing Authority in consultation with the Monitoring Committee and approved by the Monitoring Committee. The Managing Authority will submit the communication plan to the Commission within four months of the date of adoption of the Programme.

The content of major amendments to the communication plan will be set out in the annual and the final implementation report (Article 4(2)(c) of the Implementing Regulation).

The overall aim of the communication plan is to provide inhabitants of the Programme area, beneficiaries and stakeholders with information about the Programme and its operations. An efficient implementation of the plan should:

- increase the public awareness about the Programme;
- provide the beneficiaries and stakeholders with accurate and reliable information about the Programme and its operations;
- attract a wide number of potential beneficiaries and increase the number of new applications;

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- highlight the role of the Community and ensure that assistance from the Funds is transparent.

The communication plan defines various information and marketing activities to be carried out throughout the 2007-2013 programming period.

The target group of the Programme is compound and manifold:

- general public in participating states and regions;
- potential beneficiaries;
- final beneficiaries;
- stakeholders, including relevant national authorities;
- other relevant organisations;
- other European Territorial Co-operation Objective programmes;
- European Commission.

15.2. Information and publicity measures

In accordance with the communication plan, the Managing Authority and Joint Technical Secretariat will implement information measures for potential beneficiaries, information measures for beneficiaries, and information and publicity measures for the public in accordance with the provisions laid down in Chapter II, Section 1 of the Implementing Regulation.

Information about the Programme will be spread through a variety of channels in order to reach the different target groups. A number of traditional sources of information as well as best-practice-mix of events serve as a basis for a broad dissemination of the Programme-related information.

The launch event of the Programme is organised shortly after the adoption of the operational programme by the European Commission in the Programme eligible area. The aim of the event is to inform the wider public and potential beneficiaries about the priorities and directions of support of the Programme, launch the Programme for submission of applications, and give information about the requirements and procedures of applying for funding and implementing the operations. The launch-event is expected to host around 150 participants.

Each year several information seminars for potential beneficiaries of the operational programme are organised in the Programme eligible area to attract new applicants to the Programme and inform the target group about the results of the Programme achieved so far and about the topics on which project applications are especially expected (uncovered or weakly covered topics). Also, the Joint Technical Secretariat organises regularly information seminars for operations already approved for funding on specific topics, such as project management, financial reporting and other themes in which specific assistance is needed.

The more detailed information about the information and publicity measures is laid out in the Programme communication plan.

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16. LIST OF ACRONYMS, ABBREVIATIONS AND COMMON TECHNICAL TERMS

AA	Audit Authority of the Estonia - Latvia Programme 2007-2013
CA	Certifying Authority of the Estonia - Latvia Programme 2007-2013
EC	European Council
ENPI	European Neighbourhood and Partnership Instrument
ERDF	European Regional Development Fund
ERDF Regulation	Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999 (OJ L 210, 31.7.2006)
ESF	European Social Fund
EU	European Union
GDP	Gross Domestic Product
General Regulation	Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006)
Implementing Regulation	Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund
ICT	Information and Communication Technologies
IP	Information Point
JTF	Joint Task Force of the Estonia - Latvia Programme 2007-2013
JTS	Joint Technical Secretariat of the Estonia - Latvia Programme 2007-2013
MA	Managing Authority of the Estonia - Latvia Programme 2007-2013
MC	Monitoring Committee of the Estonia - Latvia Programme 2007-2013
NATO	North Atlantic Treaty Organisation
NGO	Non-governmental Organisation
NP	Neighbourhood Programme
NSC	National Sub-committee
NUTS III area	Group of territorial units according to the classification of Nomenclature of Territorial Units for Statistics, introduced by the Statistical Office of the European Communities (Eurostat)
PHARE	PHARE programme is one of the three pre-accession instruments financed by the European Union to assist the applicant countries of Central and Eastern Europe in their preparations for joining the European Union
R&D	Research and Development
SEA	Strategic Environmental Assessment
SMEs	Small and Medium-sized Enterprises
SWOT-analysis	Analysis of strengths, weaknesses, opportunities, threats
TA	Technical Assistance for programme implementation

