

LATVIA - LITHUANIA
CROSS-BORDER COOPERATION
PROGRAMME

Under European Territorial Cooperation Objective
2007-2013

CCI No. 2007 CB 163 PO 070



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INTRODUCTION

Latvia and Lithuania Cross-border Co-operation Programme (hereafter referred to as the “Programme”) will be implemented under the European Territorial Co-operation Objective. The Programme has been prepared jointly by Latvia and Lithuania. The Latvian Ministry of Regional Development and Local Governments and Lithuanian Ministry of Interior have been following the principle of partnership in developing the arrangements for preparing and implementing the Programme. Latvia and Lithuania will implement the Programme in close co-operation and in the most efficient way for it to result in common benefit and success.

The Programme is based on mutual respect, understanding and co-operation. The shared historical and cultural heritage, similar path of the two countries over the centuries provide an almost uniform platform for development, with common challenges, as well as needs for the future.

Latvia and Lithuania have built an intensive co-operation relationship during implementation of the Latvia - Lithuania - Belarus INTERREG IIIA Priority within the Baltic Sea Region INTERREG IIIB Neighbourhood Programme, which was the instrument to provide significant financial support to co-operation activities between Latvian and Lithuanian border regions, and which resulted in many new and renewed partnerships, and jointly implemented projects in various fields, all aiming at the wellbeing of inhabitants in the border area. The implementation of the Programme will lead this co-operation into a new level with significantly enlarged budget and the motivation to accelerate further the socio-economic development of the Programme area.

The Programme has been prepared in accordance with the Council Regulation (EC) No 1083/2006 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 on the European Regional Development Fund (hereinafter referred to as the “ERDF Regulation”), with the Commission Regulation (EC) No 1828/2006 setting out rules for the implementation of the General Regulation and the ERDF Regulation (hereafter referred to as the “Implementing Regulation”), and Community Strategic Guidelines.

Latvia and Lithuania have agreed to establish the joint management structure for joint implementation of the Programme, located in Latvia, Rīga. Latvia and Lithuania will lay down rules governing their relations with the authorities referred to in Article 14 of the ERDF Regulation in the Agreement between Latvian Ministry of Regional Development and Local Governments and Lithuanian Ministry of Interior.

DESCRIPTION OF THE JOINT PROGRAMMING PROCESS

Starting the programming process of Latvia - Lithuania cross-border cooperation (CBC) programme in early 2006, Latvian and Lithuanian counterparts composed a Joint Task Force (JTF), and agreed on the date of the first JTF meeting as well as time schedule of the Programme preparation process. In Latvia the programming process was led by the Ministry of Regional Development and Local Governments, in Lithuania – by the Ministry of the Interior. Also the JTF included representatives of the respective eligible regions and of local governments from both countries.

For ensuring the wider partnership, National Committee in Latvia and National Commission in Lithuania were established, dealing as advisory boards for the programming process and included representatives from the line ministries, regional and local government level, also socio-economic partners. They meet regularly and were the main forums for coordination and information spread regarding the programming process to its members. They also were consulted on strategic questions and cooperation fields of the future Programme to ensure the Programme's compliance with national needs and priorities.

The process of preparing the Programme was initiated on January 30, 2006 in Rīga, where the ministries responsible for European Territorial Co-operation Objective's programmes in Latvia and Lithuania discussed the implementation issues of the future CBC programmes 2007-2013. The preliminary time-table and first steps of the preparation process were agreed upon. In early February, 2006 the meeting was held in Brussels between the ministries responsible for European territorial co-operation programmes in Estonia, Latvia, and Lithuania, and the European Commission (EC). The purpose of the meeting was to agree upon the implementation structures of the future Baltic CBC programmes. During this meeting it was proposed that Latvia will host the Managing Authority, Certifying Authority, and Auditing Authority for the Latvia – Lithuania CBC programme in 2007-2013.

On March 23, 2006 the 1st JTF meeting of Latvia - Lithuania CBC programme was held in Vilnius. The JTF agreed upon the timetable and division of tasks of the programming process, discussed the eligible areas and indicative financial allocation to the Programme.

On May 24, 2006 the Start-up Meeting for Ex Ante Evaluation of the Cross-Border Cooperation Programmes Latvia – Lithuania and Estonia – Latvia 2007-2013 was held in Rīga. The representatives of the National responsible Ministries of the respective countries as well as BSR INTERREG IIIB JTS Riga office participated in the meeting with the representative of the Contractor, Ltd. DEA Baltika. It was agreed about time schedule of the further procedures, individual meetings with national contact persons, Contractor's participation in the TF meetings was also requested.

In early September, 2006 during the 2nd JTF meeting in Vilnius Latvia and Lithuania presented their priorities, socio-economic analysis, SWOT, financial issues were raised, as well as Latvia has presented its proposal on management structures for the Programme. On October the first draft was discussed and commented by the JTF. During the period till April 2007 the second Programme draft was prepared in cooperation with both Ministries and regions communicating in electronic form via e-mails. On the fourth JTF meeting on April 4, 2007 the final version of the Programme was ready to start the public consultations in both countries. On June 19, 2007 the final Programme draft was ready for national approval procedure.

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 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 Ltd. DEA Baltika. The final Ex-ante evaluation and Strategic Environmental Assessment Report is at Annex 2.

1. PROGRAMME AREA

The Programme area of the Latvia and Lithuania CBC programme includes the following NUTS III regions:

Latvia: Kurzeme, Zemgale, Latgale

Lithuania: Klaipeda, Telsiai, Siauliai, Panevezys, Utena, Kaunas (as adjacent region)

The Programme area is shown on the map below.

MAP 1: Programme area



Kaunas region will participate as adjacent region in the Programme, the 20% rule will be applied, meaning that not more than 20% of the Programme total eligible public funds will be granted to the projects from this area.

The decision to include Kaunas county was taken considering its' already existing relations and potential to develop cooperation with Latvian regions in future, especially it is evident in the field of education and research. Also the role of Kaunas as a main centre of logistics located on the highway "Via Baltica" and European railroad Šarkiai-Šiauliai-Radviliškis-Kaunas-Kazlų Rūda-Moscow – two main transport corridors connecting Programme area with the rest of the Europe was taken into account. The inclusion of Kaunas county as an adjacent territory will ensure the integrity of the development of these important transport arteries thus significantly contributing to the sustainable development of the border regions.

In duly justified cases and only if it is for the benefit of the Programme, up to a limit of 10 % of the Programme's budget might be used outside the Programme area and the European Community.

2. DESCRIPTION AND ANALYSIS OF THE GEOGRAPHICAL AREA

2.1. Area and Population

The cooperation area of the Latvia- Lithuania CBC programme covers the territory, which extends from the Baltic Sea in the West to the EU external border with Russia and Belarus in the East. Programme area includes Southern Latvia and Northern Lithuania. The eligible area covered by the Programme is 80 159.6 km², of which 38 889.6 km² in the territory of Latvia (64.86% of the total territory of state) and 41 270 km² in Lithuania (63,3 % of the total territory of state), and shares 588 km of the border between two countries.

The cooperation area for Latvia – Lithuania CBC programme covers 3 Latvian (Kurzeme, Latgale and Zemgale) regions and 5 Lithuanian counties (Klaipeda, Telsiai, Siauliai, Panevezys and Utena) and Kaunas as adjacent region. The territory covered is predominantly agricultural, but also includes forests and significant coastline of the Baltic Sea. The region is situated on the large transport routs of Via Baltica and Via Hansaetica, it includes ice-free ports of Liepāja, Ventspils, Klaipeda, Palanga, Nida and Sventoji.

Population wise the programme shall have an effect on ~ 3 040 189 people, of which ~ 963 171 inhabitants in Latvia (41.76% of the total Latvian population), ~ 2 077 018 - in Lithuania¹ (61% of the total Lithuanian population) (2006). As indicator, the population density of the region is indirectly connected with the socio-economical development of the region: the greater the population density, the easier it is to ensure the communication infrastructure and other services. In the Programme area the density of population is relatively low and the trend of depopulation can be witnessed in all these territories. The average density of population in the border area is 37.9 inhabitants per km², however on the Latvian side it is significantly lower - 24.9 inhabitants per km², while in Lithuania – 41.9, with average ratio of urban and rural of 60,57% to 39,42% (56% to 44% in Latvia and of 62.7% to 37.3% in Lithuanian side).

Regional differences in population density of the Programme area depend mainly on whether a region has a large city or regional centre in the territory. The following larger

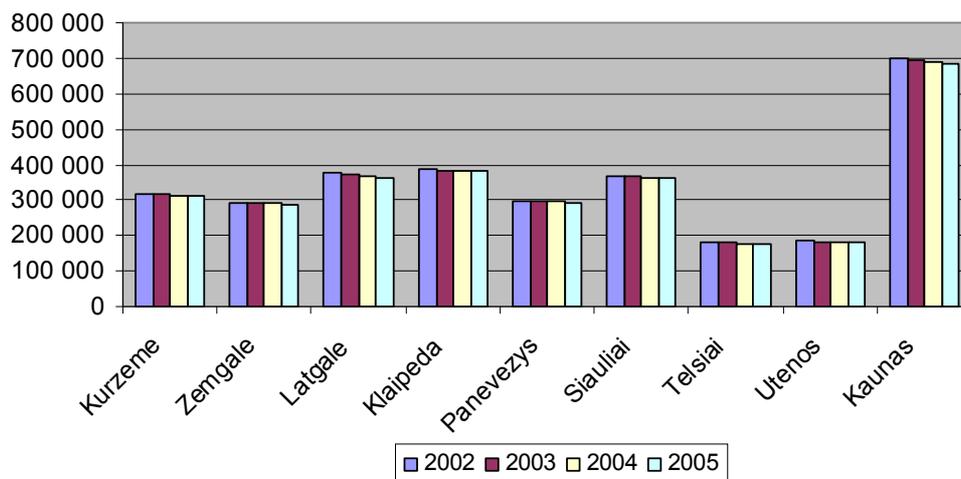
¹ With Kaunas county, which is adjacent area for the programme

towns are Ventspils, Liepāja, Jelgava, Rēzekne and Daugavpils in Latvia and Klaipeda, Panevezys, Siauliai, Telsiai, Utena and Kaunas in Lithuania. The concentration of population, especially the youth, into regional centres and national capitals is characteristic to both countries. The depopulation trend is more evident in Latvia than in Lithuania. This is caused by the fact that in Latvia most of the developments is concentrated in the capital – Rīga, and people from rural areas are leaving for better – being economies with the EU. In Lithuania emigration to capital city is of significant importance too, however not so much as in Latvia, as Lithuania has several development centres, which are evenly spread throughout the country.

2.2. Demographic situation

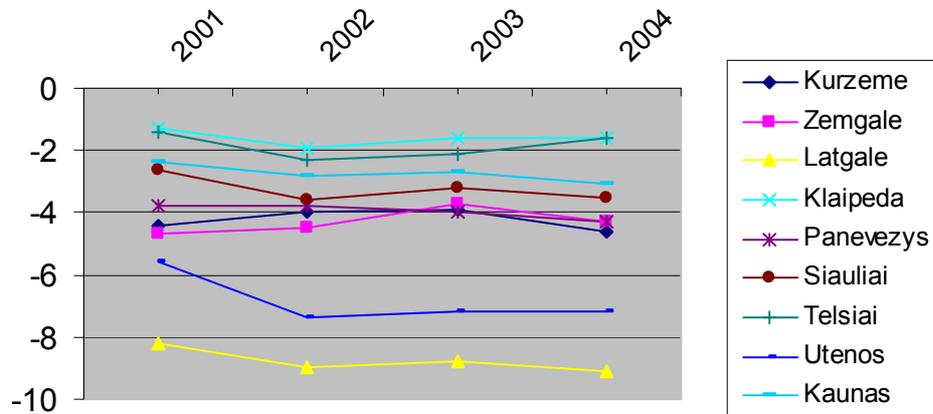
The demographic situation of the cooperation area reflects the general changes in Latvia and Lithuania during last years. When comparing the indicators on demographic situation, it is possible to follow the negative trend in changing the amount of population in the Programme area. The number of inhabitants in all regions and in the Programme area as a whole is decreasing every year.

Chart 1 Resident population at the beginning of the year (2002-2005)



The population distribution through the Programme area is very unequal. If the territories are quite similar according to the size, a greater difference in the population number among the regions can be observed. Telsiai and Utena are the smallest in its population and each have approximately 5.8% of total cooperation area's population. Kaunas population constitutes 22.55% of the whole eligible population, however as it acts as adjacent region in the Programme, it is expected that the effect might be less than for other territory. Within the region there is no major difference in the change of population number, however Latgale and Kaunas have higher decrease in amount of inhabitants in 2005 than others - approximately by 1.2%. The main reasons of population change are natural decrease and international migration, which are evident for the whole Programme area.

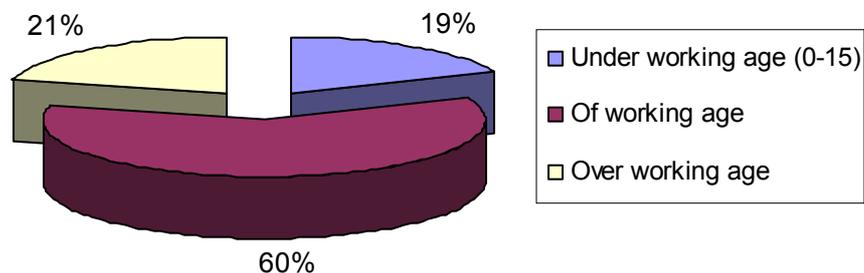
Chart 2 Natural increase of population per 1000 inhabitants (2001-2004)



As chart 2 shows, the natural increase in population was negative in the Programme area since 1992, affected by decreased living conditions in early 1990s as a result of currency reform and economic restructuring in both countries. During the last 3 years the negative increase trend is most evident for Latgale and Utena regions, where the indicator for natural increase of population was -9.1 and -7.2 per 1000 inhabitants respectively (2004). Telsiai is the only region of cooperation area where the decrease of population was slowed down in 2004, but it was still negative, with rapid decline followed after that from -1.6 in 2004 till -3.1 per 1000 inhabitants in 2005.

In general, the natural decrease of the population in the cooperation area is result of the low birth rates, ageing population and high mortality, and no increase in the life expectancy in the most parts of the cooperation area.

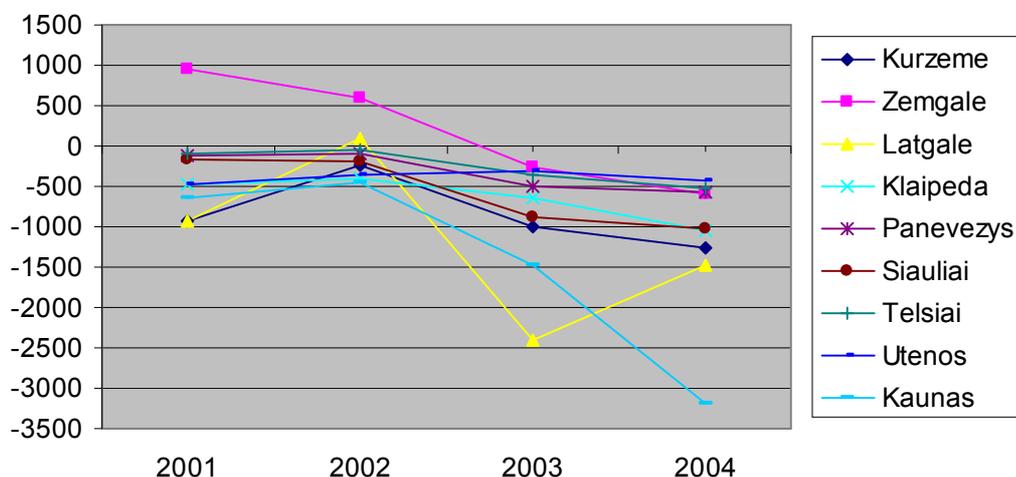
Chart 3 Population by major age groups, % distribution, 2004



As the overall trend for the Programme area, the percentage of children and teenagers has been falling dramatically in all regions during few last years, the percentage of working age persons has been growing and the percentage of pensioners has been decreasing. As

last available figures for year 2004 show, the share of elderly people 20.8% (65 years and above) in the population of the Programme area, and 18.74% are those of under working age. Major age groups are distributed quite even among the regions in the Programme area.

Chart 4 Net Long-term migration of population (2001-2004)



As Chart 4 shows, during the period 2000-2004 the negative migration saldo was evident for the whole Programme area, which was effected by the major economic and social changes in both countries, getting ready for the accession EU. The larger part of the emigrants was seeking for better and well-paid jobs abroad, in the EU-15 states. In different regions migration indicators have been variable during this period. Positive tendencies of development can be observed since 2003, when the volume of emigration flow becomes stable and even decreased in some regions of the Programme area.

2.3.Economic structure

The Programme area is in general rural with several small and medium regional towns. A clear feature of the Programme area is the growing gap between living conditions and competitiveness between urban and rural settlements.

There is a similar socio-economic structure on both sides of the cooperation area, with the structure of gross added value as follows: agriculture – up to 10%, industry – 17%, and services - 73% for the whole Programme area (2004).

Agricultural areas are primarily concentrated on food and beverage production (mostly farming, dairy and meat production and processing, beer production, sugar beet and grain harvesting, fisheries), which can hardly be called purely agricultural in nature. On the other hand, there are also diverse fields of industrial activity with an exporting potential, like cement production (Akmene in Lithuania, Broceni in Latvia), mechanical engineering and metal working industry (Liepājas Metalurģis in Latvia), as well as wood processing (“Wika wood” Kurzemē). Both – the agricultural and industrial sectors are in need of investments for restructuring and modernization. Economic activity in the region, especially in agriculture, food production, timber processing and construction sector are based mainly on local resources. The most important branches in services are financial services, trade, transport, tourism and communication networks.

Development of entrepreneurship is closely connected with socio-economical development, because it provides new working places, development of different sectors and increases welfare. The main reason for comparatively low SME creation ratio is the general lack of tradition, skills and capital. Limited cooperation between both enterprises and public sector reduce possibilities for development as they compete among themselves instead of joining the forces for common benefit.

The unique coastline of Kurzeme and Klaipeda provides possibilities for future development of especially transport and tourism. Ventspils and Klaipeda ice - free ports and Liepāja, Rēzekne, Kaunas and Klaipeda free economic zones – creates favourable conditions for the attraction of investments and for the promotion of business development. These zones have had impact on the areas of the zones themselves, but have not been able to become development centres for the rest of the region.

The retail and service sectors on Latvian side are however by far the fastest growing: shops and restaurants are established with great speed but often not on a sustainable basis due to lack of proper business plans and market research. Wholesale and retail business enterprises make the vast majority of the registered economically active enterprises in both countries and provider of employment in Latvia. Also in Lithuania the tertiary sector is the one most developed and employs the largest share of population.

2.4.Foreign Direct Investments (FDI) and Innovations

Only a few so-called greenfield projects, involving introduction of new and modern technologies by foreign investors, have been implemented on Latvian side. Even in sectors, which have the highest potential to implement such projects, only that part of work, which requires a relatively low labour qualification, is being performed in Latvia. In order to ensure long-term development of Latvian economy, it is necessary to continue development of infrastructure, investment into education and creation of other preconditions to lure foreign investors to invest in knowledge-intensive and high technology sectors.

