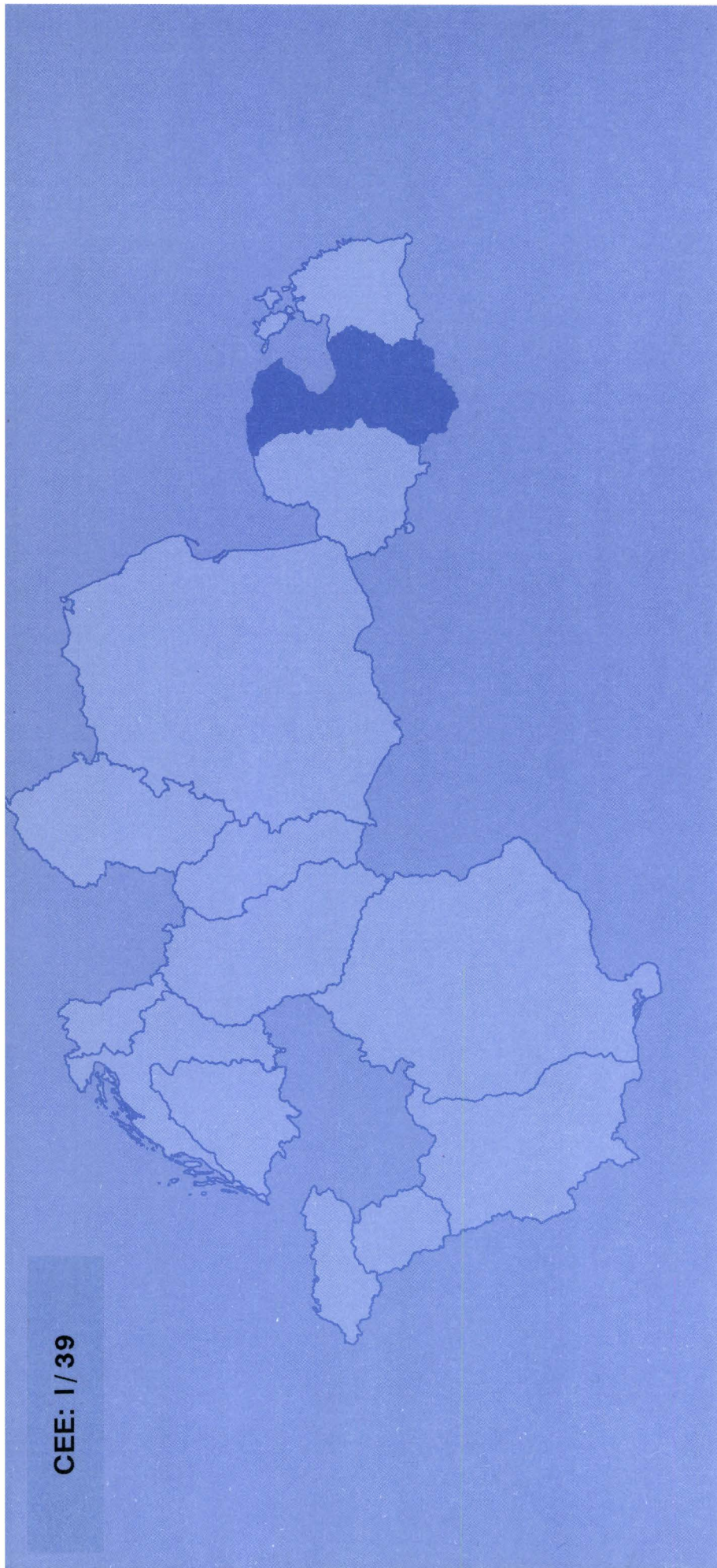




# Phare



## Programme and contract information 1996

Latvia

published by the European Commission





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# Programme and contract information 1996

## Latvia

published by the European Commission

Directorate General External Relations:  
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## Introduction

With this brochure Phare aims to provide the interested public with clear and concise summaries of the programmes to be implemented by the partner countries with Phare support. It also aims to point the business community in the direction of potential opportunities.

The 1996-1999 Multi-annual Indicative Programme, described in the following pages, sets out the medium-term strategy for Phare support in Latvia. The 1996 Country Operational Programme, also summarised in this brochure, is the logical consequence of the priorities expressed by Latvia in the Multi-annual Indicative Programme. It has been received favourably by Phares Management Committee and has been approved by the Commission. Phare programme and contract information brochures are published after each Management Committee meeting.

This copy contains summaries of the Multi-annual Indicative Programme and the Country Operational Programme approved by the Committee at its 43rd meeting held on 23 February 1996 for the benefit of Latvia.

Please bear in mind, however, that the publication of the business-related information in these pages does not commit the partner country or the Commission either to adhere to a fixed timetable for implementation or to follow exactly the outlines traced below. Individuals or companies wishing to obtain more detail on the contractual implications of these programmes should contact the relevant Programme Management Unit that is responsible for the implementation of the approved programme. Only individuals or companies registered and resident in European Union Member States or Phare partner countries will be considered for implementing the tasks set out.