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TACIS

EU initiative to provide grant-financed technical assistance to support the process of transition to market economies and democratic societies in the Newly Independent States

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18. ANNEXES TO THE PROGRAMME

Annex 1: Financing plans for the operational programme

Annex 2: *Ex ante* Evaluation Report, SEA Report

Annex 3: Statement on the integration of environmental considerations into the operational programme

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Annex 1

Table 1: Financing plan of the Programme giving the annual commitment of ERDF in the programme

Commitments shall be made on an annual basis according to the following plan:

Operational programme reference (CCI number): 2007 CB 163 PO 050

Year by source for the programme, in euro:

	ERDF
2007	5,697,810
2008	4,995,130
2009	5,119,001
2010	5,335,917
2011	5,387,579
2012	5,643,795
2013	6,049,317
Grand Total 2007-2013	38,228,549

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Table 2: Financial plan of the operational programme (Co-operation Objective) giving, for the whole programming period, the amount of the allocation of ERDF in the programme, the national public and private contributions and the rate of reimbursement by priority.

Payments are made as reimbursements of expenditure actually paid out according to the following plan.

Operational programme reference (CCI number): 2007 CB 163 PO 050

Priority axes by source of funding (in euros)

						For information	
	Community Funding (a)	National Public funding (b)	National private funding ² (c)	Total funding (d) = (a)+(b)+(c)	Co-financing rate (e) ¹ = (a)/(d)	EIB contributions	Other funding ³
Priority Axis 1 Increased cohesion of the Programme area	17,967,418	2,994,250	1,000,000	21,961,668	82%	0	0
Priority Axis 2 Higher competitiveness of the Programme area	14,373,934	2,199,995	1,907,296	18,481,225	78%	0	0
Priority Axis 3 Active, sustainable and integrated communities	3,593,484	634,144	0	4,227,628	85%	0	0
Priority Axis 4 Technical Assistance	2,293,713	4,119,683	0	6,413,396	36%	0	0
Total	38,228,549	9,948,072	2,907,296	51,083,917	75%	0	0

¹ This rate may be rounded in the table. The precise rate used to reimburse payments is the ratio (e) **with no rounding**.

² To be filled only when priority axes are expressed in total costs.

³ Including national private funding when priority axes are expressed in public costs. May also include financing from other participating countries (e.g. Norway, Switzerland)

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Table 3: Indicative breakdown of the Community contribution by category in the operational programme

Commission reference number: 2007 CB 163 PO 050

Name of the programme: Estonia – Latvia Programme 2007-2013

Date of the last Commission decision for the Operational Programme concerned:

(in euros)

(in euros)

(in euros)

Dimension 1 Priority theme		Dimension 2 Form of finance		Dimension 3 Territory	
Code *	Amount **	Code *	Amount **	Code *	Amount **
03	958 262	01	38 228 549	08	38 228 549
05	958 262				
08	1 756 814				
09	958 262				
10	1 684 445				
11	1 684 445				
13	1 684 445				
14	1 684 445				
15	1 684 445				
23	1 684 445				
24	1 684 445				
25	1 684 445				
30	798 552				
39	249 547				
40	249 547				
41	249 547				
42	249 547				
43	249 547				
44	249 547				
45	249 547				
46	249 547				
48	249 547				
50	249 547				
51	249 547				
53	249 547				
54	249 547				
55	798 552				
56	798 552				
57	798 552				
58	1 397 466				
59	249 547				
60	249 547				
62	532 368				
64	532 368				

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66	532 368		
67	598 914		
68	958 262		
70	532 368		
71	1 131 282		
72	532 368		
73	532 368		
74	532 368		
75	532 368		
77	249 547		
79	848 461		
80	598 914		
81	848 461		
85+86	2 293 713		
Total	38 228 549	Total	38 228 549

* The categories should be coded for each dimension using the standard classification.

** Estimated amount of the Community contribution for each category.