Notwithstanding that FDI have grown in both countries during past few years, however the level of FDI in the border regions is low. On Lithuanian side only Klaipeda and Telsiai counties are above the country's average. However, the jump of rates (from 4 957 EUR to 419 306 EUR) in Telsiai county does not reflect the real situation and is determined by "Mazeikiu nafta" privatisation processes. FDI per capita in Siauliai and Utena counties are respectively more than seven and almost five times lower than the country's average, which are less than 100 thousands euros per year. The total amount of FDI in border region (2005) composed only 26% of total FDI amount in Lithuania (for Latvian side information by regions is not available).

At present the contribution of indigenous technological innovation to Latvia's and Lithuania's economy is limited. Both are very much dependent on FDI to increase new technology based economic growth. Access to private sector funding/venture capital is limited for new technology companies. The potential for (and focus on) expanding scientific research and development in the private sector is weak and marked by a lack of cooperation between scientists working on publicly funded research and private enterprises. Public or public/private funding does not address this funding gap.

National innovation system of Latvia is poorly developed at present and considerably lags behind the average level of EU member states. Although a growth of the number of companies active in the sphere of innovation has been observed, especially in the sector of services, results of the Central Statistical Bureau's survey for 2005 show that merely 17.5% on average of all companies in Latvia are innovative while in EU member states this indicator is 45% on average.

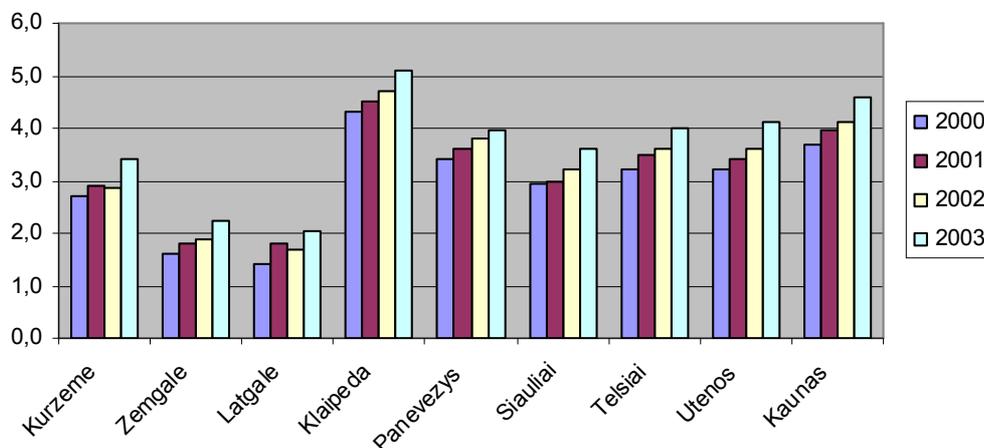
There is a demonstrated interest from foreign investors' side in forms of direct contacts and business delegation visits to be located in the border area. The main bottleneck for new investments is lack of business support structures and capacities. Municipalities' staff is not capable to attract or serve investors due to lack of skills, knowledge, tools and networks needed to co-operate with investors. Business or technology parks, development companies or science parks which are proven across the EU to be efficient in business promotion exist also in the Programme area. Such situation supposes an obvious need for development of attraction of investments into the border area.

2.5. Gross Domestic Product (GDP)

The region is characterised by GDP growth several times higher than the EU25 average of 2.9% in 2006 compared to 6.8% Latvian average and 6.5% Lithuanian average. However, such annual growth rate is slightly slower – by 12.8 % for Latvia and 4.4% for Lithuania in comparison with the previous period 2003-2004. Beside that, in three Baltic States there are the highest growth rates among EU member states. As risks for the improvement of socio-economic situation are the decrease in external demand and increasing oil prices, which effects not only production expenditures and prices, but also industrial output and productivity.

As for the Programme area, there are clearly significant differences in economic performance within the countries, and also within the NUTS III level regions. In general the GDP level is very unequally distributed within the cooperation area. The Programme territory includes the region with one of the lowest GDP per capita indicators in the enlarged EU – Latgale, located in the Eastern part of Latvia bordering Russia and slightly higher in Zemgale.

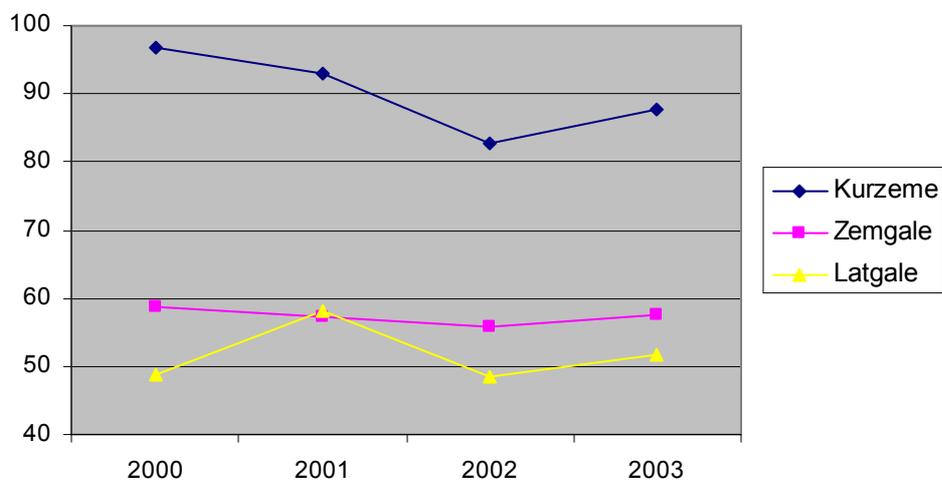
Chart 5 GDP per capita, at current prices (2000-2003), thousands EUR



Although GDP development in cooperation area has been positive over the 3 last years period, none of the border regions have experienced a similar growth to that of the capital cities Rīga and Vilnius (which are not the Programme area). GDP development is still limited and reflects the limited economic development in the regions. Only regional centres have experienced a significant GDP growth in the period, but this has not been enough to impact on the rest parts of the border regions. In general the regional centres of the Programme area have experienced a slightly higher GDP growth that their regions.

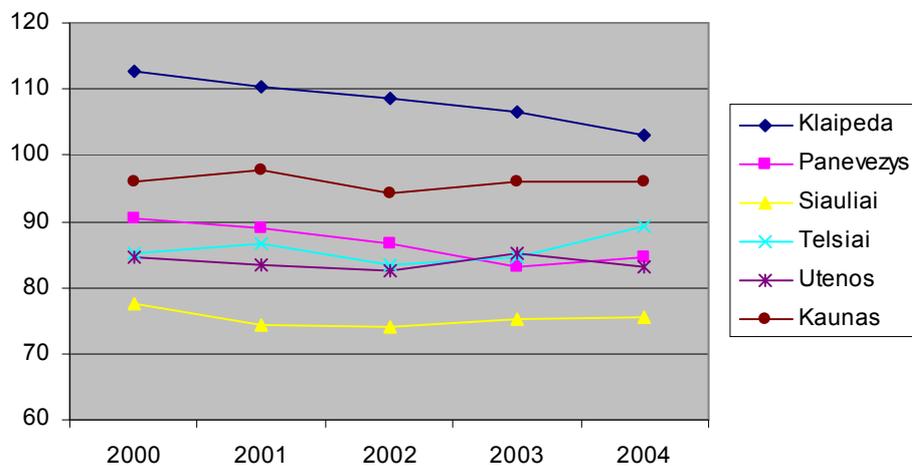
Currently there is a difference in the GDP development and economic growth within the Programme area in comparison with national averages within the countries (*Charts 6A and B*).

Chart 6A GDP per capita, % of national average in Latvia



The year 2002 was the critical for Latvian regions, where the GDP per capita reached the lowest level with largest decrease with comparison with previous year 2001 in Latgale and Kurzeme regions. In Latvia the GDP per capita in year 2005 was 47 % of EU – 25 averages with the lowest average in Latgale - only 48.4% of country's average.

Chart 6B GDP per capita, % of national average in Lithuania

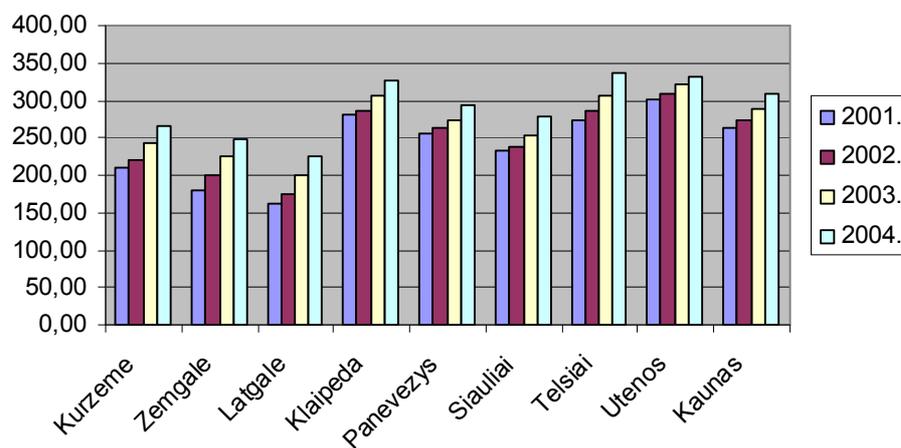


The GDP per capita in the border counties of Lithuania was 87.6% of country's average (2004) (43% of EU-25 average). Only Klaipeda has GDP per capita (102.9%) above country's average and is significantly ahead comparing to other border counties. The worst situation is in Siauliai county (only 75.6% of country's average) and Utena (83.2% of country's average).

2.6. Average monthly wages

Following the economical development in both countries the average monthly wages have also increased. In the cooperation area this tendency is quite homogenous, and average brutto wages from year 2000 till 2004 have increased by 22.78% in the Programme area, with average growth over 7.5% annually. The largest growth in the Programme area for the whole period was in Latgale (38.61%) and Zemgale (37.68%) on the Latvian side, and slight increase in Utena (by 10.41%) on Lithuanian side. However the average monthly wage on Latvian side remains lower than in Lithuanian regions.

Chart 7 Brutto Average monthly wage, EUR (2001-2004)



Labour force in the Programme area remains relatively cheap with the average monthly wage at country's level 494.2 EUR compared to 3140 EUR in EU-25 (2006). As chart 9 shows, the highest income in 2004 in the Programme area is evident to Telsiai at 336.8 EUR and Panevezys 294.5 EUR, the lowest – Latgale and Zemgale with approximately 245 EUR (the average figures for 2004 in Latvia is 388.7 EUR and for Lithuania 508.3 EUR in the whole economies). It is worth to be mentioned, that among the Member States for which data are available for the third quarter of 2006, the highest annual rises were registered in Latvia (23.6%) and Lithuania (20.0%).

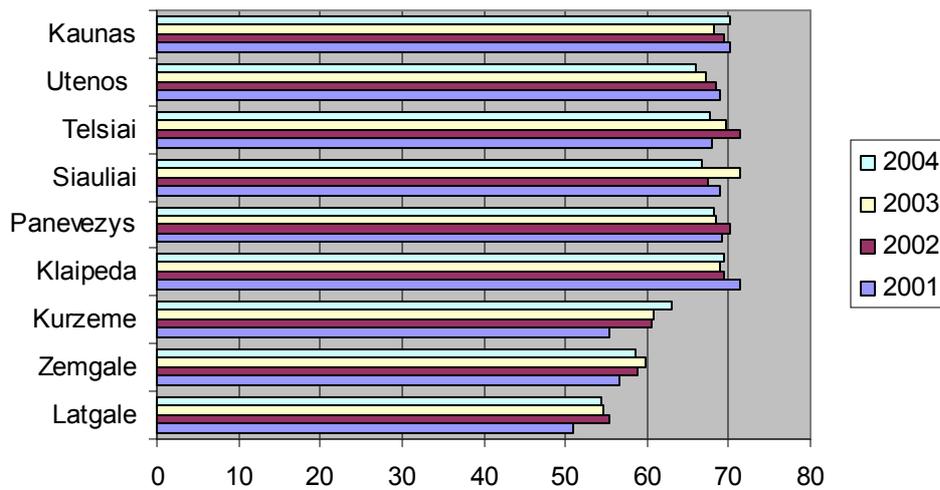
2.7. Labour market and Employment

Even though the large labour force is comparatively low cost, this automatically equals a low income level of population. New job opportunities for marginalised groups (disabled persons, young people till the age of 25, people over the age of 55, people after maternity leave, people who haven't gain a professional education, people after suffering punishment

in detention, people with different addiction problems and long-term unemployed) are needed, as is re-qualification of labour force according to market needs.

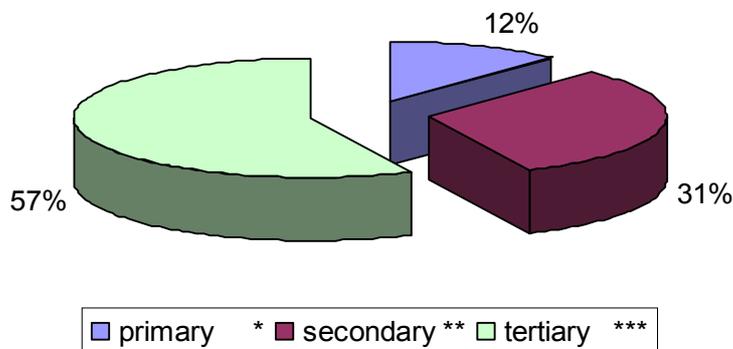
The ageing tendency in Latvia and Lithuania is observed – gradually the average age of inhabitants is increasing and the amount of young inhabitants is decreasing. The labour force in Latvia and Lithuania in general can be described as educated, there is a large amount of inhabitants who continue the studies in higher and vocational education institutions, but in accordance with the latest researches frequently the obtained education and skills often did not match the labour market needs.

Chart 8 Rate of economically active inhabitants, % (2001 – 2004)



Economically active population in total constitutes 65% of the total population in the Programme area. However, this indicator is much less for Latvian side, approximately 58.6%, with the lowest in Latgale region with 54%. On Lithuanian side this indicator is more advanced, and economically active inhabitants are of 67.55% of the total population with the highest figures in Klaipeda and Telsiai with 68%.

Chart 9 Employment by sector, % of economically active population, 2004

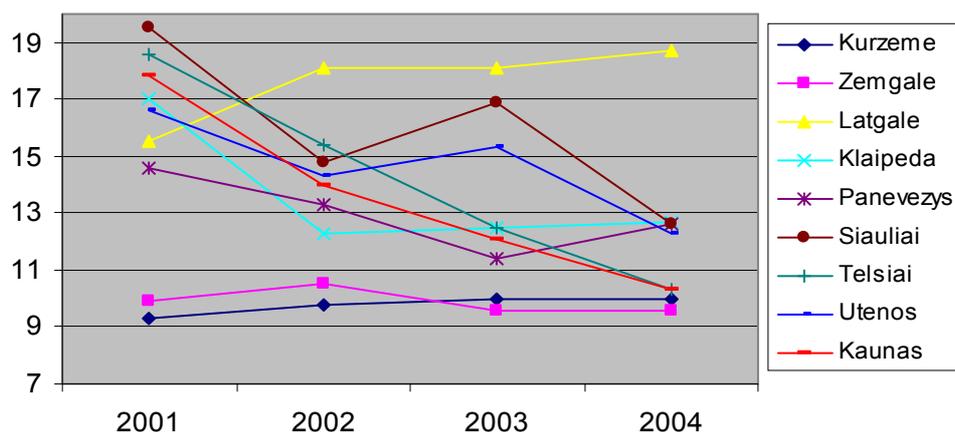


*primary sector: agriculture, fishing; **secondary sector: industry, for example, timber, wood, pulp and paper production, food and beverages, engineering, etc.; ***tertiary sector: services, for example, tourism, transport, communication networks, etc.

The service sector with dominating retail and wholesale trade and public services (education, health and public service) is employing most of the people (57%). Then follows the industries (31%), where the main sectors are manufacturing and mining, trade, transport and construction. In the rural territories, hence – in the regions located closest to the borders, about 4% of economically active population in Latvia and approximately 15% in Lithuania are employed in agriculture (totally 12%).

Unemployment rate has been decreasing during few last years. This process was common for the whole country both Latvia and Lithuania. But it can't be evaluated unambiguously: from the one side, it happens due to successfully implemented employment encouragement measures, but from the other it is justified by increased emigration to the more prosperous EU countries and smaller increase in the amount of labour force. Almost in all the sectors there is a tendency of development having small impact on the employment.

Chart 10 Unemployment rate (%) (2001-2004)



The unemployment rate decreased from around 15,4% in 2001 to around 12% in 2004 in the Programme area, indicating some preliminary evidence of an easing in labour market conditions. The labour market in the region has continued to perform well during recent years. In 2004, the total employment growth was one of the fastest over the last years and grew by 7% as annual average compared to 3% in 2003 for the entire Programme area.

Although the unemployment in all regions of Latvia has been decreasing, the current figures for the programme area are all over the national average of 6.2% in 2004. This is in particular significant in Latgale where unemployment (18.7%) is more than double of the national average, and slightly better situation is in Zemgale and then Kurzeme with approximately 10% rate.

On Lithuanian side the unemployment rate has been decreasing considerably during few last years. This process was common for the whole country. Unemployment in Klaipeda and Telsiai counties (7.0% and 7.9% respectively, 2005) is less than Lithuania's average (8.3%, 2005) and in Utena county (6.0%, 2005) is markedly below it. However,

unemployment in Panevezys, Siauliai and Kaunas counties despite decrement is above country's average.

Structural unemployment remains one of the problems in the labour market of the Programme area with the lack of qualified labour force in some sectors (e.g. engineering, specialists with technical education, construction workers, etc.). Due to limited new enterprise development it is not possible to compensate loss of workplaces in the existing industries with newly created employment. At the same time, new sectors as well as some of existing sectors cannot find the relevant and qualified workforce due to low skill and lack of relevant educational opportunities in the region (structural unemployment), as the demand of labour market changes much faster than new educational programmes are developed, introduced and taught. Enterprises find it sometimes difficult to find skilled staff and qualified managers. Consequently, there is urgent need for improved and market-orientated professional and adult education. Seasonal employment is still prevalent in agriculture, forestry, construction and tourism sectors with insufficient alternative employment possibilities for the people occupied in these sectors.

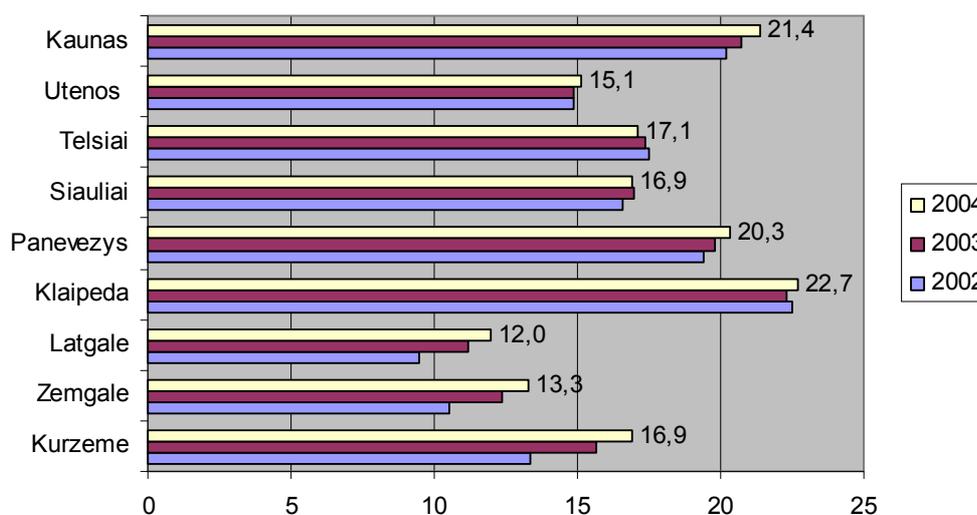
The causes of unemployment rates in the Programme area are undeveloped entrepreneurship, small amount of self employed persons as well as bad conditions of communication infrastructure. A key challenge for border regions in this area is a better utilization of the labour force. It is a precondition for the development of the area's capacity to face the challenges of globalization and to alleviate negative impacts of demographic change.