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## What is Phare?

The Phare Programme is a European Community initiative which supports the development of a larger democratic family of nations within a prosperous and stable Europe. Its aim is to help the countries of central and eastern Europe rejoin the mainstream of European development through future membership of the European Union.

Phare does this by providing grant finance to support its partner countries through the process of economic transformation and strengthening of democracy to the stage where they are ready to assume the obligations of membership of the European Union.

In its first six years of operation to 1995, Phare has made available ECU 5,416.9 million to eleven partner countries, making Phare the largest assistance programme of its kind.

Phare works in close cooperation with its partner countries to decide how funds are to be spent, within a framework agreed with the European Community. This ensures that Phare funding is relevant to each government's own reform policies and priorities.

Phare provides know-how from a wide range of non-commercial, public and private organisations to its partner countries. It acts as a multiplier by stimulating investment and responding to needs that cannot be met by others. Phare acts as a powerful catalyst by unlocking funds for important projects from other donors through studies, capital grants, guarantee schemes and credit lines. It also invests directly in infrastructure, which will account for more Phare funds as the integration process progresses.

The main priorities for Phare funding are common to all countries, although every one is at a different stage of transformation. The key areas include restructuring of state enterprises including agriculture, private sector development, reform of institutions, legislation and public administration, reform of social services, employment, education and health, development of energy, transport and telecommunications infrastructure, and environment and nuclear safety.

For countries which have signed Europe Agreements, Phare funding is also focused on meeting the conditions required for membership of the European Community. In particular, this concerns preparation for participation in the European Union's internal market and development of infrastructure, especially in border regions.



# Multi-annual Indicative Programme

Years	1996-1999
Amount	ECU 107.988 million

## Background

Since Latvia re-emerged as a sovereign nation in 1991, the authorities have been attempting to transform the economy from a centrally-planned system to a market-based economy. A stabilisation programme was launched in 1992 with the aim of eliminating inflation and balancing Latvia's external accounts. The central elements in the stabilisation programme were the introduction of a national currency, the Lat, together with tight monetary policy pursued by an independent central bank. This policy did succeed in bringing inflation under control and strengthening the balance of payments, although economic activity suffered considerably as a result. After reaching 958 per cent in 1992, inflation was reduced to 34.9 per cent in 1993 and 26.3 per cent in 1994. Estimates put 1995 inflation at between 20 per cent and 25 per cent.

The resulting fall in output has been accompanied by large shifts in the economy. Manufacturing accounted for 21 per cent of gross domestic product (GDP) in 1994 compared with 37 per cent in 1990, and agricultural production fell to 8.8 per cent of GDP in 1994, compared with 21.1 per cent in 1990. These falls were offset by significant growth in the service sector which increased its share from 31.9 per cent of GDP in 1990 to 57.5 per cent in 1994. As a result of the fall in output and disruption of trade, real GDP in 1993 was only 50 per cent of that in 1990, and in 1994 it increased by only 0.6 per cent compared with the previous year.

A boom in consumption and private investment, which increased by 12 per cent and 32 per cent respectively between 1993 and 1994, resulted in an economic recovery in late 1994 and early 1995. Investment was largely in new private sector companies and newly privatised enterprises in such areas as trade services, banking and export industries. However, it is not clear whether this recovery can be sustained in the light of banking and fiscal crises which emerged in the second quarter of 1995. Open unemployment has doubled since 1992, to around 6.1 per cent in mid-1995, but it is expected to increase dramatically during 1995/1996 as a result of privatisation and the expected downturn in the economy. Hidden unemployment is put at between 12 per cent and 20 per cent. As with many of the statistics reported here, there is some uncertainty about the precision of these data owing to inaccurate reporting.

The crisis within the banking and fiscal sectors after the apparently successful stabilisation of the economy indicates that many of the institutions necessary for a successful market economy have not yet fully taken root in

Latvia. This highlights the need for Phare support in building both the physical and institutional infrastructure of a market economy. Since 1992, Phare support has helped to provide the basic legal, institutional and regulatory framework in key areas of the reform process. A Free Trade Agreement was concluded in July 1994, and support provided under the 1994 Programme supported its implementation and negotiations for a Europe Agreement. The Europe Agreement was signed in June 1995 and is currently undergoing ratification.

## New orientations

The Multi-annual Indicative Programme (MIP) for the period 1996-1999 will concentrate on preparing Latvia for rapid accession to the European Union. The MIP will therefore focus on facilitating Latvia's economic, institutional and legislative integration with the European Union.

The Multi-annual Indicative Programme aims to assist Latvia in

- the approximation of laws, standards and practices to those of the European Union, and the implementation of measures related to certain common policies
- completing market reforms and the medium-term restructuring and modernisation of the economy to restore competitiveness and growth
- further development of human resources and institutions in line with the requirements of modern democracy and a market economy
- the preparation and implementation of infrastructure programmes supporting both economic growth and European integration.