2.8. Business development and entrepreneurship

The level of economic growth is also dependent on an increased level of entrepreneurship and on the ability to engage new actors in starting up businesses. As the overall trend business development seems to face similar problems in the whole cooperation area. Small enterprise development is hampered by the lack of entrepreneurship traditions, administrative barriers (bureaucracy), lack of support structures, enterprise development centres (support to marketing etc.), lack of access to seed and venture capital and structural unemployment - lack of workforce with relevant education and training.

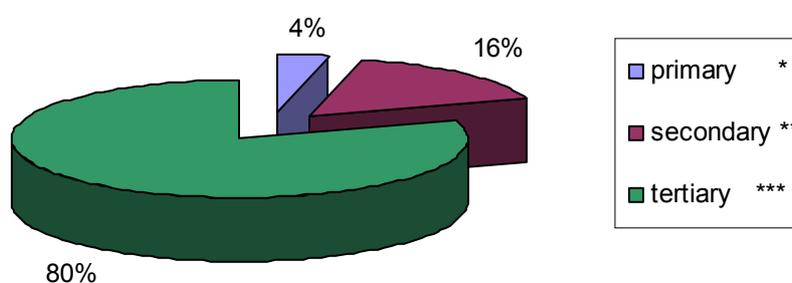
In the Programme area there is limited cooperation amongst entrepreneurs in the development of new products and new technologies. Also limited cooperation between both enterprises and public sector reduce possibilities for common development as they compete among themselves instead of joining forces.

In 2004/2005 Programme area wide there were in average 16.74 enterprises per 1000 inhabitants, whereas the average figure for EU countries is 40-60.

Chart 11 Number of economically active enterprises per 1000 inhabitants

The regions of Kurzeme, Zemgale and Latgale have similar characteristics in relation to business development and are lagging behind in comparison with the situation on Lithuanian side. In Latvian side Kurzeme region has, however, the highest average of 17 active companies per 1000 inhabitants followed by Zemgale and Latgale respectively with 13 and 12 in 2004. The reason is that those regions have limited business support structures and active enterprise development centres, as well as lack of training possibilities and good level of education. The overall level of entrepreneurship activity on Lithuanian side is quite high (39.5% in the border counties and 59.6% in the whole region from the number of all active enterprises in Lithuania). The highest number of active enterprises is in Klaipeda county equal to 23 and respectively in Kaunas – 21.

The lack of new technologies in enterprises and limited links between research, innovative and entrepreneurial activity is an important barrier for restructuring of large enterprises in the region. The entrepreneurial activity is widely spread but territorially unevenly concentrated in the larger cities and towns of the area.

Chart 12 Number of economically active enterprises by kind of activity, 2004

As Chart 14 shows, the tertiary sector is the dominant one in the Programme area, and 80% of economically active enterprises are dealing with providing the services to the society (for example, tourism, transport, communication networks, etc), leaving for industry and agriculture sectors 16% and 4% accordingly. The wholesale and retail trade, household goods, real estate and renting, also logistics and storage services are developed in the Programme area very much.

However, the regions in the cooperation area differ from each other by the development possibilities, which mainly could be characterised by the existence of local potential/resources in the area and its uneven distribution.

In spite of slightly higher entrepreneurial activity in **Kurzeme** there is low activity in sectors which might be potential growth sectors in the region: manufacturing, ICT and tourism. And a large part of the population is still employed in agriculture and fisheries. The region is very dependent on a few key industrial sectors and areas. In Kurzeme there is a large number of wood processing companies. Development of the wood-processing sector is especially furthered by the proximity of the port. Inland fishing - in rivers, ponds and lakes - is very developed. Especially popular is the special lamprey fishing in the rivers of the region. The unique coastline of Kurzeme provides possibilities for future development of especially transport and tourism.

The existing production activities in **Latgale** are in the sectors of timber, peat and agricultural processing. Wood processing and light industry especially clothing could be further developed, focusing on products with high added value. There are also metal working and chemical industry in the region, as well as machinery building enterprises. Often enterprise development is characterized by lack of investment, outdated techniques and technology resulting in non-competitive production. Lack of development in the service sector as well as developed middle and larger sized retail and service enterprises characterizes Latgale region dominated by SMEs. The lack of new technologies in enterprises and limited links between research, innovative and entrepreneurial activity are important barrier for restructuring of large enterprises in Latgale. Enterprises in Latgale traditionally have connections mainly in Russia, but these are also developing in Belarus. These markets and cooperation possibilities are assessed as potentially very important for the future developments.

Zemgale's industry is concentrated around wood-working, chemical industry, agricultural and food production, metalworking and garment industry. There are a number of natural resources in the region such as: forests, peat, sand, gravel, dolomite and clay. The retail and service sectors are however by far the fastest growing: shops and restaurants are established with great speed but often not on a sustainable basis due to lack of proper business plans and market research. Wholesale and retail business enterprises make the vast majority of the registered economically active enterprises and provider of employment. The entrepreneurial activity is widely spread but territorially unevenly concentrated in the larger cities and towns.

Klaipėda county is rich of oil, chalk, gravel, sand, clay, peat. Leading industry sectors in Klaipėda county are food industry, fisheries, shipbuilding and maintenance, wood processing, light industry. Among services the most developed are finances and banking, telecommunications, logistics. Furthermore the tourism and tourism related services obtain more importance in recent years. World wide known companies Philip Morris, Master Foods, Siemens are situated in Klaipėda. Insufficient development of SMEs sector is

influenced by the lack of entrepreneurship, low purchase power and low qualification. Agriculture remains an important sector with some exceptions in resort areas.

The most important industry sector in **Telšiai county** is processing of oil products, which is driven by joint-stock company "Mažeikių nafta". Also the positive growth is noticeable in food and beverage; wood and furniture; publishing; chemical industry; machinery sectors. Retail and services are dominated by vehicles and motorcycles, their technical maintenance; retail fuel trade, restaurants, bars etc.

The main problems of **Šiauliai county** are the predominance of low added value products and services in county's manufacturing and export, not sufficient competitiveness of industry and business development and undeveloped service sector. As other counties Šiauliai county lacks of high technologies while the low technologies industry amounts up to 61 percent of the whole industry. Tourism has a clear potential for the development, however services are undeveloped.

Development of industry and business in **Utena county** is relatively low, the industry is dominated by low technologies. Leading industry sectors are hosiery production and wood-working. Unique natural resources provide with opportunity to develop tourism, however the services are undeveloped in the region. Agriculture remains one of the most important sectors. Ignalina Nuclear Power Plant, the biggest electricity producer in Lithuania, is located in the region however after it's closure the social and economical decline in the surrounding cities with the large part of habitants working in the sphere of the maintenance of the Power Plan is expected.

Panevėžys county's industry is concentrated around food and beverage production; electronics; wood and wood processing; glass. Service sector is dominated by shops; restaurants; architectural and engineering; advertising etc. As in other counties agriculture sector remains important. The most significant natural resources are peat, which amount of 15 percents of the Lithuania's peat resources; sand; gravel; clay; dolomite; forests.

Kaunas county produces around one fifth of all Lithuanian industry production. The production is concentrated on the furniture, yarn, textile, pharmaceuticals, meat and its products, dairy products, flour, mineral manure, sulphuric and phosphoric acid, beverages, etc. The highest incomes in the services sector are obtained from real estate, health and social care.

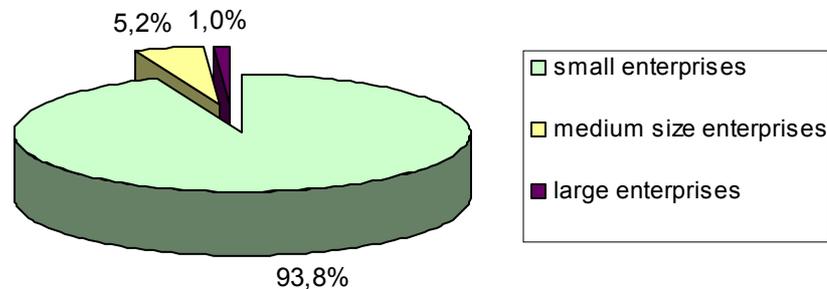
2.9. Small and Medium Enterprises (SMEs)

In 2002, Latvia and Lithuania accessed to the Charter of Small Enterprises, which is one of the most important EU political documents for reaching the goal of Lisbon, and it recognizes the important role of small enterprises in the development of competitiveness, innovations and employment, regarding these enterprises as a social basis and fundamental element for the GDP output and growth of national economy.

During the five year period the proportion of small enterprises in the total number of enterprises has increased in the whole region. Correspondingly, the number of large and medium enterprises has decreased during the period, although their proportion has been stable. By creating a business friendly environment, stimulating the development of human

resources, favouring new entrepreneurial initiatives there is a significant potential for growth in the border areas.

Chart 13 Share of SMEs and large size enterprises in the Programme area, 2004



*Small enterprises – amount of employees up till 49, medium size - from 50 till 249, and large enterprises - over 250 employees.

The economy in the Programme area is based on SMEs with almost 94% of enterprises being micro and small businesses with less than 49 employees and 5% of enterprises medium businesses with less than 250 employees. The largest share of SMEs is characterised also for both sides of the border. The share of big businesses in the region with more than 250 employees is only 1%, however it has increased in 2.3 times in comparison to 1999 when only 0,3% were large scale enterprises.

Despite that the territory in general is characterised by a weak development of SME. The factors impacting the development of SMEs in the region are amongst others lack of entrepreneurs, innovation and investments, a low ratio of production with a high added value and lack competitiveness in key sectors. Enterprise development is characterised by lack of investment, outdated techniques and technology resulting in non-competitive production. The region has limited business support structures and active enterprise development centres, as well as training and good level of education.

These factors point towards the need to stimulate entrepreneurial activities in the region, promoting small and medium-size entrepreneurship and the development of new branches of industry and services.

2.10. Development of Technology and innovations

Technological parks, technological centres, innovation centres and business incubators are important part of infrastructure to transfer applied science achievements to industry and production sector. There are several Industrial and Technological parks and industrial areas situated in the Programme area. The main of them are:

Ventspils High Technology park with aim to improve the territory and physical infrastructure under its management, as well as to organise events promoting hi-tech development in Ventspils in the fields of electronics, electrical engineering, mechanical

engineering, device manufacturing and industrial automation. *NP Ventspils Business park* is located close to the Ventspils port's general cargo loading terminal of Ventspils and within the special economic zone. Its location means that there will be superb road, rail and sea connections combined with the spirit of entrepreneurship, which Ventspils is famous for. In Zemgale region there are 5 Science centres located, as well as 1 Technological Park in Jekabpils is existing and 5 parks are planned to be established. *Jekabpils technological centre* was created in 2004 within the framework of PHARE 2001 programme. There is adjusted 5 ha of territory - fenced, constructed roads and sites, greened area. There are several industrial areas (Jelgava city, Dobele, Aizkarukle) in Zemgale. In Latgale region there is "Latgale machinery building technological centre" (Rezekne special economic zone), and it is the only Baltic centre, which creates plastic products prototypes.

Establishment and development of Science and Technology Parks are planned in the Long-term Economic Development Strategy of Lithuania until the year 2015. As well as the Conception of Science and Technology Parks creates good conditions for implantation of innovations, cooperation of science, education and business institutions, increase of occupation.

Klaipėda Science and Technology Park, Šiauliai University Science and Technology Park develops ties of collaboration with various business, science, technology and innovative institutions, aiming at active and sustainable development of the innovative activities in the region. *Lithuanian University of Agriculture Science and Technology Park* enhances common level of agriculture developing science innovations and to implant new technologies, improve agriculture, qualification of water and forestry professionals as well as farmers, etc. *Technopolis* is being created under the concept of Science and Technologies Parks as a production complex of knowledge-based business enterprises and research, providing a chance of entering the World market for innovative medium and small enterprises of Kaunas. *Kaunas High-tech and IT Park* mainly creates and adapts modern technologies and competitive products, encourage and develop links between manufacturing enterprises and science and education institutions, etc. Also 3 business incubators are situated on the Lithuanian side: Šiauliai business incubator, Telšiai region business incubator and Ignalina nuclear plant region business incubator as well as 27 business information centres.

2.11. Primary services/energy resources

Electricity, water, gas supply are well developed, however almost in all regional development plans of counties was emphasized that it is threadbare. Also the alternative energy sources are not used enough. The main problem in the energy sector is lack of efficiency in heating systems. There is a need for energy efficiency measures within energy supply, central heating systems, networks and plants as these are neither efficient and nor environmentally friendly.

In Latvia the proportion of renewable energy resources currently amounts to 36% of the total consumption of energy resources, thus placing Latvia among Europe's leaders in the use of renewable energy resources. Latvia supports the goal of the European Union to increase renewable resources up to 20 per cent of the total use of EU energy resources by 2020.

The Latvian National Development Plan for 2007-2013 stresses the importance of renewable energy, including biomass, in the effort to ensure sustainable development. It

provides for promotion of the use of renewable natural resources and alternative energy sources in the production of energy (heat and power), including the use of biomass in CHP (Combined Heat and Power), maintaining agricultural land for the production of agricultural products, and increasing the contribution of the agricultural sector in the production of raw materials for heating and transport fuel. The “Biofuel Production and Use in Latvia for 2003-2010” programme serves as a framework document for forecasting biofuel use and the related production and trade issues. Increased use of renewable resources reduces the impact of energy production on climate change. Energy measures will have a positive impact on the agriculture sectors closely related to the production and supply of biomass, as the increase of power and heat generation from biomass and the use of biofuels will ensure a high level of the use of renewable energy resources.

The main documents defining Lithuania policy on local and renewable energy resources are National energy strategy and National energy consumption effectiveness enhancement programme for 2006-2010. National energy strategy defines the aim to reach the 12% of the total energy consumption in Lithuania and at least 7% of electricity consumption produced by renewable energy resources until 2010. However Lithuania still faces some problems in this sector state do not support actively research of technologies using renewable energy resources.

Renewable energy resources amount to 8.03% (2004) of all energy consumption in Lithuania. The dominant position in this sector is occupied by hydro energy, which amounted to 421 GWh from 429 GWh produced by renewable energy resources in 2005. However the potential of hydro energy in Lithuania is limited due to the topographical conditions. As an alternative the wind energy is encouraged. It is foreseen that the capacity of wind power plants will be 200 MW in 2010. Meanwhile foreseen capacity of biomass power plants - 33 MW and hydro energy plants – 132 MW.

2.12. Tourism

The Programme area has a good geographical location, ecologically clean environment, a high biodiversity level, rich cultural heritage, mild climate which make the Programme area an attractive and affordable tourism destination. 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 both inside, as well as the access from outside to the Programme area. Tourist flows are increasing steadily also between Latvia and Lithuania with the improvement in living standards and the increase in new tourism facilities in the region. Latvia and Lithuania have both experienced extensive inflow of tourists after the accession to the EU. Rural and eco-tourism is a growing trend among domestic tourists in both countries. There is 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 they must be in accordance with environment protection principles.

The border area could be described as heterogeneous in terms of tourism. Where Zemgale most probably is more developed in cultural tourism and receive more tourists due to its historical cultural sites, Latgale and Kurzeme have additionally a lot to offer in terms of ecological, rural and outdoor tourism. One of the most uncharacteristic objects of Zemgale plain is Tērvete Nature Park - an area of hills, dells and pinewoods. Tervete Nature Park can be considered one of the tourism objects with the highest potential in Zemgale. One of

the key issues in the tourism sector of Kurzeme region is the development of competitive tourism products. Currently the most popular tourism products in Kurzeme are active leisure, visiting of towns and nature reserves. Main zones with high concentration of tourism resources are Riga Bay coast from Ķemeru National Park to the Cape of Kolka, Baltic Sea coast from Kolka to Nida, Abava River valley, Slītere National Park and Lībiešu coast, Talsi territory of hills, Venta River valley from Lithuanian border to Ventspils, Usma lake and its surroundings. Latgale is rightly called the Land of Blue lakes or Lakeland. There are the largest lakes in Latvia situated in the Programme area - Lubans (82,1 km²), the second largest lake - the Raznas lake (located near Rēzekne), the deepest lake Dridzis (maximum depth - 63 m), which is the deepest in the Baltics. A unique protected natural area is Ezezers with thirty-six island and Velnezers (the Devil's lake) is famous for its mysterious colour and legends.

Klaipeda county with a seashore and resorts as well as the unique Curonian Spit which is included in the UNESCO World Heritage list attracts 22,5% of all tourists per year in Lithuania. Development of yacht tourism and service of cruise ships might attract even more tourists to Klaipeda county. Meanwhile other counties of the border area on Lithuanian side Siauliai, Panevezys, Telsiai and Utena are not so attractive for tourism. However Utena county, which has the biggest number of lakes in the region (1002), is visited by the most of countryside tourists (26%) in Lithuania. The development of countryside tourism is especially fast in Moletai, Ignalina and Utena municipalities. The main problem indicated in regional development plans in Lithuania is a high influence of seasonal changes. During the winter months in accommodation enterprises stay 10 times less tourists than during the summer months.

The highest number of accommodation enterprises in the region is concentrated in Klaipeda county (254), which covers 38.3% of all accommodation enterprises in Lithuania. The number of accommodation enterprises in other counties is much smaller – Kaunas (73), Utena (55), Siauliai (33), Panevezys (25) and Telsiai (20). Despite such huge differences, the number of accommodation enterprises has grown in all counties. The most significant increase was in Panevezys county – from 13 in 2001 to 25 in 2005 and Kaunas county – from 51 to 73. On the Latvian side figures for accommodation enterprises are much more less, with 16 for Kurzeme, 14 for Zemgale and 15 for Latgale regions (2004)

However, the tourism related infrastructure and services, especially in the rural areas, are rather limited and/or poorly developed. The Programme area shares the underdevelopment of the sector, lack of investments in infrastructure and R&T development for the sector, lack of qualified staff working in tourism, lack of cooperation between tourism organisations and municipalities. There is also lack of cross border co-operation and information about the possibilities on tourism, e.g., paths and bikeways, important tourism places along both borders in Latvia and Lithuania.

The development of tourism sector in the area is quite unbalanced, as the concentration and variability of tourism services and products provided is mainly in larger cities. Most of the region's tourism companies operate largely in urban areas. Providing of tourism information in the regions is uneven, but the information flow and its quality about tourism services and activities in regions developing. The range and quality of information on tourism, services and activities in the city, district and the region are varied and could be improved as could information available in foreign languages. Currently the majority of tourism marketing is fragmented with the many tourism operators dealing only their own services and products with no co-operation between different providers On Lithuanian side

there are 26 information points established. There are about 80 information centres on the Latvian side. Also information points are established, which provide the comprehensive information on tourism opportunities, offered services and activities in the cities, districts and region.

There should be possibilities also to explore the potential for cross border activities in tourism - with common tourism campaigns and products. Joint actions are needed in marketing the Programme area as a single tourist destination so that the potential tourists would enter the region not only from capital cities but also from other side of the border, as well as foreign and neighbour countries.

2.13. Logistics and services (Infrastructure, transport, public utilities, energy, telecommunications);

Accessibility through efficient transport and travel, as well as information and communication systems is a fundamental precondition for sustainable growth, competitiveness and job creation as well as cross-border contacts. The capacity and connectivity of transport infrastructure determines the area's accessibility in terms of internal connectivity as one 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. The Programme area is covered by basic network of transport infrastructure, but the number of connection links inside the region between different locations is rather limited, making some regions isolated from the rest of Europe.

The highway of international importance "Via Baltica" ensures the connection with Latvian and Lithuanian neighbouring countries, e.g., Poland and Estonia. Also the strand of "Via Baltica" – "Via Hanzatica", which connects Rīga, Šiauliai, Kaliningrad and Gdansk, plays important role in the transport network of the region. There is another important transport corridor crossing the cooperation region: the European railroad Šarkiai–Šiauliai–Radviliškis–Kaunas–Kazlų Rūda–Moscow. Although these 2 large transport corridors between northern and southern parts of Europe pass through the Programme area, smaller regional and local roads remain in relatively poorer condition.

The proximity of the Baltic Sea, the location of the major ice-free ports (Klaipeda with an annual capacity of 40 million tons, Liepāja with an annual capacity of 3 million tons and Ventspils with an annual capacity up to 30 million tons), international airports (Kaunas, Palanga, Liepāja) and the major transit corridors (Via Baltica connecting Tallinn, Rīga, Kaunas and continuing further on to Warsaw and Berlin, as well as the road corridor connecting Vilnius with Russia via Latgale) lends the region an advantage of port and transport development, as well as being a "crossroads" between the East and West. Transit shipping makes up to 80% of all shipment flows in Lithuania and even more in Latvia.

In total Lithuania and Latvia shares 7 road and 5 rail crossings. There are border points of different significance – number of them has customs facilities. The total flow on LV-LT border in 2002 were 9 214 257 persons, 3 802 182 cars and 17 465 trains². The lack or the poor-quality of border-crossing points are the main shortcomings in the border regions of the co-operation area. However due to existing physical border some of the common infrastructure created during Soviet occupation period is not used. Entrance to Schengen zone will create new possibilities for the renewal of this infrastructure.

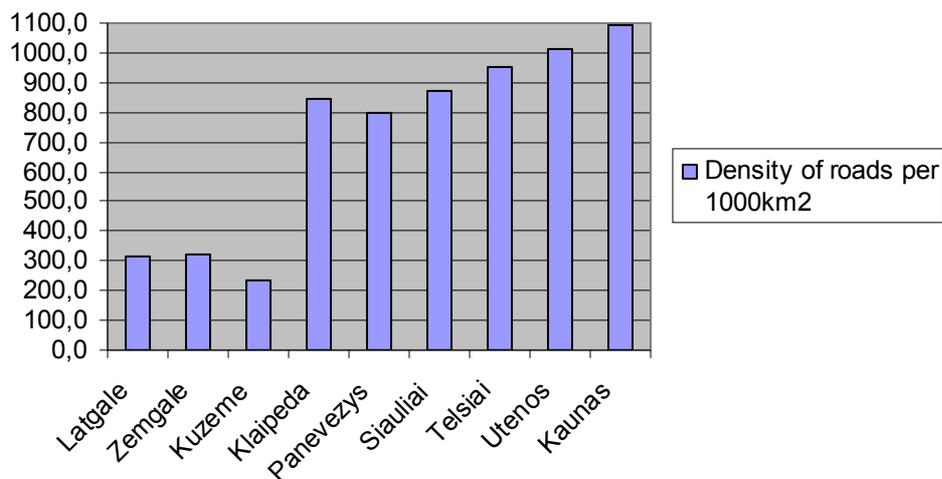
² Latvian Board of Border Guard, 2002

In general the geographical location of the cooperation region is good and has a future potential with a further developed infrastructure. However, at the moment the characteristic for most of the transport infrastructure is underdevelopment or sub-standard technical condition.

Roads

The road networks are often described as well-developed in terms both of length and the density, although roads often are in poor technical condition and there is a need for major capital investments in order to provide sufficient quality and level of maintenance.

Chart 14 Status of road transport network in the programme area, 2005



The quality of the road and bridge infrastructure is unstable, which prevents the development of traffic and urban areas. Regionally the roads connect municipalities and cities and most medium and large cities are connected to the capital and to one another, however, poor connection with rural areas. The road system is insufficient when compared to long term growing demands. There is a lot a transit traffic in the regions as a substantial amount of main roads with high traffic intensity cross towns and other settlements in such decreasing traffic safety and increasing the number of traffic accidents.

The length of public roads in the Programme area is 50 330 km, 45% with improved pavement (2004). The network of roads of local/rural importance in the border is 90 946 km (2004), 56% of which on Lithuanian, and 44% on Latvian side of the border. Least developed road infrastructure is in Latgale, Panevezys and Utena. A poor situation is in Siauliai county Akmenes' municipality where 38% of roads of local importance are without pavement, among them is the road to the Lithuanian – Latvian border.

Rail

Several major railway transit corridors cover the three regions in Latvia. However new investments in railroad are limited and the rail infrastructure is deteriorating. Cargo transport is in general better developed than passenger transport. Railroad sector's potential is not sufficiently used in the region, because of the old infrastructure, which limits the speed (average speed is only 59.5 km/h) and makes travelling by rail unattractive for potential passengers.

The Programme area is crossed by internationally significant railway lines in the North - South and East - West directions: Rīga - Berlin, Minsk, Moscow, Kiev, Tallinn, Vilnius, the European railroad Šarkiai–Šiauliai–Radviliškis–Kaunas–Kazlų Rūda–Mockava

Due to the intensive cargo transportation by rail, the existing infrastructure on the intensively used runs is on its critical limit. The RAIL BALTICA project might improve the situation, however at the moment its' future is not clear and the second stage of the project – Kaunas LT/LV border is foreseen only to 2010-2014.

However, several runs of the railroad (for example, in Latgale region) are not being used intensively and this situation will lead to closing the railroad lines with low traffic intensity and lack of cargo transshipments.

Ports

The Programme area has 3 sea ports (medium-large ice free ports Ventspils, Liepāja and Klaipeda) and 8 smaller harbours, including small seaport located in Sventoji.

Seaports located in Kurzeme region provide ferry connections with Sweden; Ventspils port is efficient and with good infrastructure, but the port of Liepāja suffers from limited urban connections and poor infrastructure in general. Liepāja port is one of the largest ports in Latvia, which serves as a meeting point of sea and land transport. Regular ferry lines allow for multi-modal cargo transport, providing a regular link with the transport systems of other countries. Favourable investment climate, various business incentives, clean environment despite the location of the port amid the city, business-minded attitude of the port specialists, these are just a few of the factors placing Ventspils among the leaders of the Baltic Sea Region. Ventspils port, which is ice-free the whole year round, provides for timely and effective cargo operations on its powerful terminals.

Klaipeda is the most important and the biggest Lithuanian transport hub, connecting sea, land and railway routes from East to West. Klaipeda is a multipurpose, universal, deep-water port, providing high quality services complying with the requirements of the European Union. The main shipping lines to the ports of Western Europe, South-East Asia and the continent of America pass through Klaipeda port as well. The port operates 24 hours a day, 7 days a week all year round.

A small seaport is located in Sventoji. At the moment it is under reconstruction, which is financed from EU funds. The reconstructed port will create new work places as well as will have positive impact on development of Sventoji and Palanga cities.

There is also rather good network of small, mostly fishing and small-scale freight handling ports on the coastline of the Baltic Sea. Most of them have also begun developing the facilities for yacht harbours. The small ports have limited infrastructure for developing into yachting harbours, and other facilities are almost non-existent in small ports for servicing yachting tourism. There is furthermore no network of yachting harbours, which is paramount if yachting tourism is to be developed.

The sector is missing a common development policy addressing the tourism aspect both nationally in Latvia as well as with the neighbouring countries - which would make it a possible topic for cross border cooperation.

Airports

Four international airports are located in the Programme area – Liepāja, Palanga, Šiauliai and one in the adjacent area - Kaunas.

Liepāja international airport is regional airport in the west of Latvia that is certified for international air traffic. At present Liepāja airport serves charter, business and general aviation flights. Development perspectives of Liepāja airport are to ensure regular traffic and provide safe and qualitative service for the passengers. Technical possibilities of the airport are adjustable to establish an industrial and technological park, transport logistical centre as well to locate different training bases. The Airport is within the territory of Liepāja Special Economic Zone.

Taking into account that for the development of regions the great importance is accessibility, the renovation of the Daugavpils airport has started. The first phase is almost finished: it is foreseen that in 2007 the Daugavpils airport will be certified for general flights. For the second phase it is planned to establish regular and irregular international flights.

Palanga international airport provides services to approximately 50 thousands passengers per year which is almost 15% of total passengers' number and is the second largest airport in Lithuania in terms of handled passenger numbers. The main object of Siauliai cargo airport is to attract a big cargo shipper, which could become the strategical partner while using the airport's possibilities, geographical location and the connections with cheaper air carriers from East to West or to carry cargo to cheaper transport (truck, railway using the closest ports of Klaipeda and Liepāja (Latvia)).

The third largest airport in Lithuania in terms of handled passenger numbers is located in Kaunas county (adjacent territory) 77 metres above the sea level which together with the longest runway in Lithuania enables to accept any type and mass planes in any atmospheric conditions. Due to quickly growing number of passenger Kaunas airport has a great potential to outrun Palanga in the number of handled passengers in the nearest future.

All the airports are kept from the soviet times however with the current infrastructure enables to accept any type and mass planes in any atmospheric conditions. However it is hardly possible to adjust to market demand. The opportunities would be to develop charter tourist flights, especially small plane and private use. All the airfields would need substantial investment in infrastructure in order to bring it up to standards of an operational airport.

An efficient, flexible and safe transportation infrastructure facilitates productivity and ensures free movement of people and goods. Development of an international transportation infrastructure by involvement in implementation of cross-border projects is essential for integrating the national markets, especially as to the context of the market of the enlarged European Union.

2.14.Information society

Accessibility of a region can also be measured by the penetration of information society - the aspect which is today of equal importance as the connectivity via physical infrastructure. The information society is continuously expected to be one of the major drivers of growth and employment, and is thus emphasised by the Lisbon Strategy. Ability

to use modern information and communication technologies is one of the fundamental pre-conditions for socio-economic development.

For the Programme area the ICT developments are characterized by a low level of number of IT users in business and in private, including lack of IT skills. This is partly due to lack of accessibility to IT and Internet particular in rural areas, as the existing telecommunications infrastructure is inadequate for use of modern ICT. The low ICT use outside the regional centres creates further disparities in the development of the border region.

On the Latvian side for 2006 the highest availability of computers is with Zemgale region (38,3%), Kurzeme (32,4%) and Latgale (25,9%). The access to Internet has 41,6% of the inhabitants in Kurzeme region, then follows Zemgale with 33,8% and Latgale - 24%. Despite the indicator is low, it has increased approximately by 13% in 2006 in comparison with 2004. Regularly (at least once a week) use the Internet young persons of 16-24 years old (86,5%) and 25-34 years old persons (63,4%), as well as 35-44 years old (49,7%). These indicators are by 30% higher than in 2004, also usage of computers has increased by 20% in 2006 with comparison to 2004.

Usage of Internet (28,1% respondents) and personal computer (32,9% respondents) in Telsiai county is the last among all Lithuanian counties. Siauliai county is the third last in Lithuania – respectively 37,6% and 30,8%. Population of Kaunas and Klaipeda counties is the most advanced (respectively – 45,6% and 42,2%) in the region in the usage of personal computer. The usage of Internet is the highest in Kaunas and Utena counties (35,2% and 31,9% respectively). Almost the same level is in Panevezys county – 31,7%. However, all border counties are below Lithuania's average (usage of personal computer – 43,0% and usage of Internet – 34,3%), only Kaunas county, which is an adjacent territory, is above it (45,6% and 35,2% respectively, 2005).

The implementation of new education programs and training methods in schools using IT, increase of access to Internet and its usage should stimulate the development of the region. Focus should be put on increasing the capacity of institutions in training IT professionals and the use of ICT to make e- services, including e – education, accessible for the people.

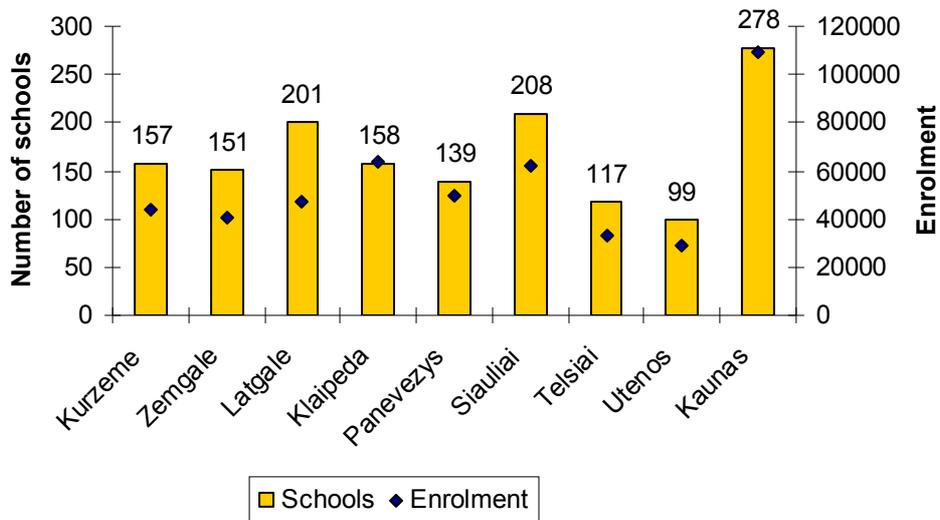
2.15. Education and Research

The preliminary conditions for the general education can be considered favourable in the Programme area with located 14 universities and branch colleges, 1508 general educational schools, and 94 vocational schools (2005). The territory is covered by a wide network of vocational education centres, providing a large variety of skill acquisition possibilities. However, the provided vocational education courses often do not match the market needs. Also the professional education possibilities are underdeveloped in the region, and quality of the higher education programmes is needed to be improved. In addition there are hardly even first examples of linkages established with educational and research institutions with businesses and municipalities.

The higher educational institutions play an important role in the development promotion of the regions by continuing to develop educational services. Klaipeda and Kaunas are two main centres of education on Lithuanian side, Jelgava and Daugavpils – on Latvian side (not taking into account the capitals of Rīga and Vilnius, which are situated in the area not eligible for the programme). The scope of subjects taught is the widest possible, as most of

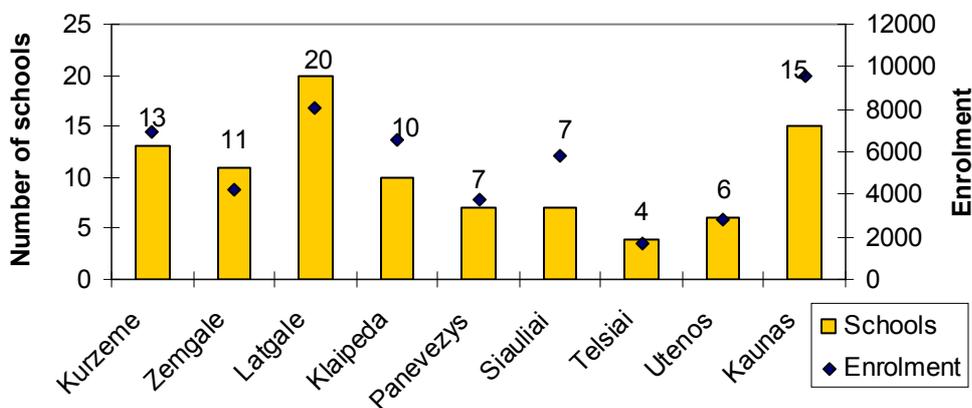
universities are multi-disciplinary. In Latvia, the research facilities, however, exist only in few of those: Jelgava Agriculture University specializes in agricultural and regional development studies. In Lithuania, the research activities are developed in all universities of the cross-border area, with a main emphasis made on human and social sciences, engineering and technology development. Besides universities and higher education institutions, there are numerous public scientific institutes and organisations, academic centres and science parks, and private higher education facilities in the area, providing a good scientific research potential.

Chart 15 Number of general schools and enrolment, 2004



The number of secondary schools and vocational education establishments in the Programme territory is vast and the specialisations – the widest. Many of these, however, are rather small and incapable to offer sufficiently broad range of vocational training programmes, nor provide their quality, thus creating big differences in the education and training offer from regional and job aspect.

Chart 16 Number of Vocational schools at the beginning of the school year 2004/05



The enrolment of the general education schools in the Programme area is approximately 500 000 pupils or 16.44% of the total population covered by this Programme. The enrolment for vocational schools is approximately 50 000 students, which hardly could satisfy the needs of the labour market demand for technique professionals.

In general the educational proficiency and supply of professionals does not correspond enough to the qualitative and structural demands of the labour market. In the higher education sector there is a need to adapt the education programmes to the needs of labour market. A high quality of education and training is the precondition for the promotion of competitiveness of labour force in the region. Educational institutions are key issue to meet the needs for skills improvements to contribute socio-economic development.

The capacity for the research needed in order to develop innovations is weak. Moreover, R&T infrastructure in higher education institutions falls well below international standards. Combined with the lack of funding and weak resources, students are not attracted to the natural sciences and do not pursue post-graduate research in sufficient quantities (less than 20%) to provide the necessary critical mass for research institutes. The average age of the top-qualified personnel (with PhD degree) exceeds 50 years.

The fact to be emphasized is a weak collaboration in the field of cross-border cooperation between individual researchers, research institutions, and universities within the Programme area. Each country individually places increasing focus on knowledge, however regional cooperation, which could play a critical role in further strengthening the supply and utilization of the region's human capital base, is limited. Further development of research and development strategies with the aim to improve the ability to define development priorities and enhance the participation of the private actors in this process is of high importance.

2.16. Health and Social Care

Health is a basic human value; it is the foundation for the quality of life, as well as for personal and family well-being. Health care is an essential part of public health. It includes both medical and pharmaceutical care and is aimed at maintaining and restoring good health. The demand for health and social services is rising, due to an ageing population, higher income and higher education levels. On the other hand, this development also leads to a certain degree of social marginalisation with subsequent limited access to health care services for some of the citizens. For the health care services, the management and perusal of huge amounts of health information in a proper way is a problem, taking into account the confidentiality and security issues.

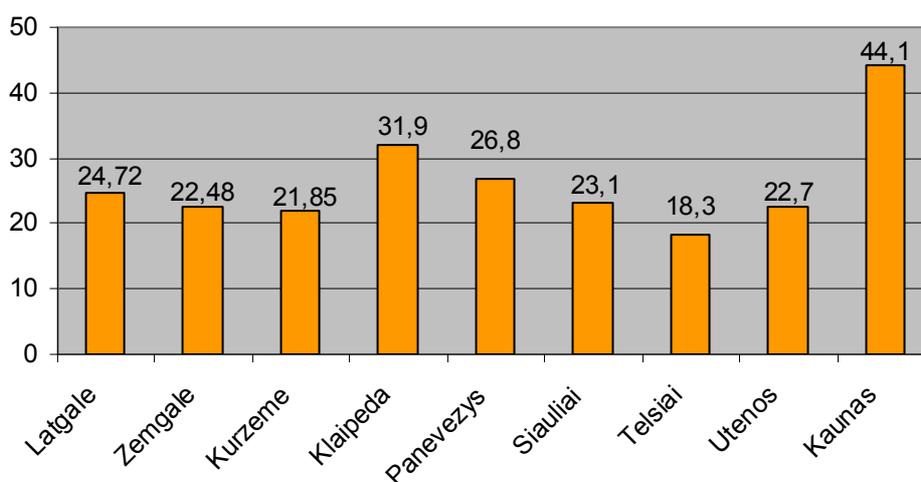
Both Latvia and Lithuania are currently undergoing a general restructuring of the health care system aimed at its optimisation and improvement of the service quality. Reforms continue in the fields of social insurance, poverty reduction and pension systems. General practitioners have been introduced in both countries. The networks of public health care institutions are still being reformed.