Specifically, the use of Phare funds will be oriented towards implementation of the Europe Agreement through the approximation of laws and eventual adoption of the *acquis communautaire*. Support will be targeted at economic transformation and private sector development. Support should therefore be maintained for the restructuring and privatisation of industrial, agricultural and fisheries enterprises, public utilities, and financial institutions. Phare will support SMEs in urban and rural areas, and encourage foreign investments, exports and tourism. Support should also continue for infrastructural integration within the European Union and the Baltic Sea region within the framework of the Public Investment Programme (PIP), involving improvements in the energy, environment and transport sectors.

Key public sector institutions need to be strengthened through provision of know-how, training, funding, equipment supplies and participation in European Union programmes. Support in the latter area includes public



administration reform, reform of the social insurance system, and human resources development, in particular vocational and higher education. Public investment should include investment in legislative institutions, the tax administration, customs, statistics and agencies for competition, standards and drugs control.

In addition, following in-depth consultation to identify national requirements, the programme will concentrate on a limited number of core areas reflecting national medium-term priorities.

Phare will try to share the cost of projects with bilateral donors, the international financing institutions and the private sector, and will carry out periodic assessments of needs and reviews of programme performance.

### European integration

European integration is linked to both the democratisation process and the move towards a market economy. The main objectives of the programme are to

- facilitate the approximation of legislation with that of the European Union
- strengthen existing institutions and, where necessary, support the creation of new institutions
- increase the knowledge and skills of officials in European Community law, principles and policies
- accelerate the adoption of the internal market acquis, through the approximation of existing legislation, creation of new legislation and the harmonisation of standards
- increase public awareness of the European Union and mobilise private sector support for upholding relevant legislation and standards.

The basic components of the European integration programme are the implementation of the Free Trade Agreement (FTA) and the Europe Agreement (EA), and the approximation of laws and harmonisation of standards. Support for implementation of the FTA and EA will be provided in the form of know-how concerning the adaptation of legislation and harmonisation of standards, the strengthening of institutions and establishment of the institutional framework, and training for political decision-makers and specialist technical experts.

Phare will also concentrate on the harmonisation of agricultural standards and approximation of laws. Future support for harmonisation will also be focused on a broader range of sectors, such as transport, welfare, social security, economic measures, taxation and customs. In addition, the provision of information to industry, commerce, education and training institutions, and, not

least, the general public, will become more important as the Europeanisation process spreads.

The Bureau for European Integration (BEI), established by the Government in early 1995, will take the lead role in the administrative and technical activities of the integration process. Phare support for the BEI will become a top priority during the period of this Multi-annual Indicative Programme.

### Private sector development

#### Restructuring and privatisation

The two institutions responsible for restructuring and privatisation policies are the State Property Fund (SPF) and the Latvian Privatisation Agency (LPA). Phare support for restructuring and privatisation should therefore be aimed at these two institutions.

Support to the SPF will cover continued support in the restructuring of state-owned enterprises and institutional support to increase its legislative capacity. Phare will also consider support to debt-restructuring of enterprises to facilitate subsequent sale and a facility for the liquidation of non-viable enterprises. Support to the LPA will include continued support for the development and implementation of the privatisation strategy.

#### Banking

As the fragility of the banking sector will continue to inhibit the development of the rest of the economy, support should be aimed at strengthening the overall banking institutional structure, and complementing its support to other sectors of the economy. Support will focus on continued assistance to the Bank of Latvia and other supervisory authorities to strengthen their capacity to regulate banks and other credit institutions, and on training bank staff. Institutional support to the state-owned banks preparing for privatisation will also continue. In addition, know-how will be provided for the creation of a securities market commission.

#### SMEs

The main objective is to ensure the competitiveness of small and medium-sized enterprises, specifically in the agriculture, forestry and fisheries sectors, and to create a favourable environment for business development in general. The banking system has so far failed to meet the needs of the SME sector, and the Government wishes to examine the possibility of establishing an SME development fund. A feasibility study will be carried out to assess the performance of other similar ventures as well as Phare experience elsewhere.

Support to the SME sector under the Phare programme will concentrate on improving access to competent business services for SMEs. Phare support will focus on insti-



tutional support to strengthen the six BAS centres through additional training of trainers and centre staff. Further support will be provided to the Ministry of Economy to design and develop policies to stimulate further the growth of the sector.

#### **Foreign investment and trade promotion**

The Phare-supported Latvian Development Agency (LDA) is expected to take a leading role in promoting Latvia as an attractive target for foreign investment, and for promoting exports of Latvian goods and services. Support to the LDA will include continued practical advice and follow-up to the industrial sector studies already undertaken, and further industrial sector studies in other priority sectors. Support will also include training and consultancy for selected Latvian companies and feasibility studies for international business projects. Support to tourism will concentrate on the further development of promotional programmes, as well as support to strengthen the structure of the Latvian Tourism Board (LTB).

#### **Public finance and accounting**

The wider objective in this area remains to help the Government harmonise economic policy and economic legislation with that of the European Union, and to create an economic environment favourable to foreign trade. Support to the tax administration of the State Revenue Service and to the treasury and budgetary functions will have a significant impact, as will the establishment of a national accounting system. Support to the Customs Service will include quality control, language training, and investment support to the customs service, border control infrastructure and consumer protection services.

#### **Agriculture**

Phare will help the Government to manage the sectors transition to a market economy by establishing the necessary institutional, legal and regulatory framework. In addition, Phare will help reduce disparities between countryside and towns, and between regions.

In order to strengthen and build on past Phare support in agriculture, fisheries and forestry, continued support for land privatisation and registration will be provided to the State Land Service (responsible for the land registration and information system) to facilitate a more efficient farming system through land consolidation. In addition, support will be provided to the Ministry of Agriculture to identify and develop rural economic diversification strategies.

#### **Institutional, human resources and social sector development**

##### **Statistical cooperation**

The Statistics Committee has been carrying out essential surveys in line with European Union standards and

requirements. Phare will provide support in the form of know-how and equipment supply to consolidate and build on earlier Phare support to the modernisation of the Statistics Committee.

##### **Public administration reform**

Despite positive development in this area, particularly with regard to decentralisation and local government development, there is still some way to go in improving the Latvian Civil Service to bring it up to the level of a modern European state. Phare will continue its support in the field of public administration reform, and will provide specific support for administration of decentralised public tasks and further development of the Government information system. Support will be provided for the translation and interpretation of European Union documentation and acts, and for the development of the State Audit Office.

##### **Higher education**

There is a continuing need to assist higher education institutions in modernising and reforming the higher vocational education and training system. Phare support to the higher education sector will concentrate on the development of a national strategy for higher education, and the development and implementation of a new system of national standards to support the development of new curricula. Improvements to teacher training will be carried out and partnerships between higher education institutes in the European Union and Latvia will be fostered.

##### **Social sector**

The Government requires support in labour law harmonisation with the European Union, employment generation, social security development and modernisation of the health services. Phare support will be directed towards further development of the health service and the social security/benefits system, and towards computerisation of the employment exchange system. Additional support will be required to consolidate ongoing actions, particularly in the areas of health care financing, management and training, and further pilot testing of the Governments labour market strategies. Flexibility in the type and delivery of support will be ensured to take account of past Phare support and to complement other donor support, particularly that of the World Bank.

#### **Support to infrastructure**

##### **Energy**

As Latvia has no natural resources of oil, gas or coal, energy conservation remains a high priority. Phare will provide support to the drafting and implementation of energy legislation, as well as further support to energy planning and the establishment of an appropriate institutional framework for the energy sector. In addition, infra-



structural support will be directed towards efficient utilisation of energy resources, development and maintenance of existing energy facilities and an increased utilisation of domestic energy resources. Both investment support and know-how will be provided.

### Environment

The major thrust of Phare support for infrastructural development in Latvia will very probably focus on the environmental sector, and specifically on improving the management of water supplies, wastewater treatment and waste disposal. Major areas for investment support include co-funding of the Daugavpils water treatment plant, establishment of an Environment Fund (to be determined on the basis of an appraisal study), development of a national solid waste management strategy and modernisation of the environmental health service.

### Transport

Having already contributed to the strengthening of the institutional capacity of the Ministry of Transport, further Phare support will be focused on the integration of Latvia into the Trans-European transport network. Measures will concentrate on law harmonisation with the European Union, professional training for staff in the Ministry of Transport and the transport sector, studies and implementation support for the railway network, the roads and major river crossings, and development of the Via Baltica.

### Implementation

The Multi-annual Indicative Programme is based on the assumption that a Decentralised Implementation System (DIS) will be introduced in Latvia, although it may not be appropriate to implement all programmes in this way. The Latvian Government has taken the necessary steps to facilitate its efficient introduction. A central bank account has been opened by the National Aid Coordinator, which can be used for disbursement of funds for all programmes. The principle of establishing a Central Finance and Contracting Unit (CFCU) under the authority of the National Aid Coordinator has been proposed to the Commission, to ensure the financial propriety of all programmes, and to streamline all tendering and contracting procedures, whilst leaving the technical input to the implementing institutions. The CFCU will cooperate closely with the Delegation of the European Commission, which is expected to be established in Riga in early 1996, and with the Commission itself.

If necessary, the accounts and operations of programmes and projects will be checked at regular intervals by an outside auditor contracted by the Commission or the Latvian Government. The Latvian partner authorities will provide regular reports in order to monitor the implementation of the Programme. The Latvian Government is

developing its own procedures for project and programme monitoring and evaluation.