One of the main problems in Latvia is that the state-guaranteed minimum for health care services is set at a pretty high level, which cannot be matched by the means available for financing. The prices set for the state-guaranteed health care services are quite low, when compared to the EU average. The main attention of the Latvian ministry of health is now

given to the implementation of a national structure plan for outpatient and inpatient health care service providers. The main objectives of this plan are to optimize and consolidate a structure of service providers, and to increase the quality, cost efficiency and availability of the services offered.

There are not enough general practitioners in the Programme area; therefore, people do not always receive health care services in a timely fashion. The availability of health care services has to be improved by modernising the infrastructure, developing the use of information technologies, introducing e-Health services, as well as ensuring adequate human resources for health care.

Chart 17 Number of Physicians per 10000 inhabitants, 2004



The social service sector encompasses services by social workers, social care services, and social and occupational rehabilitation; these services are provided both by the state and local government institutions. Klaipeda and Kaunas regions are the most developed in relation to access to the doctor's services, but in Telsiai and Kurzeme this figure is quite lower.

In order to protect the population in social risk situations, there are social security and state social benefit systems functioning in both Latvia and Lithuania. Within this framework, pensions, social benefits and compensations are paid in accordance with social insurance contributions, and financial aid is provided in the form of general benefits to members of specific population groups. Social assistance provided by local governments offers social protection to persons who live in poverty or who are in any other social risk situations.

The health situation in the population has also changed. Spread of infectious diseases and also of non-communicable health threats require rapid and coordinated response. In Latvia there is a high use of addictive substances, such as alcohol, drugs and tobacco. The involvement of the population in the management of their own diseases and life-style is very low and passive.

The main objective of the health priorities in the Programme area could be defined as achievement a public health improvement within a healthy environment. This includes promoting the prevention of diseases and a healthy life-style; further to improve the

quality, efficiency and accessibility of the health services, as well as stimulating the population's awareness and participation in health promoting issues.

In overall the monitoring and control of communicable diseases should be enhanced on different technical, administrative and professional levels. To combat life-style related diseases, a favorable life-style should be promoted, such as nutrition, physical activity and the use of addictive substances. Improvement of mental health care should include the build-up of out-patient treatment facilities and improvement of the health care accessibility, aiming at a suitable integration of the patients in society and family. The general awareness and knowledge about mental problems should be enhanced to reduce stigma, discrimination and social exclusion. The particular attention should be given to the development of "e-Health"-system and other IT-tools for a better management of the information flow. For the children with special needs, improved access and treatment in the health care system should be insured and a better integration on the educational system as well.

2.17. Environment and nature

The region can boast an ecologically clean environment, a high biodiversity level, picturesque landscapes, forests, coast and numerous lakes, and a significant potential for the development of specialized nature tourism and recreation activities.

Environmental organizations and NGOs with trained staff to protect nature and environment have been established and provide coordination and support to the sector. The problems of the sector are partly caused by lack of research and investments in protected areas, which result in lack of preservation activities. There is also a significant lack of knowledge and education amongst the general population with regard to environmental protection.

The border counties in Lithuania include 3 national parks: Aukštaitijos, Žemaitijos and Kursiu Nerijos; 15 regional parks; and one State Strict reserve that was established for protection and research of the landscape due to its scientific and historical interest. Any kind of economic activity is under the strict rules in these areas. The border area contains also 139 NATURA 2000 sites. There are also seashore and resorts as well as unique Curonian Spit, which is included in the UNESCO World Heritage list.

Latvia is also involved in NATURA 2000. The net of NATURA 2000 includes 336 territories – 4 nature reserves, 3 national parks, 250 restricted areas, 38 nature parks, 9 protected landscape areas, 9 nature monuments and 23 microreserves. They cover 11.9% of the whole area of the country. The protection and management regimes are various – from minor restrictions in landscape areas to absolute prohibition of any management in nature reserves.

For the most part of the public beaches in the Programme area the Blue flag was given for the last several years. On the Latvian side in 2007 Ventspils and Liepāja beaches have been assigned the Blue Flag. It is an eco-certificate, which certifies the compliance of the beaches and the Yacht Port with high environmental standards. As well as it was put on two internal swimming places in Daugavpils, Latgale region. Six Lithuanian beaches were awarded with the Blue Flag in 2006: Nida beach (Neringa municipality); Juodkrante beach (Neringa municipality); Botanical park beach (Palanga Town municipality); Smiltyne I

beach (Klaipeda Town municipality); I Melnrage beach (Klaipeda Town municipality); II Melnrage beach (Klaipeda Town municipality).

According to the data of the Baltic Environmental Forum, the most important nature heritage areas on the Latvian – Lithuanian border are the Sventaja river valley, the coastal territories extending from Birzai to Skaistkalne, as well as the coastal areas of Nida and Pape.

Environmental protection, water and waste management

The region faces issues related to cross-border pollution in particular pollution of rivers and air due to lack of common cross-border environmental management system. The oil terminals on the coast of Lithuania should be taken into account as well. Considerable negative impact is made by the companies “Mazeikiu nafta” and “Mazeikiu elektrine” located in Telsiai county and “Akmenes cementas” in Šiauliai county. This situation is also negatively influenced by the absence of gas pipeline and a wide use of fuel oil in Mazeikiai municipality. The transit of dangerous cargos via roads, railroads, and oil and gas pipelines – as a threat for the ecology and the safety of inhabitants can be mentioned as an environmental cross border issue.

It should be mentioned also, that Latvia and Lithuania are the members of the United Nations Organisation/EEC Convention for cross border watercourse and international lakes protection and utilisation (17.03.1992), what is important in regard to prevention of pollution in cross-border rivers.

In the Programme territory there is Ignalina nuclear power station exists, and its dismantling has the negative influence on the development of the territory of Latvia (including tourism, business development, agriculture and development of recreation areas, and as the result the outflow of the labour force) due to certain pollution risk.

Despite the large number of water management projects there are still lots of untreated waste water and further deterioration of sewage treatment facilities is common concern. Outside the larger cities the water management infrastructure is outdated in most villages and small towns. This poses a real risk to groundwater and surface sites as it can contaminate groundwater tables, through unprotected wells. In certain areas drinking water does not meet quality standards and demands due to sub-standard technical condition of supply networks.

Bartuva (40% catchment's basin in Lithuania), Venta (44%), Lielupe (51%) and Dauguva (17%) catchments basins are most important on the border with Latvia. 25% of the rivers water of Lithuania flow to Latvian territory and most pollutants (67%) comparing to other countries coming to Latvia are from Lithuania. However it is expected that the situation will be significantly improved after water and outflow systems construction and reconstruction will be completed in Venta-Lielupe catchments basins till 2009 from Cohesion fund.

The key Baltic Sea coast environmental issue is the pollution of coastal waters and beach with oil products. The main problems are: oil leakages, pollution with chemical materials, regulation of life (fish) resources, erosion of coastal areas and dirt burial. The quality of Baltic Sea and Rīga Bay coastal waters is of great significance in the development of tourism and fisheries and is impacted by the quality of the water in the rivers falling into the sea.

The waste management systems are not developed and those, which exist, are in bad technical condition. Most of the current disposal sites do not meet the minimum standards as they are not set up on impermeable pre-filtration layers (preventing pollutants reaching the ground water). Not all Hazardous waste disposal sites meet the current requirements. As a result of the restructuring of the current waste management system most of the existing disposal sites will be closed.

2.18. Culture

Latvian and Lithuanian regions have exerted an influence to the cultural and religious traditions of neighbouring countries. The people have been rather tolerant to all these religions and cultures. At the same time people have preserved their own traditions. The cultural traditions of the region are very unique not only in their own countries but also in all Northern Europe. At present there are rather many folklore and ethnographic groups in the regions. The folk songs, dances and pottery traditions have become a part of modern cultural life.

The cultural heritage is visible throughout the traditions of the Programme area Traditional Latvian culture - collective singing, music and theatre playing, and dancing - established already in the second half of the 19th century experienced a difficult period in the end of the last century, many traditions are disappearing. Where Zemgale maybe in particular can show cultural heritage complexes of international importance (Rundale, Jelgava and Mezotne castles) as well as music festivals, the two other regions also have a number of important historical and cultural monuments.

The Song and Dance Celebration process and symbolism in Estonia, Latvia and Lithuania which is an unique cultural expression of deep symbolic and comprehensive edifying value, is included in the UNESCO Convention for the Safeguarding of the Intangible Cultural Heritage (2003). Also "Cross-crafting and its Symbolism", which refers to a widespread tradition of making crosses and altars, as well as the consecration of these crosses and the rituals associated with them in Lithuania was included in the UNESCO Convention for the Safeguarding of the Intangible Cultural Heritage (2001).

Totally there are 108 museums are situated in the Programme area, with the highest number in Kurzeme (18) and Latgale (17) on Latvian side, and Klaipeda (14) and Kaunas (20) on Lithuanian side, as well as 1393 libraries for the whole region. However, the general interest in local cultural events has diminished and the number of visitors, in the culture centres museums and libraries have decrease in recent years. The traditional cultural and craftsmanship art in the multifunctional culture houses for artistic group activities; very often these house libraries, museums, music and art schools. Funding of cultural activities almost solely dependent on local government and development amongst other for tourism purposes is slow due to lack of cooperation between institutions, local government and business.

3. PREVIOUS CROSS BORDER COOPERATION EXPERIENCE

Cross-border co-operation in the area of the Programme has deep traditions and has been intensive during different times, but was temporary hindered after the retrieval of independence in Latvia and Lithuania in the beginning of 1990s, after the national borders between Latvia and Lithuania were re-established.

The cross-border co-operation activities in Latvia and Lithuania started to receive direct support in 1994 when the PHARE Cross-Border Co-operation (CBC) programmes were introduced as a complementary instrument and a conjunction with the INTERREG programmes, which since then have produced many positive results. However, the projects were not necessarily direct cross-border co-operation between the immediate border regions of Latvia and Lithuania, but rather bilateral and multilateral projects with different BSR countries. The PHARE CBC Programme has been very successful in building partnerships between the Baltic States and the region's EU member states.

PHARE CREDO Programme, which was implemented between Latvia and Lithuania during 1997-99, was the first financial instrument to facilitate cross-border co-operation between the border areas of the two countries. The programme enhanced the development of cross-border structures and common cross-border development planning, and provided the first opportunity for Latvian and Lithuanian border regions to engage directly in INTERREG IIIA-type of co-operation by implementing mainly small, soft projects.

In 1999 there was the Treaty on Transfrontier cooperation signed between the Government of the Republic of Latvia and the Government of the Republic on Lithuania. The Agreement was consolidating factor and gave an official status to the bilateral relationships at regional and local levels and on its basis the Latvian – Lithuanian Intergovernmental Transfrontier Commission was established. Purpose of the Transfrontier Commission is determination and co-ordination of guidelines, programmes and modes of trans-border cooperation, providing recommendations to co-ordination centres at regional and local levels resolving disputes related to co-operation of such kind. In the end of year 2006 Latvian and Lithuanian side made a decision to reinact Latvian – Lithuanian Intergovernmental Transfrontier Commission's work and to update its composition. In order to ensure the effective work, representatives of competent institutions and politicians authorised to take the decisions on certain issues will take part in the activities of Commission. Within the Commission there have formed also three Work Groups – of Territorial Planning and Environmental Protection, Economic and Social Development and Resolving Border Crossing Problems.

After the accession to the EU in 2004 Latvia and Lithuania have gained an opportunity to participate in INTERREG III initiative as the full members. As a result the Latvia-Lithuania-Belarus INTERREG IIIA priority (South Priority) within the Baltic Sea Region INTERREG IIIB Neighbourhood programme has been established. South Priority, which was the financial instrument providing broad possibilities for close co-operation between the immediate border areas of the two countries, was implemented during 2004-2008.

The implementation of the South Priority intensified the cooperation between the partners, who had been already tied with earlier joint actions, and even more importantly - widened the area of intensive cross-border cooperation also to the regions, which were not situated on the border or in its closest proximity. In total 49 projects have been implemented under this priority and excellent basis for the new ideas to be implemented in the new programming period was created.

Both soft components and small-scale investments have been implemented within the South priority, as well as large infrastructure works have been conducted. Such investments were mostly targeted at improving the living quality of the people in the border areas, such as improvements of the saving stations, renovation of woodcrafts studio, reconstruction of parks, improvement of cycling infrastructure, water treatment plant, cultural objects, etc. In addition, new businesses were established along the transit corridors, and several follow – up projects developed. Implementation of the priority gave input for formation of a strong basis of local know-how and active partnerships for the new programming period.

Besides co-operation projects between Latvian and Lithuanian municipalities and regional authorities, which have been financed from different EU financial instruments, there also, have been independently established bilateral contacts between different organisations. Many Latvian and Lithuanian local and regional public authorities as well as NGOs have various joint activities being carried out annually, or have signed bilateral co-operation contacts on different fields. Most popular fields of such co-operation are culture and education, especially joint events, followed by tourism, environment, and business contacts. In 2006 11 Latvian and Lithuanian municipalities in the Programme area had various co-operation agreements. Euroregions “Baltic”, “Country of Lakes”, “Bartuva” “Saule” are situated in the territory of the programme. They might perform important role in the implementation of future ETC programme.

As an overall conclusion, the experiences with cross-border co-operation in the eligible territories of the programme are rather wide, especially in the form of bilateral projects, and on the municipal basis, but it is mainly wider co-operation with local governments within the Baltic Sea Region countries. Current situation can be overcome by developing and implementing joint projects and establishing longer-term contacts between public authorities as well as NGOs under the ETC Latvia-Lithuania CBC programme, which has been designed specifically for this region, and especially for ETC-type of co-operation.

4. SWOT

The summary of the conclusions based on the above description is included in the table below. The SWOT analysis contains mainly 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 countries.

| STRENGTHS | WEAKNESSES |
|---|--|
| <ol style="list-style-type: none"> 1. Beneficial geographical location with good road and railway connection, strategic transport corridors of international importance and transit traffic providing routes in the directions of West –East and North –South 2. Relatively clean and attractive environment, vast fresh-water resources, high biological and | <ol style="list-style-type: none"> 1. Poor and outdated condition of infrastructure (e.g. large share of gravel roads, insufficient cross-border transportation links, lack of border crossings, etc.) and shortage of services for transit and logistics in many parts of the co-operation area; 2. Large-scale polluters are situated in the programme’s territory (joint-stock companies “Mazeikiu nafta” |

| | |
|--|---|
| <p>landscape diversity</p> <ol style="list-style-type: none"> 3. Region with similar socio-economic structure, economic activity based on local resources 4. Existence of basic business infrastructure and usage of ICT in the industrial sectors 5. Well developed primary infrastructure (electricity, water, gas supply); 6. Existence of tourism potential and well functioning basic tourism infrastructure 7. Rich and unique cultural - historical heritage, values and traditions, two divisions of religion; 8. Ethnic proximity of Lithuanians and Latvians; Russian language speaking skills among Lithuanians and Latvians 9. Well-developed network of higher, vocational, primary, secondary education institutions, existence of science potential 10. Favourable conditions for public-private partnership between municipalities, NGO, enterprises, cooperation among environmental organizations 11. International and regional airports, good internal and external accessibility | <p>and “Mazeikiu elektrine”)</p> <ol style="list-style-type: none"> 3. Existence and dismantling of Ignalina nuclear power plant 4. Sparse and ageing population in the border areas; 5. Low business activity and entrepreneurship in the region, lack of private investments to new start-ups; 6. Poor linkage between education system and the demand of labour market 7. Outdated techniques and technology not developed connection between research and entrepreneurial activities that leads to uncompetitive production 8. Seasonal nature of tourism and increasing wild tourism 9. Limited experience of implementing cross-border cooperation projects on the immediate land borders, limited co-financing and financing ability of the local and regional actors 10. Insufficient administrative capacity of the public sector in administrating and managing development activities 11. Low investment rate (productive sectors, industries and labour force) in the region 12. Low level of innovations, as well as research and development activities in the region 13. Low level of ICT use, weak information society |
| <p>OPPORTUNITIES</p> <ol style="list-style-type: none"> 1. Development of logistic and transit services along transport corridors 2. Creation of new transportation links and improvement of transport infrastructure 3. Development of business support structures in cooperation with educational institutions (engineering, laboratories, etc.); business clusters in the region; 4. Development of sectors with high growth potential | <p>THREATS</p> <ol style="list-style-type: none"> 1. Growing emigration of labour force in more prosperous EU regions 2. Growing disparities between borderlands and peripheries with the rest of the countries territory; 3. Isolation and marginalisation of local communities and unattractive countryside 4. Worsening the environmental situation in the Baltic Sea region, increasing water pollution, environmental degradation and |

| | |
|---|--|
| <ol style="list-style-type: none"> 5. Use of ICT for accessibility of services and education 6. Utilising the local environmental, landscape and cultural resources for development of joint tourism products (recreation, motorways, rural and eco-tourism, yacht service and service of cruise ships, spa-resorts, etc.) 7. Increasing the potential of rural areas as attractive living and working environments 8. Enhancing the link between education and labour market 9. Improvement of the cooperation between the local and regional authorities in order to identify better ways for providing services to inhabitants of the border areas 10. Development of common activities for the attraction of domestic and foreign investments | <p>transforming the landscapes</p> <ol style="list-style-type: none"> 5. Increase of economically inactive population 6. Concentration of economic activity in low value added sectors, reduced rate of SMEs 7. Increased competition of the traditional sectors with the EU producers 8. Increasing poverty and exclusion in the border areas |
|---|--|

Based on the results of SWOT, the Programme vision and development strategy have been elaborated, addressing the main challenges and opportunities of the Programme area.

5. VISION AND JOINT DEVELOPMENT STRATEGY

The **vision** of the co-operation area is to develop a sustainable and dynamic European region located on the South-North and East-West transport, trade and tourism routes, with a diverse and clean environment, its own unique cultural and historical identity, well educated and well-being inhabitants, which is flexible to meet global economic and environmental challenges, attract productive investments and use the innovations for creation of prosperity on all its territory. This broad vision, however, keep the actions focused by addressing a few priorities that present the greatest challenge and opportunity.

The main challenge of the Programme is to capitalize in an effective way the opportunities of the border region and to diminish the negative impacts of the border in daily life in cooperation of bordering communities and partners, as well as to strengthen the economic base and capacity in the border regions to make them more capable to meet their challenges and create prosperity.

The Programme aims to contribute to the sustainable and cohesive socio-economic development of border region *to make it competitive for economic and business development and attractive for people living and visiting.*

The **strategy** of the Programme is targeted at fostering cross-border co-operation activities in various fields, which by national laws and regulations of the participating countries can directly be addressed by regional and local actors, without requiring co-ordination with central government authorities outside the immediate border regions

The specific objectives of the Programme are:

- *to strengthen border area economic and social base and to increase the competitiveness by establishing at regional level currently missing primary structures and capacities for development;*
- *to create favourable living conditions and to strengthen border region communities by improving quality of and access to public services/supplies, effective management of environmental resources and raising the human capacity for further development.*

The priorities chosen for the Latvia – Lithuania CBC programme reflect the trends and tendencies of the Programme area's socio-economic situation and, similarly, the strengths, opportunities, weaknesses and threats. They address issues that need intervention at cross border level. Considering the above conclusions and findings, the following cross-border co-operation priorities are proposed for this Programme:

- **Priority I Encouragement of socio-economic development and competitiveness of the region;**
- **Priority II Creating the attractive living environment and development of sustainable communities.**

as well as Technical assistance which will be performed as a separate priority to ensure smooth implementation of the Programme.