Assessment reviews will be carried out on a regular basis to provide information on the performance of contractors and the impact of measures. To provide them, the Commission may sign contracts with independent contractors, financed from the Programme, to follow the progress of the Programme and its components and carry out mid-term and ex-post evaluation of the projects.

From the available funds of approximately ECU 108 million for the period 1996-1999, the following allocations have been agreed.

Indicative allocations	1996-1999 ECU million	Percentage of total
European integration	17.735	16%
Private sector development	39.743	37%
Restructuring and privatisation	5.700	
Banking	2.865	
SMEs	10.050	
Foreign investment and trade promotion	1.860	
Public financing and accounting	13.268	
Agriculture	6.000	
Institutional, human resources and social sector development	25.235	24%
Statistical cooperation	3.713	
Public administration reform	4.755	
Higher education	13.317	
Social sector	3.450	
Support to infrastructure	25.275	23%
Energy	8.400	
Environment	10.350	
Transport	6.525	
<b>Total</b>	<b>107.988</b>	<b>100%</b>



# Country Operational Programme 1996

## General background

The 1996-1999 Multi-annual Indicative Programme (MIP) for Latvia will concentrate on preparing Latvia for rapid accession to the European Union, and will therefore focus on facilitating Latvia's economic, institutional and legislative integration with the European Union.

The Country Operational Programme for 1996 is based on the commitment of the European Union to assist the Government of Latvia in preparation for accession to the European Union. The Programme for 1996 aims at assisting Latvia in

- adopting the *acquis communautaire*, which means approximating laws, standards, rules and practices to those of the European Union, as well as adopting measures related to certain common policies
- completing market reforms and the medium-term restructuring and modernisation of the economy to restore competitiveness and growth to create the preconditions for future membership of the European Union
- further development of human resources and institutions to match the requirements of a modern democratic society and a market-based economy
- the preparation and implementation of infrastructure programmes supporting both economic growth and European integration.

The 1996 Country Operational Programme is also shaped by the outcome of a national assistance needs assessment carried out by the Government of Latvia which reflects medium-term priorities.

The overall allocation covered by this Country Operational Programme amounts to ECU 30 million. The 1996 Tempus allocation of ECU 2 million will be committed in the 1996 Tempus multi-country programme.

## Implementation arrangements

The Financing Memorandum corresponding to this Country Operational Programme will be signed for the Government of Latvia by the Minister of Finance in his role as National Aid Coordinator (NAC). The contracting agency for this programme will be the European Commission on behalf of the responsible national authorities. The Latvian Government shall provide adequate staff, office space and equipment to carry out the Programme. This includes payment of local salaries.

The MIP is based on the assumption that a Decentralised Implementation System (DIS) will be introduced for the implementation of the Programme in Latvia. If and when the DIS is introduced, a Memorandum of Understanding signed between the parties will establish the necessary arrangements for the continuation of the programmes implementation under the DIS. The implementation arrangements will be applied at a sector or sub-programme level.

If necessary, the accounts and operations of programmes and projects will be checked at regular intervals by an outside auditor contracted by the Commission or the Latvian Government.

The Latvian partner authorities will provide regular reports in order to monitor the implementation of the Programme. Regular follow-up missions will be carried out at task manager level. Assessment reviews will be carried out on a regular basis to provide information on the performance of contractors and the impact of measures. For this purpose, the Commission may sign contracts with independent contractors, financed from the Programme, to follow the progress of the Programme and its components and carry out mid-term and ex-post evaluation of the projects. In order to achieve these activities, a detailed set of indicators of achievement will be defined according to the objectives and targets of the Programme.



## European integration programme

Approved by the Phare Management Committee as part of the Country Operational Programme for Latvia at meeting N°43 on 23 February 1996.

To be completed by	31 December 1998
Amount	ECU 6.365 million
Implementing authority	European Integration Bureau Ministry of Foreign Affairs Brivibas Blvd. 36, room 261 1519 Riga Tel (+371-2) 28 37 56 Fax (+371-2) 83 00 75
	WB/EU/PMU, Ministry of Agriculture 2 Republic Square LV-1981 Riga Tel (+371) 78 30 276 or (371-2) 32 53 75 Fax (+371) 78 30 275 Contact: Mr Aigarsto Stokenbergs, Director Mr Ross Bull, Resident adviser to PMU

### Main components

<b>Programme for European integration, FTA and EA</b>	<b>ECU 1.5 million</b>
<b>Law harmonisation with the European Union</b>	<b>ECU 2.055 million</b>
<b>Agriculture harmonisation with European Union standards</b>	<b>ECU 1.05 million</b>
<b>Language training support for minorities</b>	<b>ECU 500,000</b>
<b>Support for economic competition and anti-monopoly activities</b>	<b>ECU 285,000</b>
<b>Government data exchange and information systems</b>	<b>ECU 975,000</b>

### Background

Accession is a political priority in Latvia, linking European integration to both the democratisation process and the move towards a market economy. A Free Trade Agreement (FTA) was concluded in July 1994, and the 1994 programme supported its implementation and negotiations for the Europe Agreement (EA). The Bureau for European Integration (BEI) was established by the Government in early 1995, with responsibility for facilitating and monitoring the approximation of legislation with that of the Euro-

pean Union. Phare has provided a short-term expert to support the BEI in the Ministry of Foreign Affairs.

Since 1992, Phare support has helped to provide the basic legal, institutional and regulatory framework, in addition to policy and strategy formulation, in key areas of the reform process. An ongoing programme concentrates on six areas of economic legislation, namely financial services, commercial, labour, European Community, constitutional and international laws, and includes a training component. Support to drafting legislation has been provided in areas of economic reform, social security and health, taxation policy and administration, banking, insurance, public administration, environment and energy, among others.

Although high on the Governments agenda, the approximation of laws is hampered by some very practical constraints, including

- a lack of information on the European Union and European Union law in particular
- an acute shortage of lawyers, especially within the Ministries, who speak a European Union language and are conversant with European Union law
- a lack of legal training facilities focusing on European Union laws.

These issues need to be urgently addressed if Latvia is to make any significant headway in the approximation of laws.

The political and economic importance of agriculture in Latvia justify special efforts with regard to the agriculture sector. Much progress has been made in a pre-accession context to establish the basis for a market economy, but further action is required to

- complete privatisation and restructuring of large enterprises
- strengthen the banking and financial services sectors
- reduce inter-enterprise debt particularly in the energy sector
- encourage employment opportunities, particularly in rural areas
- assist the development of NGOs.

### Programme objectives

The overall objective of the programme is to prepare Latvia for rapid accession to the European Union and provide support to the implementation of the Free Trade Agreement and Europe Agreements. Phare will

- assist in preparation for integration into the internal market of the European Union through a phased adoption of the 'acquis communautaire'



- assist Latvia in taking on the obligations of membership of the European Union
- develop Latvia's capacity to cope with competitive pressures and market forces within the Union.

The specific objectives of the programme are to

- facilitate the progress of approximation with European Union legislation
- strengthen existing institutions and, where necessary, support the creation of new institutions involved in the execution, monitoring and implementation of the FTA and EA
- increase the knowledge and skills of officials in European Community law, practices and policies
- accelerate the adoption of the internal market acquis, through the approximation of existing legislation, drafting of new legislation and the harmonisation of standards
- increase public awareness of the European Union and mobilise private sector support for upholding relevant legislation and standards.

## Programme description

### Programme for European integration, FTA and EA ECU 1.5 million

The basic components of the European integration programme are the implementation of the Free Trade Agreement (FTA) and the Europe Agreement (EA). Implementation of the FTA and EA requires the following forms of support:

- know-how concerning the adaptation of legislation and harmonisation of standards
- training for political decision-makers and specialist technical experts
- training and know-how with regard to strengthening institutions and establishment of the institutional framework
- know-how aimed at effective coordination between projects across a wide range of sectors
- logistical support and know-how aimed at raising public awareness of the implications of accession
- support for human rights and citizenship issues.

### Legal harmonisation with the European Union ECU 2.055 million

Support for the harmonisation of laws with those of the European Union will comprise expert advice and assistance regarding adaptation of legislation and harmonisation of

standards with those of the European Union. Legal advice and long-term support will be targeted at a broad array of specialised areas and line ministries, including economic legislation, industrial and environmental standards, competition policy, anti-dumping measures, customs control and the free movement of goods, services, people and capital. Project equipment will be supplied as required.

### Agriculture harmonisation with European Union standards ECU 1.05 million

The Phare programme will also concentrate on the harmonisation of agricultural standards and approximation of laws. Resources will be focused on the acquisition of adequate administrative, linguistic, negotiation and communication skills, initially for government officials involved with the European Union on agricultural issues, together with the provision of basic knowledge about the European Union, its policy, decision-making, law, public administration and culture.

### Language training support for minorities ECU 500,000

Teaching of European Union law and jurisprudence at Latvian universities and institutions will be improved, along with complementary services, covering language skills and the establishment and contracting of translation services.

### Support for economic competition and anti-monopoly activities ECU 285,000

Future support for harmonisation will be focused on a broader range of sectors and institutions, such as transport, welfare, social security, economic measures, taxation and customs.

### Government data exchange and information systems ECU 975,000

The provision of information to industry, commerce, education and training institutions, and the general public, will become more important as the Europeanisation process continues. An information programme must therefore be developed to promote awareness and knowledge about the European Union.

## Implementation

The contracting agency for this programme will be the European Commission on behalf of the responsible national authorities. Implementation arrangements will be applied at a sector or sub-programme level. The Latvian Government shall provide adequate staff, office space and equipment to carry out the programme. This includes payment of local salaries.