The joint priorities were defined to tackle the development challenges and use the opportunities of the border region, as identified and agreed in cooperation with the regions and national authorities in neighbouring countries.

It is recognized that the region covered by the Programme acts as corridor between South and North and East and West. The existing transit routes will be well utilized for business development along them. Also, the business development in the tourism sector presents a great potential to this cross-border co-operation area due to the unique and diverse environmental resources. The relatively more active business and tourism development on the Lithuanian side of the borders will be extended to the Latvian territory of the programme. Also, the markets on all sides of the borders present an opportunity to local businesses.

In order to improve the cooperation on the borders, there may be a need for small-scale road investments to fix the interrupted links on borders between Latvia and Lithuania. However, these investments shall only be undertaken after an appropriate strategy has been developed by the involved regions.

It should be kept in mind, that the potential business development presents certain threats to the environment in the area, therefore the programme shall also support the measures aimed at ensuring that the environmental resources are not deteriorating due to increased economic activity.

The municipal water and wastewater, as well as solid waste treatment infrastructure shall be addressed through national support and shall not be supported from this programme, mainly due to limited resources. However, activities related to exchange of experience in this area, as well as activities aimed at identification of more efficient ways for providing these

services in the border areas could be supported from this cross-border co-operation programme.

As tourism presents great development potential in the area, the tourism related investments, such as improving accessibility to nature parks, beaches, tourism objects, upgrading the small port infrastructure for yachting harbours, etc. shall be supported within the Programme.

It is expected that the broad range of activities aimed at entrepreneurship, employment and infrastructure will be financed from the Structural Funds under the Convergence objective on national basis. However, elements of cooperation between countries, contact building, exchange of experience across the borders could be financed only from this cross-border co-operation programme.

The Lead Partner principle should be applied within the Programme, where the Lead Partner is responsible for implementing the whole project and concludes agreement with Managing Authority and with the beneficiaries participating in the operation (project partners).

Within the Programme support will be focused on activities among partners operating within the eligible area that encourage the socio-economic development of the region and make it attractive for people living and visiting. Further, future projects within the programme should demonstrate clear cross border impact on the border regions, as well as basic principles of cooperation:

- **cross-border impact** –the physical effect of the investment project should be beneficial to and serve the needs on both sides of the border, with clear cross border impact, or in case of all non-investment projects the element of cooperation and partnership is compulsory;
- **retain sustainable development** – the priority will be given to the proposals, which are related to the renewed Lisbon and Gothenburg strategies by aiming at strengthening growth, competitiveness and employment, protecting and improving the quality of the life and quality of natural environment on the cooperation territory;
- **added value** – the proposal should demonstrate innovative approach; in other words, it should differ from already available cross border solutions for given problem or given territory in order to avoid duplication of work and usage of the already known methodology
- **competence raising** – the proposal should see to it that through the implementation of the projects the actors involved in the proposal increase their capacity in running sustainable development policies;
- **durability** – the proposal should aim at producing results and establish structures which exist beyond the lifetime of projects; in that sense the programme funding should serve as start-up financing towards durable and sustainable solutions.

Assuming that the co-operation develops successfully, it shall lead to increased communication and traffic across the border, as well as greater mobility of population. In this respect the co-operation of municipalities, educational and social institutions may be necessary to improve the quality of services provided to the inhabitants. Cross-border

synergies and elements of effective provision of services shall be explored under this programme.

6. PROGRAMME PRIORITIES

Latvian – Lithuanian CBC programme consists of two priority axes for support, each of these covering several directions of support. The priorities are elaborated according to Art.6 of ERDF Regulation.

Priority I Encouragement of socio economic development and competitiveness of the region

Directions of support

1.1. Facilitating business, labour market and R&T development

The Programme area in general is characterized by basically developed business community with a number of small and medium size companies, research and development centres, universities and a well educated and highly skilled workforce. Therefore the Programme area's human capital is one of the main beneficial factors. However, a relatively weak ability to turn these factors into innovative solutions and economic prosperity, as well as large share of economically inactive people amount labour force continue to hold back the region's potential. The activities promoting the use of potentials for better cross border interaction in research and innovation, business facilitation and development, joint marketing activities and establishments of common education infrastructure will be supported. As the result of the activities within this direction of support the supply and productivity of the labour force would be increased, the regional mobility and educational and training system compliance to demand of the labour market would be improved and the life-long learning possibilities would be introduced. Increased cooperation is important to facilitate a better utilisation of the Programme area's main resources in terms of strong clusters, research and innovation capacity and experienced labour force. In this context, the activities supported the partnerships, common development strategies and joint positioning of different kinds are essential for encouraging the economic development and competitiveness of the region. Local and regional authorities are envisaged to identify and invest in small scale investment projects creating added value for existing business infrastructure.

1.2. Improvement of internal and external accessibility of the border regions

There is a basic technical infrastructure and transportation network covering the Programme area. However the connection links are not always sufficient in terms on internal and external accessibility of the region thus making the region somehow isolated from the rest of Europe. The aim of the direction of support is to apply new transport and logistics solutions in the cooperation area, as well as to promote innovative ICT services to make the region easier accessible from the outside and to repair and to restore unused connection links between different regions, urban and rural settlements within the area. The emphasis is equally given to elaboration of strategies and development of projects pipelines for road, rail, bus, air and water transport, as well as information and communication technologies. The priority reserves an opportunity to finance infrastructure projects having direct impacts in benefiting existing transportation and communication

networks of border regions. Also studies, assessments and plans are expected to be supported to promote large scale investments in strategic infrastructure.

Priority II Attractive living environment and development of sustainable community

Directions of support

2.1. Enhancing joint management of public services and natural resources

The Programme puts an emphasis on environmental education and awareness-raising. It is important that the people in the region have a raised understanding of their environmental impact and the value of the environment of the region, particularly the maritime environment. Presence of the large industrial sites in the territory covered by Programme does leave the certain scope of activities for cross-border cooperation related to environmental monitoring, such as early warning systems and cross-border cooperation in case of disasters or emergency situations, etc. This cooperation may extend into areas of flood prevention and fighting forest fires. Majority of public services, such as energy and water supply, health care, fire brigades and other services must be provided the same on both sides of the border. Finding joint solutions to common natural environmental problems, managing together protected areas and nature reserves, awareness raising on environmental issues are financed under this direction of support. The principles of the Integrated Coastal Zone Management will be followed for the cross border activities to ensure that good coastal zone management is implemented and promoted in the coastal area of the Programme area. It is crucial to determine how to best tackle and improve the social situation in problem areas and for specific target groups. The use of innovative methods and know-how in health and social care services aimed at reducing the strain on public health services is important. Getting the emergency services to respond jointly to a possible industrial accident is vitally important. Taking into account the presence of Maziėkiu nafta and Ignalina nuclear power plant companies in the territory the emergency rescue plans in case of man-made catastrophes are important. Investments in establishment of joint public services to be provided similarly on both sides of the border are also supported under this direction.

2.2. Increasing the attractiveness of the border region

The direction supports activities for improving the internal and external attractiveness of the Programme area, and strengthening existing cultural and historical ties within the region. Quality of life is also affected by cultural activity and people-to-people co-operation. Through this direction of support cultural centres, museums, libraries and architectural and cultural heritage sites could be renovated and renewed. As a result the image and identity of the Programme area will deepen, making the border region more attractive for local and foreign visitors. The Programme region, with its mild climate, vast fresh-water resources, high biological and landscape diversity, has become a popular tourism destination for both domestic and foreign visitors, and its potential needs to be further developed. The direction covers the variety of tourism sectors, including nature, maritime, and cultural tourism, as well as recreation and sports. The direction is aimed at developing further and to diversify the existing basic tourism infrastructure, and with equal importance to create new tourism services and products. These make the region more attractive to citizens, businesses, workers and visitors and outline the characteristics of the region. All tourism development activities should be accompanied by proper marketing techniques, which as far as possible define the area as a single tourism destination.

2.3. Development of active and sustainable communities (small project facility)

The programme lay down the basis for the establishment of cross border co-operation links on different levels in the border area, and improve neighbouring relations between cross-border regions, laying also the basis for more broad scale co-operation in the future. By small scale cross-border activities the local communities can exchange experiences of best practices in social issues and build up networks in education, culture sport and leisure activities considering especially the needs of young people. These activities also focus on equal opportunities for both genders as well as for different age groups.

Priority III Technical Assistance

This priority will cover the activities for the implementation of the Programme, ensuring the work of the Joint Technical Secretariat and Programme managing structures, and will be financed by 6% of the allocated ERDF funds to the Programme.

The more detailed description of activities for support is included in the Programme Manual.

7. PROGRAMME INDICATORS

The Programme indicators are vital to the efficient and effective implementation of the Programme. They serve to monitor and evaluate the extent to which the Programme has achieved its objectives, and the efficiency with which it has done so.

Two levels of indicators can be distinguished:

Horizontal

Indicators on the horizontal level comprise measurements referring to transversal principles that need to be upheld at all impact levels of the programme (short-term, medium-term and long-term).

Four key areas need to be evaluated:

- **effectiveness** (whether the programme produces impacts corresponding to its goals and design);
- **durability** (whether the impacts will survive beyond the intervention period and will serve as start-up towards durable and sustainable solutions);
- **added value** (whether the programme was the optimal/innovative solutions/approaches to the needs identified);
- **retain sustainable development** (programme correspondence to both national development planning, and its responsiveness to local needs).

Vertical

This second indicator level follows the programme design in formulating specific indicators for achievement. Three types of indicators are distinguishable at this stage:

- **Output indicators:** measure consequences on the activity level. They have the shortest time horizon, referring to outcomes which are typically directly related to the activity itself and are relatively fast to materialise.
- **Result indicators:** measure consequences on the level of the field of intervention. They apply to a longer time scale than output indicators, but still refer mostly exclusively to direct consequences.
- **Impact indicators:** these are indicators on the higher, programming level. They apply to spheres of intervention exclusively and measure the overall impact of the programme. They typically apply to the long-term.

The vertical level will be presented in detail below, where indicators are given for each level.

1.1. Priority I: Encouragement of Socio-Economic Development and Competitiveness of the Region

| Direction of Support | Activities | Output Indicators | Quantification | Result Indicators | Quantification | Impact Indicators |
|---|--|--|----------------|---|--|--|
| Facilitating Business, Labour Market and R&T Development | Improvement of business related infrastructure and business promotion services | ▪ Reconstructed/created business sites (units) | 15 | <ul style="list-style-type: none"> ▪ Created new working places (a number/%) ▪ Improved business infrastructure (a number/%) ▪ Increased variety and amount of available business support services (a number/%) ▪ Increase in | <ul style="list-style-type: none"> 30 20 15 | <ul style="list-style-type: none"> ▪ Decreased unemployment in the cross-border region (a number/%) ▪ Increased business activity in the cross-border region (a number of enterprises per 1000 inhabitants/%) ▪ Increased cross-border cooperation (a number of joint projects/%) |
| | | ▪ Created business support institutions (units) | 10 | | | |
| | | ▪ People received business consultancies (persons) | 150 | | | |
| | | ▪ New networks for business and research cooperation | 20 | | | |
| | | ▪ Organised study visits (units) | 30 | | | |
| | | ▪ People involved in the study visits (persons) | 80 | | | |
| | | ▪ Organised trainings (units) | 15 | | | |
| | | ▪ People involved in the trainings (persons) | 150 | | | |
| | | ▪ Elaborated joint strategies and plans (units) | 7 | | | |
| | | ▪ Implemented joint projects (total number) | 25 | | | |

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| | | | | | | |
|--|---------------------------------------|--|--|---|----|---|
| | Research and technology development | <ul style="list-style-type: none"> ▪ Elaborated specialised R&TD programs (units) 5 ▪ Elaborated concepts on science and technology parks (units) 5 ▪ Implemented projects (total number) 10 | | number of R&TD activities in the region (a number / %) | 20 | <ul style="list-style-type: none"> ▪ Increase of enterprises applying innovative approaches (a number/%) |
| | Human resource management / education | <ul style="list-style-type: none"> ▪ Organised experience exchange activities (units) 20 ▪ Organised study trips (units) 20 ▪ Students involved in exchange activities (persons) 100 ▪ Teachers involved in exchange activities (persons) 70 ▪ Implemented joints projects involving vocational education institutions and enterprises (units) 5 ▪ Elaborated concepts on life-long learning systems (units) 1 ▪ Organised trainings (units) 10 ▪ People involved in the trainings (persons) 120 ▪ Economically inactive people involved in the trainings (persons) 70 ▪ (Re)constructed educational buildings (units) 6 ▪ Implemented projects (total number) 15 | | <ul style="list-style-type: none"> ▪ More qualified labour force (a number/%) 200 ▪ Improved educational infrastructure (number of objects/%) 6 | | |

| | | | | | | |
|---|---|---|--|---|--|--|
| Improvement of Internal and External Accessibility of the Border Regions | Development of logistics and transport; connections | <ul style="list-style-type: none"> ▪ Elaborated strategy on improvement of cross border road infrastructure (units) 1 ▪ Elaborated strategies on development/ improvement of urban planning 1 ▪ (Re)constructed urban objects (resting places, stopping places etc.) (units/m2) 5 ▪ Performed research on cross-border transportation needs (units) 2 ▪ Concept on development of cross-border transportation (units) 2 ▪ New cross-border bus lines created (units) 1 ▪ Constructed bicycle routes (km) 4 ▪ Improved harbours' communications systems (units) 1 ▪ Implemented projects (total number) 7 | | <ul style="list-style-type: none"> ▪ More developed cross-border transportation services (a number;%) 3 ▪ More developed cross-border transportation infrastructure (a number of objects/%) 5 ▪ Greater opportunities of access to information in the Internet (a number of municipalities and regions' webpages etc./%) 5 | | <ul style="list-style-type: none"> ▪ Increased internal cross-border mobility (a number of persons within the region visiting the other side of the border/%) ▪ Increased external cross-border mobility (a number of visitors visiting the cross-border region/%) |
| | Information and Communications Technology | <ul style="list-style-type: none"> ▪ Elaborated joint webpages of cross-border regions (units) 3 ▪ Articles or programs on cross-border issues in the local mass media (units/minutes) 15 ▪ Training on computer skills 10 ▪ People involved in the training on computer skills (persons) 120 ▪ Created Internet access points (units) 4 ▪ Implemented projects (total number) 10 | | | | |

| 1.2. Priority II Attractive Living Environment and Development of Sustainable Community | | | | | |
|---|-----------------------|---|--|--|---|
| Enhancing Joint Management of Public Services and Natural Resources | Joint public services | <ul style="list-style-type: none"> ▪ Created joint public health services (units) 4 ▪ Created joint social services (units) 4 ▪ Created joint transportation services (units) 3 ▪ Created joint rescue teams (units) 1 ▪ Created joint fire brigades (units) 2 ▪ (Re)constructed infrastructure for providing joint services (units) 2 ▪ Implemented projects (total number) 5 | | <ul style="list-style-type: none"> ▪ Created means for performing joint public services (a number of services and infrastructure/%) 15 | <ul style="list-style-type: none"> ▪ Increased applicability of cross-border infrastructure and services (a number of persons using the services and infrastructure on the other side of the border/%) ▪ Increased regional cooperation (a number of joint projects/%) ▪ More protected nature sites |
| | | <ul style="list-style-type: none"> ▪ Elaborated concepts on joint action in protecting cross-border environment (units) 2 ▪ Implemented joint environment protecting activities (units) 10 ▪ Created joint environmental | | <ul style="list-style-type: none"> ▪ Created means on protecting the environment at cross-border level (a number of joint documents developed, a number of joint systems created etc./%) 17 | |

| | | | | | | |
|---|---|---|--|---|----|---|
| | Natural environment management | <ul style="list-style-type: none"> monitoring system (units) 2 ▪ Created system for natural and technological risks prevention and early warning system (units) 1 ▪ Implemented activities supporting local energy production, creating renewable energy and alternative energy sources (units) 2 ▪ Organised campaigns on raising environmental awareness (units) 10 ▪ Implemented joint activities on preserving the protected areas (units) 5 ▪ Implemented activities on improving joint waste management 5 ▪ Implemented projects (total number) 15 | | | | <ul style="list-style-type: none"> preserved in the cross-border region (a number/%) ▪ Increased energy use efficiency and share of renewable resources in energy supply (%) ▪ More tourists visiting the cross-border region (a number of tourists/%) |
| Increasing Attractiveness of the Border Region | Preservation and promotion of European cultural–historical heritage | <ul style="list-style-type: none"> ▪ Renovated/reconstructed historical buildings (units) 8 ▪ Implemented projects (total number) 5 | | Created opportunities for receiving a greater amount of visitors (a number/%) | 10 | |

| | | | | | | |
|--|---|---|--|--|----|--|
| | Joint tourism development | <ul style="list-style-type: none"> ▪ Elaborated joint tourism strategies (units) 5 ▪ New nature related/seasonal tourism products/services created (units) 10 ▪ Organised workshops for tourism operators (units) 15 ▪ Tourism operators participated in the workshops and fairs (units) 50 ▪ Implemented projects (total number) 15 | | | | |
| Development of Active and Sustainable Communities | Day-to-day working relationships and cooperation between municipalities, people-to-people activities, youth work, joint cultural events | <ul style="list-style-type: none"> ▪ Implemented joint projects among cross-border municipalities (units) 20 ▪ Implemented culture exchange projects (units) 5 ▪ Implemented joint social and sports projects (units) 5 ▪ Implemented joint youth related projects (units) 7 ▪ Joints culture festivals (units) 4 | | <ul style="list-style-type: none"> ▪ Greater interaction among various institutions and people on both sides of the border (a number of joint projects/%) | 20 | |

8. COHERENCE WITH EU POLICIES AND NATIONAL PROGRAMMES

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 projects supported from the Programme should integrate the above principles into their activities as far as possible.

The basis for the selection of the priorities for the Programme was the objectives of the Lisbon and Gothenburg agendas and how cross-border activities in Latvia – Lithuania Programme area may contribute to achieving these overall objectives.

Following the goals set up in the Lisbon agenda for growth and jobs, the Programme will support target investments in knowledge, innovations and research capacities as well as improved education and vocational trainings, thus equipping workers with the skills to take up new activities. It will contribute to the improving of attractiveness of the region through support to economic and business infrastructure within Priority 1 and improvement of living environment within Priority 2. Access to information and communication technologies is crucial for delivering lasting growth and more and better jobs, as identified in the Lisbon strategy. Also improving accessibility and efficient infrastructure networks, which is one of the preconditions for business growth and job creation, is going to be addressed for the border regions in this Programme thus contributing to the overall development and prosperity.

The European Union Sustainable Development Strategy (Gothenburg Agenda) has significant policy implications for the European Territorial Cooperation. Hence, the themes within the Programme include activities defined as Research and Technology development, innovations, development of active and sustainable communities, joint management of natural resources, etc.

Latvian National Strategic Framework Document 2007-2013 is the main Latvian planning document for Structural and Cohesion funds, which ensures the interlink between cohesion policy and national priorities, as well as justifies them and put in place strategy and management framework for absorption of the funds. NSID is prepared based on goals and objectives within National Development plan and Latvian National Lisbon programme. NSID states that the main focus in 2007-2013 should be made on creation of preconditions for development of knowledge – based economy. Therefore, the investments of SF and CF 2007-2013 in Latvia will be focused on such activities, which develop the knowledge as the main resource for growth and create favourable living environment for people as its holder. Three thematic axes are:

1. development of human resources and its effective use;
2. increasing the competitiveness and moving towards knowledge-based economy;
3. improvement of public services and infrastructure as precondition for the cohesive development of the state territory.