The implementation will be monitored by the Commission through regular work reports provided by the partners. Bi-annual assessment meetings will be organised. Independent experts may be hired to carry out mid-term and 'ex post' programme assessments.



# Private sector development programme

Approved by the Phare Management Committee as part of the Country Operational Programme for Latvia at meeting N°43 on 23 February 1996.

To be completed by 31 December 1998

Amount ECU 12.595 million

Implementing authority

Ministry of Economics  
Brivibas Blvd. 36  
1519 Riga  
Tel (+371) 70 13 103  
Fax (+371) 72 80 882  
Contact: Mr Jonitis, Minister of State on Privatisation and Industrial Policy

Ministry of Finance  
Smilsu str., 1-4, 5th floor  
1050 Riga  
Tel (+371) 782 03 48  
Fax (+371) 22 98 86  
Contact: Mr Oliver de Baer, Adviser

Business Support Centre  
Brivibas Blvd. 36  
1519 Riga  
Tel (+371) 722 42 33 / 722 84 40  
Fax (+371) 782 82 51  
Contact: Mr Peteris Melzobz, Director

Latvian Development Agency (LDA)  
Ministry of Economy  
Perses str. (2 room 502)  
1011 Riga  
Tel (+371-2) 28 34 25  
Fax (+371) 728 25 24  
Contact: Mr Maris Elerts

Public Investment Unit  
Ministry of Economy  
Brivibas Blvd. 36  
1519 Riga  
Tel (+371) 721 12 90 / 728 84 44  
Fax (+371) 728 08 82  
Contact: Mr David Brown, PIP Phare Adviser

Latvian Tourism Board  
Pils Sq, 4  
1050 Riga  
Fax (+371-2) 22 99 45  
Contact: Mrs Olga Slaugotne, Director

## Main components

<b>Restructuring and privatisation</b>	<b>ECU 1.95 million</b>
Government strategy and implementation	ECU 900,000
Government agriculture policy options	ECU 1.05 million
<b>Banking</b>	<b>ECU 1.74 million</b>
Training and institutional development	ECU 615,000
Aid coordination and supervision	ECU 1.125 million
<b>SMEs</b>	<b>ECU 2.25 million</b>
SME development and support	ECU 1.5 million
Product quality control	ECU 750,000
<b>Foreign investment and trade promotion</b>	<b>ECU 180,000</b>
Tourism development programmes	ECU 180,000
<b>Public finance and accounting million</b>	<b>ECU 5.725</b>
Budget and treasury administration	ECU 2.7 million
Taxation administration	ECU 2.2 million
External debt management	ECU 225,000
Public investment and economic analysis information	ECU 600,000
<b>Agriculture</b>	<b>ECU 750,000</b>
Rural economic diversification strategies	ECU 750,000

## Background

### Restructuring and privatisation

The Government has taken steps to promote enterprise restructuring, by hardening budget constraints to state enterprises, facilitating privatisation of large enterprises and promoting enterprise restructuring. Although several donors have provided support to the work of the Latvian Privatisation Agency (LPA), Phare has been specifically requested to help develop the institutional structures and legal aspects of the privatisation and restructuring process. General legal training, support for contract negotiation and privatisation transactions, as well as public relations support are important elements. In addition, support has been offered for the corporatisation of state enterprises at the State Property Fund (SPF). The European Bank for Reconstruction and Development (EBRD)'s Special Restructuring Programme, once launched, will complement the resources already made available under the 1994 programme.

### Banking

The fragility of the banking sector will continue to inhibit the development of the rest of the economy, and continued support in this area is therefore vital. Previous Phare support has included contributing to the development of government strategy for the banking sector, and wide



ranging support to the Bank of Latvia. Phare has also supported the development of a national training programme for bank staff, and has provided crucial support for financial restructuring of both the state-owned Savings Bank and Unibank. Phare is currently supporting the privatisation of Unibank, in cooperation with the World Bank. Following the banking crisis which developed after the collapse of several banks, Phare increased its support to this sector through an additional ECU 2.5 million, aimed at long-term improvement rather than short-term crisis management.

### **SMEs**

Recognising that SMEs play an integral and vital role in all developed market economies, Phare has supported their emergence in Latvia since 1993. Phare support has comprised policy advice at the national level and the establishment of a network of six BAS centres providing counselling services. The main achievement of the BAS programme to date has been to raise awareness at both national and regional levels of the importance of SMEs for the future prosperity of Latvia. At a practical level, the BAS network has introduced a range of counselling products new to Latvia and has created a nucleus of business counselling good practice. The 1995 programme will continue the development of skills of BAS personnel and will extend the BAS network to cover areas not previously covered.

The Latvian Government also wishes to examine the possibility of establishing an SME development fund within the context of the 1996 National SME Development Programme. A feasibility study will be carried out under the 1995 programme. Subject to the positive results of this study, and in coordination with other donors, Phare will support the establishment of an SME development fund.