During the Structural Funds programming period 2007-2013, Latvia 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 human resources and employment (ESF)*; It will finance 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.

- 2) *Operational programme for the development of entrepreneurship and innovations (ERDF)*; It 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.
- 3) *Operational programme for the development of infrastructure and services (ERDF; Cohesion Fund)* will provide support in a framework of eight 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. Also tourism development will be promoted, and activities will be carried out for the maintenance and improvement of the cultural environment.

The Priorities of the Convergence programmes in Latvia are related to the co-operation priorities within the Programme, though activities are going to take place within the territory of a single country and are aimed at fulfilment of national objectives.

The Latvian National Development Plan (NDP) has been developed in accordance with the Regional Development Law of the Republic of Latvia and is a medium-term planning document for the period from 2007 until 2013. The objective of the plan is to facilitate a balanced and sustainable development of the country, as well as to ensure an increase in Latvia's competitiveness. It is Latvian contribution to the common strategy of the EU member states and to the implementation of the Lisbon agenda. The strategic goal and priorities of the National Development Plan are the following: *Education and knowledge for the growth of the national economy and technological excellence*:

- An educated and creative individual
- Technological excellence and flexibility of companies
- Development of science and research

The Programme priorities fully correspond to the set up in the Latvian NDP and are going to contribute to fulfilment of its' objectives .

The main aim of the Lithuanian Strategy for the Use of EU Structural Assistance for 2007–2013 (NSRF) is to rapidly improve the conditions of investing, working and living in Lithuania so that the benefit provided by the economic growth reaches all Lithuanian residents. This aim will be reached through the three goals: to accelerate the economic growth during the long-term period; to create more and better workplaces; to develop social cohesion. The development goals of this Strategy will be sought through the three operational programmes under Convergence Objective for 2007-2013 in Lithuania:

- 1) *Operational Programme for the Development of Human Resources* with the aims to increase employment and economy growth, promote the establishment of efficient

jobs and ensure equal opportunities for everybody to participate in the labour market and public life; to develop lifelong learning opportunities for the Lithuanian citizens by creating conditions for the development of dynamic knowledge society; to improve quality and quantity of human resources in the sphere of R&D by increasing capacities and the potential of the R&D; to strengthen administrative capacities and increase the efficiency of public administration; to ensure adequate and effective management and control of the structural assistance received under the Convergence Objective;

- 2) *Operational Programme on Economic Growth 2007-2013* with the objectives to increase business productivity especially by creating favourable environment for innovations and SMEs; the share of high value added businesses; and efficiency of economic infrastructure;
- 3) *Quality of life and cohesion* aiming to create all the necessary preconditions for strengthening and unfolding the potential of local development; to ensure accessible and high quality essential public services provided by healthcare, education and state employment promotion policy institutions, non-institutional social services and services to the disabled; to achieve better quality of environment focusing on improving energy efficiency.

The Programme will cover most of the above-mentioned themes of the operational programmes however on the regional level.

The strategic goal and the priorities of this CBC programme are fully compliant with main Lithuanian national strategies and programmes:

- Long Term Development Strategy for the State
- Long Term Economic Development Strategy of Lithuania until 2015
- Strategy for the use of structural funds for 2007-2013
- Regional Policy Strategy of Lithuania until 2013

In addition, the priorities of Programme are in compliance with the Lithuanian national sectoral strategies and programmes.

The Priorities of the Convergence Objective programmes are related to the co-operation priorities within the Programme, though activities are going to take place within the territory of a single country and are aimed at fulfilment of national objectives. 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.

Prior the financing decisions on the operations are made by the Joint Monitoring and Steering Committee of the Programme, on whether the operations applying for funding from the Programme have not already received financing from the operational programmes under the Convergence Objective, the following co-ordination actions will be made: co-ordination with the Latvian and Lithuanian Convergence programmes will be achieved by co-operation of JTS, Latvian Ministry of Regional Development and Local Governments, Latvian respective national authorities, and Lithuanian Ministry of Interior, performing the cross-check by official request from the JTS.

The Programme partly supports the same sectors as the Rural Development Plans of Latvia and Lithuania financed under the European Agricultural Fund for Rural Development (EAFRD). The Programme must in particular avoid possible duplication with Axis 3 "The

quality of life in rural areas and diversification of the rural economy” of the Latvian and Lithuanian 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 Axis 4 “LEADER”, which supports inter alia different initiatives implementing the local development strategies and international co-operation between the Local Action Groups (LAG), must be avoided.

The Programme may have some risks of duplication also with the Operational Programmes of Fisheries of Latvia and Lithuania financed under the European Fisheries Fund (EFF). Possible duplication must be avoided as regards the operations aiming at adding more value to fish products, 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 Local Fisheries Action Groups.

Possible duplications between the operations supported from the Programme and the operations financed by the EAFRD and EFF in Latvia and Lithuania will be avoided by setting up a co-ordination mechanism between the Joint Technical Secretariat of the Programme and the Rural Support Service implementing the above plans in Latvia AND Ministry of Agriculture in Lithuania. The co-ordination with the above plans will be achieved by the Joint Technical Secretariat performing the cross-check with the Rural Support Service via Latvian Ministry of Regional Development and Local Governments and in Lithuania - Ministry of Agriculture in Lithuania via the Ministry of the Interior prior the financing decisions on the operations are made by the Joint Monitoring and Steering 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 both Member States.

During implementation of the Programme already existing co-ordination mechanisms (such as Structural funds’ Operational Programmes Management Committees and Regional Development Councils and national sub-committees in Latvia and Lithuania) shall be employed in order to ensure effective co-ordination of the Programme and other national and community financial instruments. The described co-ordination mechanism will guarantee that the activities financed from this Programme and the activities financed from the above plans complement and not duplicate each other.

Latvia and Lithuania will participate also in the Baltic Sea Region 2007-2013 Programme and in the interregional cooperation programme (INTERREG IVC) where both countries are eligible with the whole territories, and can co-operate with each other in several topics. Latvian and Lithuanian participation in the above mentioned programmes is possible only as part of the wider partnership. Also, the operations funded from the above programmes are focusing on a different geographical context, thus providing sufficient safeguards to avoid duplication with this Programme.

Also both countries will participate in Lithuania, Latvia and Belarus CBC programme under the European Neighbourhood and Partnership Instrument (ENPI). The territory will overlap in case of Latgale region, Utena, Panevezys and Kaunas counties. However the differences in objectives and priorities between European Territorial Cooperation Objective and ENPI will secure separateness.

Central Baltic programme will be implemented under European Territorial Co-operation Objective in parallel to this Programme, covering partly the same eligible territory as for the

Programme - Kurzeme region of Latvia, and similar topics for co-operation. Although the focus and geography of the two programmes is in general different, as well as partnership, there would no any specific risks to be mentioned; also the risk of overlapping of activities is minimum.

Latvia will participate in the Latvia-Estonia CBC programme under European Territorial Co-operation. The territory of the above programme will cover part of the eligible area of this Programme. Another aspect is that the co-operation priorities are quite similar as well, taking into account that when selecting the topics for cross-border co-operation within both programmes, the previous experience of INTERREG IIIA priorities and evaluation results of the Phare CBC Programme have been considered. It has been a clear intention of the partnership to take into account complementarity of both programmes, and co-ordination of the two programmes will be achieved by Latvian national authorities providing the check that there is no double financing for the concrete operation provided.

Lithuania will participate in two CBC programmes under European Territorial Co-operation Objective and one ENPI programme, where the territory will partly overlap with the Programme: Lithuania-Poland and South Baltic CBC programmes under European Territorial Co-operation Objective and Poland, Lithuania and Russian Federation CBC programme under the ENPI. In case of Lithuania-Poland CBC programme the territory will cover also Kaunas county, which in both programmes will be regarded as an adjacent territory therefore the risk of overlapping activities due to the specific requirements for the adjacent territories in both programmes will be minimised.

Klaipeda county will participate as a core area in South Baltic and Poland, Lithuania and Russian Federation CBC programmes. Also in both programmes as an adjacent territory will participate Telsiai county while Siauliai county will participate only in Poland, Lithuania and Russian Federation CBC programme. In South Baltic CBC programme different requirements for the projects and geographical territory will help to avoid possible overlapping with the Programme. Meanwhile differences in objectives and priorities between European Territorial Cooperation Objective and ENPI will secure separateness in case of Poland, Lithuania and Russian Federation CBC programme. Additionally the co-ordination of the programmes will be ensured by Lithuanian national authorities providing the check that there is no double financing for the concrete operation provided.

The regions of the programme area are involved in the Regions for Economic Change initiative, therefore 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 and Steering 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; c) describe in the Annual Report actions included within the Regions for Economic Change initiative.

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 cooperation 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 Council Regulations 1083/2006 and 1080/2006 as well as other bodies involved in programme implementation. In order to ensure maximum benefit from the INTERACT 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.

9. IMPLEMENTATION STRUCTURE

Latvia and Lithuania have agreed to establish a new structure for implementing Latvia – Lithuania CBC programme.

According to Article 12(8) of the Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (hereinafter referred to as the “ERDF Regulation”), the operational 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 mobilization and circulation of financial flows in order to ensure their transparency;
- e) the elements aimed at ensuring the publicity and the information of the programme as 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.

9.1. Programme management

In accordance with Article 59 of the General Regulation, the Member States participating in the programme shall designate the following authorities:

- Managing Authority (MA) within the meaning of Article 60 of the General Regulation;
- Certifying Authority (CA) within the meaning of Article 61 of the General Regulation;
- Audit Authority (AA) within the meaning of Article 62 of the General Regulation;
- Joint Monitoring and Steering Committee within the meaning of Article 63, 64, and 65 of the General Regulation

In accordance with Article 63 of the General Regulation, Latvia and Lithuania shall set up a Joint Monitoring and Steering 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 JMSC, 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.

Latvia and Lithuania have decided to set up the joint implementation structure of the Programme in Latvia. The Ministry of Regional Development and Local Governments

(hereinafter – the Ministry) has been designated to act as Managing Authority, Certifying Authority, and Audit Authority of the Programme. To provide for the respect of the principle of separation of functions between the Managing Authority, the Certifying Authority, and the Audit Authority (Article 58(b) of the General Regulation), the Ministry ensures within its organisational framework that all three functions are fulfilled by three separate departments of 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 Latvia.

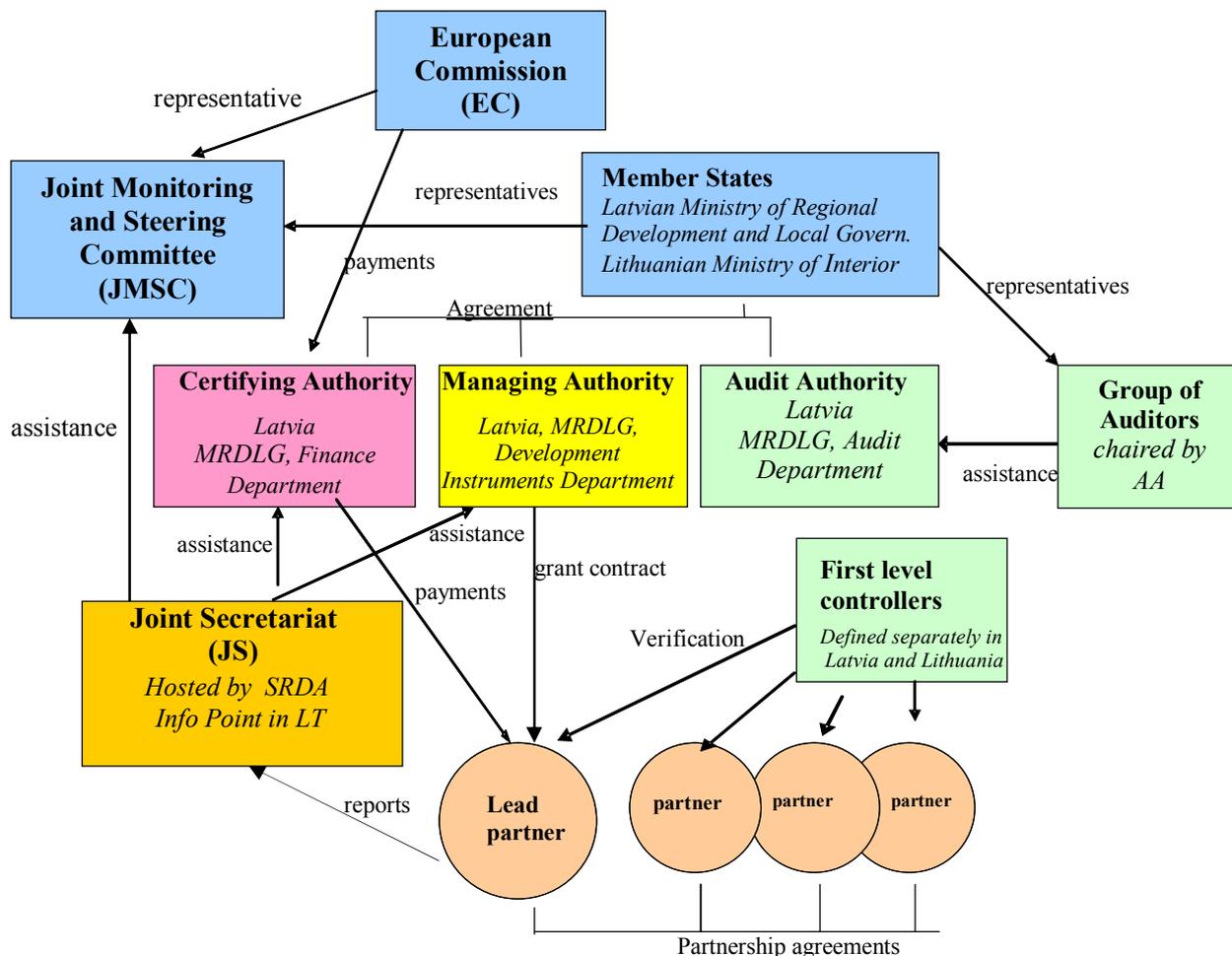
In accordance with Article 59(3) of the General Regulation, Latvia and Lithuania will lay down rules governing their relations with the authorities implementing the Programme, and the relations between the authorities and the European Commission. For this purpose, the agreement will be signed between the Latvian Ministry of Regional Development and Local Governments and Lithuanian Ministry of Interior, provided that the detailed programme procedures are described in the Programme Manual.

Appropriate management arrangements shall ensure at all levels of the programme implementation cycle that – besides respecting 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 effects/charges of the OP in total, will in the end be climate- and resource-neutral. The OP'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, be strengthened. The carrying out of such environmental management shall include, among others, activities such as environmental assessment and implementation guidelines, structured experience sharing and capacity development, indicators, environmentally friendly project design and the use of effective selection criteria

The official language for implementing the Programme will be English.

More detailed provisions on implementation of the Programme, supplementing the rules laid down in the following chapters of the Programme Document, shall be included in the *Programme Manual*. The Programme Manual shall be adopted by the Joint Monitoring and Steering 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.



9.2. Managing Authority

Designation of the Managing Authority

Latvia and Lithuania decided to designate the

Ministry of Regional Development and Local Governments
 Development Instruments Department
 Lacplesa str 27
 1011 Rīga
 Latvia
www.rapl.gov.lv

to fulfil the functions of the Managing Authority.

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 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 and Steering Committee (Article 13(1) of the Implementation 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 draft Implementation Regulation. The Certifying Authority and the Audit Authority shall have access to this information (Article 14(1) of the Implementation 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 programme 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 Implementation 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;
- h) guiding the work of the Monitoring and Steering 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 and Steering 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 and Steering 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 programmes together with the Commission are regulated in more detail in Article 68 of the draft General Regulation and Articles 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 Chapter II, Section 1, of the Implementation 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 (signing the subsidy contract) with the lead beneficiary (Article 15(2) of the ERDF Regulation) after respective financing decision by the Monitoring and Steering Committee (Article 19(3) of the ERDF Regulation);
- in collaboration with the Monitoring and Steering 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 programme (Article 66(2) of the General Regulation);
- in collaboration with the Commission, annually examine the progress made in implementing the 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 and Steering Committee of the comments made by the Commission after the annual examination of the programme as defined in Article 68 of the General Regulation (Article 68(2) of the General Regulation);
- confirm the selection of operations outside the eligible area as referred to in Article 21(3) of the ERDF Regulation (Article 21(4) of the ERDF Regulation);
- in collaboration with the Audit Authority, draft the description of the management and control systems of the programme as required by Article 71(1) of the General Regulation and Articles 21 - 24 of the Implementation Regulation;
- draw up a communication plan of the operational programme in consultation with the Monitoring Committee (Article 4(1) of the draft 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).

9.3. Certifying Authority

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, Latvia and Lithuania decided to designate the

Ministry of Regional Development and Local Governments
Department of Finances
Lacplesa str 27
1011 Rīga
Latvia
www.rapl.gov.lv

to fulfil the functions of the Certifying Authority.

Functions of the Certifying Authority

In accordance with Article 61 of the General Regulation and Articles 14(1), 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), 89(1)(a) of the General Regulation and Articles 20(1), 20(3) of the Implementation 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 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 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 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 an 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.

The ERDF contribution to the operational programme shall be paid to a single account (Article 17(1) of the ERDF Regulation).

The Certifying Authority will inform European Commission in due time in case of any change of the account relationship.

9.4. Audit Authority

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 Latvia.

The Member States participating in the operational programme decided to designate the

Ministry of Regional Development and Local Governments
Audit Department
Lacplesa str 27
1011 Rīga
Latvia

www.rapl.gov.lv

to fulfil the functions of the Audit Authority.

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 Article 16 and 17 of the Implementation 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 Implementation 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 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 Implementation 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 Implementation Regulation and submitted with the opinion referred to in point d) ii).

- 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 Implementation 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

- 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 Implementation 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 to 62 of the General Regulation (Articles 71 (1), 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 Implementation 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 73 (1) of the General Regulation);
- chair the Group of Auditors (Article 14(2) of the ERDF Regulation); i.e., chairmanship shall include convening the Group of Auditors to meetings at regular intervals, setting up the respective agenda, etc.

9.5. Group of auditors

The Audit Authority for the Programme shall be assisted by a group of auditors comprising the representatives of the Audit Authority and of Internal Audit Service of the Lithuanian Ministry of Interior, and carrying out the duties provided for in Article 62 of the General Regulation what are entailed with accomplishment, management and coordination of functions of Audit Authority. The group of auditors shall be set up within three months of the decision approving the operational 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).

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

9.6. Joint Monitoring and Steering Committee

In accordance with Article 63 of the General Regulation, the Member States participating in the programme shall set up a 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.

It was decided by Latvia and Lithuania that the Joint Monitoring and Steering Committee (JMSC) will be established within the Programme.

Tasks of the Joint Monitoring and Steering 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 change to it;
- approve the application package before the first call for proposals 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;

- 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 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 Implementation Regulation and drawn up by the Managing Authority before it is sent to the European Commission;
- confirm the draft description of the management and control systems of the programme as required by Article 71(1) of the General Regulation and Article 23 of the draft Implementation Regulation before it is submitted to the European Commission by the Audit Authority.

Joint Monitoring and Steering Committee will be responsible body for providing the confirmation prior the financing decisions on the operations are made on whether the operations applying for funding from the Programme have not already received financing from the operational programmes under the Convergence Objective, and EAFRD and EFF.

Composition of the Joint Monitoring and Steering Committee, chairmanship, and decision making

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

A JMSC will be set up for the Programme. The JMSC of the programme shall have a limited number of representatives from national, regional and local level of both Member States 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 JMSC shall be composed of:

Maximum 5 representatives from each country of national, regional and local levels and maximum 2 representatives from each country of economic and social partners, including, as a minimum requirement, a representative of the national authority responsible for the Programme.

At its own initiative or at the request of the JMSC, a representative of the European Commission shall participate in the work of the JMSC 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 JMSC in an advisory capacity.

The JMSC shall have a chair and a co-chair, representing the national authorities responsible for the administration of European Territorial Cooperation Objective 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 JMCS's Rules of Procedure.

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

The JMSC in its work will be assisted by the Joint Technical Secretariat (JTS). The JTS will be responsible for the preparation of all documentation relating to the meetings and taking the minutes during the meeting. The documents required for the JMSC shall be agreed with and submitted by the MA at latest three weeks before the date of the meeting. JTS will also prepare the documentation for the decision making and written procedures after the JMSC meeting.

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

Rules of procedure of the Joint Monitoring and Steering Committee

At its first meeting after the Commission's approval of the Programme, the JMSC 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.

Conflict of interest

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

9.7. Joint Technical Secretariat

Set-up and operation

In accordance with Article 14(1) of the ERDF Regulation, the Managing Authority shall set up a Joint Technical Secretariat (hereinafter referred to as JTS). The JTS shall assist the Managing Authority and the JMSC, 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 Latvia - Lithuania CBC Programme will be hosted by the Latvian State Regional Development Agency and will act as completely independent body in fulfilling its tasks.

The State Regional Development Agency (Agency) is a public institution under the supervision of the Ministry of Regional Development and Local Governments. Agency is responsible for the implementation of the regional development instruments in Latvia, including grant schemes financed from state budget and EU Structural Funds.

The Joint Technical Secretariat is in charge of the day-to-day implementation of the programme and will act as secretariat for the Joint Monitoring and Steering Committee. The JTS shall be led by a Programme Director/Head of Secretariat responsible for the entire secretariat.

Joint Technical Secretariat of the Latvia – Lithuania CBC Programme will be located in Rīga, Latvia:

Joint Technical Secretariat

State Regional Development Agency

Address: Rīga, Elizabetes street 19

The JTS shall have international staff, which will include both Latvian and Lithuanian nationals represented equally. Staff of JTS shall be employed by the Agency. The number and qualification of staff shall correspond to the tasks defined below. Staff of the JTS shall cover all relevant languages – Latvian, Lithuanian and English.

The JTS will have the local office, located in Lithuania. The main secretariat and the local office will have daily working contacts. The preparation of the applications and financing decisions will be carried out on interactive manner between the offices.

The JTS and Info-point shall be funded from the Technical Assistance budget.

More detailed rules on the operation of the JTS will be elaborated by Managing Authority and included in the bilateral agreement between Managing Authority and State Regional Development Agency.

Tasks of the Joint Technical Secretariat

The JTS shall be the central contact point both for the public interested in the operational programme, potential beneficiaries and selected/running projects. It shall be in charge of the day-to-day implementation of the operational programme. The JTS shall assist the Managing Authority, the Certifying Authority, the Audit Authority (as defined in the agreements between each Member State and the respective authority), and the Joint Monitoring and Steering Committee 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 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 secretariat of the Joint Monitoring and Steering 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 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 programme level;
- distribute information and implement publicity measures on the programme and its projects;
- 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.

10. PROGRAMME BENEFICIARIES

10.1. Definition and location 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 lead beneficiaries or other partners of an operation:

- (a) local and regional public authorities;
- (b) national institutions;
- (c) non-governmental organisations;
- (d) public equivalent bodies

The detailed definition of beneficiaries please see in the Programme Manual.

The responsible authorities of Latvia and Lithuania shall verify accuracy of the statements before a decision of the Joint Monitoring and Steering Committee on approval of an application is taken.

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.

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.

Following the principle of partnership, each project must involve at least one financing partner from Latvian eligible territory and at least one financing partner from Lithuanian eligible territory.

10.2. 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:

- (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 draft Implementation 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 the other beneficiaries resulting from the ERDF rules and regulations shall be defined in the subsidy contract.

11. GENERATION, APPLICATION AND SELECTION OF OPERATIONS

The Joint Technical Secretariat will provide the proactive support to the lead beneficiaries and project partners throughout the life cycle of operations, i.e. during preparation starting from development of project ideas, preparation of applications, and implementation of operations until complete finalisation of the respective operation. The JTS will also assist the assessment process of applications submitted to the Programme for funding.

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;
- e) Organisation of Lead Partner seminars, during the Calls for proposals;
- f) Financial support of certain preparation costs for operations that are approved by Joint Monitoring and Steering Committee.

11.1. Application procedure

There will be Calls for Proposals launched by the Joint Technical Secretariat (JTS). In addition, targeted calls might be used for specific purposes, e.g. focusing on missing themes of the programme objectives. Regular Calls for Proposals (at least two times per year) will be applied.

The Joint Technical Secretariat shall develop the application package to be approved by the JMSC. It shall be available on the website of the programme in digital form for download. Project applications will be submitted to the JTS by the lead beneficiary according to the procedure defined in the Programme Manual.

Applications shall be submitted to the Joint Technical Secretariat both as data file and as printout to be signed by the legal entity which applies as lead beneficiary.

Application Form should be submitted in English.

Detailed description will be provided in the Programme Manual.

11.2. 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.

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 JMSC at its meetings.

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

Detailed description will be provided in the Programme Manual.

11.3. Selection of operations

The Joint Monitoring and Steering Committee (JMSC) comprising of members from both Latvia and Lithuania, with the Commission, MA and JTS representative in an advisory capacity, will select operations for funding.

Detailed description will be provided in the Programme Manual.

11.4. Contracting of operations

Following the decision of the JMSC 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. All applicants shall be notified by the JTS on the results of the assessment and the decision of the JMSC. The notification letter shall include reasoning for approval / rejection.

11.5. JTS support during implementation of operations

The JTS in cooperation with national authorities and 1st level controllers will apply the following measures to support the implementation of operations:

- (a) Series of Lead Partner seminars with management focus (e.g. project management, financial management/auditing, communication) to provide the Lead Partners with knowledge on how to implement operations;
- (b) Ad-hoc meetings with JTS project/financial managers to discuss the progress of implementation of a respective operation;
- (c) Quality workshops/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) Individual consultations of operations when needed, e.g. based on the issues arisen during monitoring of the progress reports of the operations or in self-evaluations made by the operations;
- (e) Database of approved projects (with information to be uploaded from the operations);
- (f) Intensive use of various mailings lists and feed-back channels.

12. FINANCING OF ACTIONS

12.1. Financing from Member States

The total eligible budget for the Programme is 75 601 734 EUR, of which 63 917 517 EUR (in current prices) is EU-financing from the European Regional Development Fund (ERDF), and 11 684 217 EUR is national public financing from the Member States. Of the total ERDF budget 60 082 466 EUR will be allocated to the Priorities 1-2 and 3 835 051 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 total ERDF budget about 50% will be allocated to Priority 1, 44% to Priority 2, and 6% to Priority 3 (Technical Assistance).

The ERDF co-financing rate for the Priorities 1-2 might be granted up to 85% of eligible expenditure. The ERDF co-financing rate for the Priority 4 (Technical Assistance) is 78 %. The average ERDF co-financing rate for all 3 Priorities is 84, 55 %.

12.2. Technical Assistance

The total amount allocated for the Technical Assistance is 4 916 480 EUR, which is a sum of 3 835 051 EUR ERDF and 1 081 429 EUR 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 22%.

In addition, the Ministry of Regional Development and Local Governments of Latvia will provide the state budget resources for financing the staff costs of MA/CA/AA of the Programme for the period 2008.-2015.

12.3. 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 1st January 2007 and 31 December 2015. Operations co-financed by ERDF must not have been started and completed before 1 January 2007.

In accordance with Article 56 (3) of the General Regulation, expenditure shall be eligible for funding only where incurred for operations selected by the Joint Monitoring and Steering 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 or the ERDF Regulation and Articles 48-52 of the Implementation Regulation and this Programme document. The Programme might apply stricter rules than foreseen by the EU regulations or national legislation.

12.4. 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.

Latvia and Lithuania will transfer the national co-financing of the Technical Assistance to the trust account of the Programme.

The Managing Authority will submit regular reports to the Member States about the use of the Technical Assistance. These reports will also be presented to the Monitoring and Steering Committee and a summary of them included in the annual implementation reports.

13. 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 cooperation" 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 Latvia and Lithuania Cross-border Co-operation Programme 2007–2013.

13.1. Validation of expenditure (*1st level control*)

In accordance with Article 16(1) of the ERDF, 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 Latvia and Lithuania 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.

The Ministry of Regional Development and Local Governments is national responsible institution for the implementation and coordination of the European Territorial Cooperation Objective Latvia-Lithuania Cross-border Co-operation Programme in Latvia and will be responsible for setting up, coordinating and controlling FLC system. It will be used a centralized system whereby body responsible for FLC is State Regional Development Agency of Latvia (hereinafter – Agency). The Cabinet of Ministers of the Republic of Latvia will

issue decree and will nominate the Agency as the first level control institution. The Ministry will provide the instructions and methodology on the first level control to the Agency.

The Ministry of the Interior of the Republic of Lithuania is responsible for the coordination of implementation of the Programme in Lithuania and will be responsible for setting up, coordinating and controlling FLC system. In Lithuania it will be used a centralized system whereby body responsible for setting up a FLC system will designate external audit companies meeting the specific requirements to perform the function of FLC.

Considering Articles 21 – 24 of the Implementation Regulation, in particular Article 22(d) and Article 24(a), Latvia and Lithuania 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 Programme. They shall be incorporated in the description of the management and control systems referred to in Article 71(1) of the General Regulation.

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 partners participating in the operation has been validated by the controllers. Latvia and Lithuania shall ensure that the expenditure can be validated by the controllers within a period of three months (Article 16(2) of the ERDF Regulation).

In order to enable the Managing Authority to 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, Latvia and Lithuania shall without delay inform the Joint Technical Secretariat once the controllers have been designated, at the latest within three months after the Commission's approval of the Programme. Information shall continuously be updated in case of any changes.

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

13.2. 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 lead 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.

13.3. 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).

14. MONITORING

The Managing Authority and the Joint Monitoring and Steering 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 (Article 66(1), 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.

Project Lead Partners 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 and Certifying Authority will provide all relevant information to the Joint Monitoring and Steering 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.

15. EVALUATION

15.1. Ex-ante evaluation

In accordance with Article 47(2) of the General Regulation, the Ex-ante evaluation of the Programme was carried out by DEA Baltika, Latvia, under the responsibility of the Joint Task Force for preparation 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.

15.2. 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 DEA Baltika.

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 April 2007 and was sent out for commenting to the Latvian Environment State Bureau and Lithuanian Ministry of Environment. Public hearings of the draft Programme Document were held in Latvia from 18 May to 11 June, 2007 and in Lithuania from 15 May to 8 June, 2007, during which also the draft SEA Report was subject to public reviewing. The announcements of public hearings were published on the web-pages of the National Authorities, as well as in national newspaper "Latvijas Vēstnesis" in Latvia and daily newspaper "Respublika" in Lithuania.

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

15.3. Evaluations during the programme period

During the programme period, and in accordance with Article 48(3) of the General Regulation, the Managing Authority on behalf of Latvia and Lithuania will arrange evaluations linked to the monitoring of the Programme, in particular where that monitoring reveals a significant departure 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, 1 – 2 evaluations will be made. The scope of the evaluations will be targeted to specific needs of the Programme identified in the monitoring, e.g. to impacts of the finalised operations and of the Programme. The evaluations will be financed using the TA financial resources, and the amount per evaluation is defined in the TA budget of the Programme.

The JMSC 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 Joint Monitoring and Steering Committee and European Commission.

15.4. Ex Post evaluation

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

16. 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:

- 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 partner'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 Implementation 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.

17. 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 Implementation Regulation).

17.1 Communication plan

A communication plan as defined in Article 2(2) of the Implementation Regulation, as well as a major amendment to it, will be drawn up by the Managing Authority in consultation with the JMSC and approved by JMSC. 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 Implementation Regulation).

The overall aim of the communication plan is to provide citizens 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 on the Programme and operations;
- attract a wide number of potential beneficiaries and increase the number of new applications;
- 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 programme period.

The target group of the Programme is compound and manifold:

- general public in participating countries / regions
- potential beneficiaries
- final beneficiaries
- stakeholders, including relevant national authorities
- other relevant organisations
- other European Territorial Cooperation objective programmes
- European Commission.

17.2 Information and publicity measures

In accordance with the communication plan, the Managing Authority 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 Implementation 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 Programme-related information.

18. LIST OF ACRONYMS, ABBREVIATIONS AND COMMON TECHNICAL TERMS

| | |
|--------------------|--|
| AA | Audit Authority of the Latvia - Lithuania Cross-border Co-operation Programme 2007-2013 |
| CA | Certifying Authority of the Latvia - Lithuania Cross-border Co-operation 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 Latvia - Lithuania Cross-border Co-operation Programme 2007-2013 |
| JTS | Joint Technical Secretariat of the Latvia – Lithuania Cross-border Co-operation Programme 2007-2013 |
| MA | Managing Authority of Latvia - Lithuania Cross-border Co-operation Programme 2007-2013 |
| JMSC | Monitoring and Steering Committee of the Estonia-Latvia Cross-border Co-operation Programme 2007-2013 |
| NATO | North Atlantic Treaty Organisation |
| NGO | Non Governmental Organisation |
| NP | Neighbourhood Programme |
| NSC | National Sub-committee |
| NUTS III regions | Common statistic territorial unit classification (NUTS) for third level of appropriate territorial units (Regulation (EC) No 1088/2005 of the European Parliament and of the Council of 26 October 2005 repealing Regulation (EC) No 1059/2003 on the creation of common statistic territorial units classification (NUTS) according to Czech, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia joining to European Union. |
| 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 |
| 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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19. Statistical Office of the European Communities. <http://europa.eu.int/comm/eurostat>.
20. Department of Statistics to the Government of the Republic of Lithuania (<http://www.stat.gov.lt/lt/>);
21. Development Committee under the Government of the Republic of Lithuania (http://www.ivpk.lt/main_en.php)
22. Klaipėda Science and Technology Park (<http://www.kmtp.lt/en/community/>)
23. Šiauliai University Science and Technology Park (<http://www.sumtp.lt/>)
24. Lithuanian University of Agriculture Science and Technology Park(<http://www.lzuu.lt/engl/>)
25. Technopolis (<http://www.technopolis.lt/>)
26. Kaunas High-tech and IT Park (<http://www.techpark.lt/>)
27. Klaipeda State Seaport (<http://www.portofklaipeda.lt/lt.php>)
28. Palanga Airport (<http://www.palanga-airport.lt/en/>)
29. Siauliai International Airport (<http://www.airport.siauliai.lt/index.html>)
30. Kaunas Airport (<http://www.kaunasair.lt/index.php?lang=2&m=2&p=200>)

20. ANNEXES TO THE PROGRAMME

Annex 1: Financing plans for the operational programme

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

Annex 3: The Statement foreseen by Article 9(1)(b) summarising how environmental considerations and the opinions expressed have been taken into account

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): **2007CB163PO070**

Year by source for the programme, in euro:

| | ERDF |
|----------------------------------|-------------|
| 2007 | 9 511 243 |
| 2008 | 8 500 819 |
| 2009 | 8 476 440 |
| 2010 | 8 940 993 |
| 2011 | 9 306 604 |
| 2012 | 9 502 575 |
| 2013 | 9 678 843 |
| Grand Total 2007-2013 | 63 917 517 |

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) 2007CB163PO070

Priority axes by source of funding (in euros)

| | Community Funding (a) | National Public funding (b) | National private funding ³ (c) | Total funding (d) = (a)+(b)+ (c) | Co-financing rate (e) ¹ = (a)/(d) | For information | |
|--|--------------------------|-----------------------------|--|--|---|-------------------|----------------------------|
| | | | | | | EIB contributions | Other funding ⁴ |
| Priority Axis 1 Encouragement of socio economic development and competitiveness of the region | 31 958 759 | 5 639 781 | 0 | 37 598 540 | 85% | 0 | 0 |
| Priority Axis 2 Attractive living environment and development of sustainable communities | 28 123 707 | 4 963 007 | 0 | 33 086 714 | 85% | 0 | 0 |
| Priority Axis 3 Technical Assistance | 3 835 051 | 1 081 429 | 0 | 4 916 480 | 78% | 0 | 0 |
| Total | 63 917 517 | 11 684 217 | | 75 601 734 | 84,55% | | |

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

³ To be filled only when priority axes are expressed in total costs.

⁴ Including national private funding when priority axes are expressed in public costs. May also include financing from other participating countries (e.g. Norway, Switzerland)

Table 3: Indicative breakdown of the Community contribution by category in the operational programmeCommission reference number: **2007CB163PO070**

Name of the programme: Latvia – Lithuania Cross-border Cooperation 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 ** |
| 02 | 2876288 | 01 | 63 917 517 | 08 | 63 917 517 |
| 03 | 1597938 | | | | |
| 05 | 1597938 | | | | |
| 09 | 1597938 | | | | |
| 10 | 2876288 | | | | |
| 11 | 2876288 | | | | |
| 13 | 2876288 | | | | |
| 14 | 2876288 | | | | |
| 15 | 2876288 | | | | |
| 23 | 2876288 | | | | |
| 24 | 2876288 | | | | |
| 25 | 2876288 | | | | |
| 30 | 1278350 | | | | |
| 39 | 383505 | | | | |
| 40 | 383505 | | | | |
| 41 | 383505 | | | | |
| 42 | 383505 | | | | |

LATVIA - LITHUANIA CBC PROGRAMME 23.10.2007.

| | | | | | |
|----|---------|--|--|--|--|
| 43 | 383505 | | | | |
| 44 | 383505 | | | | |
| 45 | 383505 | | | | |
| 46 | 383505 | | | | |
| 48 | 383505 | | | | |
| 50 | 383505 | | | | |
| 51 | 383505 | | | | |
| 53 | 383505 | | | | |
| 54 | 383505 | | | | |
| 55 | 1278350 | | | | |
| 56 | 1278350 | | | | |
| 57 | 1278350 | | | | |
| 58 | 2237113 | | | | |
| 59 | 383505 | | | | |
| 60 | 383505 | | | | |
| 62 | 894845 | | | | |
| 64 | 894845 | | | | |
| 66 | 894845 | | | | |
| 67 | 926804 | | | | |
| 68 | 1597938 | | | | |
| 70 | 894845 | | | | |
| 71 | 1917526 | | | | |
| 72 | 894845 | | | | |
| 73 | 894845 | | | | |
| 74 | 894845 | | | | |

LATVIA - LITHUANIA CBC PROGRAMME 23.10.2007.

| | |
|--------------|-------------------|
| 75 | 894845 |
| 77 | 383505 |
| 79 | 1406185 |
| 80 | 958762 |
| 81 | 1406185 |
| 85+86 | 4378358 |
| Total | 63 917 517 |

| | |
|--------------|-------------------|
| | |
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| | |
| | |
| Total | 63 917 517 |

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|--------------|-------------------|
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| | |
| | |
| | |
| Total | 63 917 517 |

- * The categories should be coded for each dimension using the standard classification.
- ** Estimated amount of the Community contribution for each category.