### **Foreign investment and trade promotion**

The Latvian Development Agency (LDA) was established in late 1993 to promote exports and encourage inward investment. The achievements of the Phare-supported LDA include the creation of a young highly motivated team, and the production and dissemination of a promotional literature campaign highlighting successful Latvian industrial sectors. The Agency also regularly briefs up to 5,000 companies on export opportunities, prospective investors and agency services through its newsletter. Selective trade missions and representation at trade fairs have also been undertaken.

Tourism is a potentially valuable sub-sector. The Latvian Tourism Board (LTB), working closely with the Department of Tourism in the Ministry of Environmental Protection and Regional Development, has with Phare support begun the process of generating information, encouraging investment and establishing basic standards.

### **Public finance and accounting**

Efficient treasury, budget and tax administration are essential to the practical execution of services and policies under any government. Phare support in the public finance area has included a range of measures. Phare continued to support the implementation of the computerisation strategy at the State Revenue Service, and helped with enlargement of the information systems strategy. Phare also provided on-going expert advice for improving tax legislation and regulation, thereby strengthening the capacity of the tax administration. Staff training and the provision of know-how in management and organisation to accounting and auditing professional bodies were also important measures.

### **Agriculture**

The political and economic importance of agriculture in Latvia justify special efforts with regard to the agriculture sector. Phare support to the agriculture sector up to 1995 focused mainly on strengthening the Governments institutional capacity and on encouraging efficient communication between donors and the Latvian institutions and authorities. Phare also assisted the State Land Service (SLS) with the decentralisation and upgrading of cadastral services, training and computerisation, addressed the credit and investment needs of farmers and SMEs, pushed forward the privatisation process and enhanced agricultural productivity. Under the 1995 programme, support is being provided to establish and strengthen the national extension services (LAAS) and to restructure and privatise the fish-processing industry.

### **Programme objectives**

#### **Restructuring and privatisation**

The main objectives of the 1996 programme are to accelerate the privatisation process in Latvia, and to facilitate the restructuring of state-owned enterprises. The programme also aims to help the implementation of insolvency and bankruptcy law reform. Overall, the aim is to improve the business climate in Latvia.

#### **Banking**

The main objective in the banking sector is to strengthen the overall institutional banking structure, thereby complementing its support to other sectors of the economy. The programme also aims to strengthen the Bank of Latvia's capacity to regulate banks and other credit institutions, to improve the statistical indicators of the banking system, to train banking staff and to create a securities market commission.

#### **SMEs**

The main objective is to ensure the competitiveness of small and medium-sized enterprises, specifically in the agriculture, forestry and fisheries sectors, and to create a favourable environment for business development in



general. The programme aims to improve access to business services by providing continued support to the existing network of BAS centres and their staff. It also aims to support the design and development of implementation policies and the establishment of a guarantee scheme.

#### **Foreign investment and trade promotion**

The main objective is to support the Latvian Development Agency (LDA) in taking a leading role in promoting Latvia as an attractive target for foreign investment, and in promoting exports of Latvian industry and services. The programme also aims to strengthen the structure of the Latvian Tourism Board (LTB), and to support the further development of promotional tourism programmes.

#### **Public finance and accounting**

The wider objectives in this area remain to help the Government harmonise economic policy and economic legislation with that of the European Union, and to support the establishment of a national accounting system. More immediate objectives are to support the tax administration of the State Revenue Service and to improve the process of generating the budget in the treasury and budget areas.

#### **Agriculture**

The main objective in this sector is a review of agricultural sector policies with regard to harmonisation with the European Union. The aim is to harmonise agricultural standards, regulations and laws with those of the Union, and to reduce rural/urban and regional disparities.

### **Programme description**

#### **Restructuring and privatisation ECU 1.95 million**

Phare support to the State Property Fund will comprise know-how, training and equipment for

- the restructuring of state-owned enterprises
- improving its legislative capacity, including the drafting and implementation of insolvency and bankruptcy law in line with European Union legislation
- debt-restructuring of enterprises to facilitate subsequent sale
- the implementation of a facility for the liquidation of non-viable enterprises.

Support to the Latvian Privatisation Agency includes know-how, training and equipment for

- the development and implementation of the privatisation strategy, including preparation of enterprises prior to privatisation
- the successful multi-enterprise tender programme
- the privatisation of selected enterprises, particularly with regard to joint-venture negotiations.

In the area of anti-monopoly, measures will cover the training of anti-monopoly personnel, including foreign-language training, seminars, lectures and advice on breaches of anti-monopoly legislation.

#### **Banking ECU 1.74 million**

Phare will provide support in the form of know-how, training and equipment for the following actions:

- continued assistance to the Bank of Latvia and other supervisory authorities to strengthen their capacity to regulate banks and other credit institutions
- further development of the national capacity to train bank staff (particularly in risk assessment and general portfolio management)
- institutional support to the state-owned banks in preparation for privatisation and to those banks playing a role in various IFI credit lines, in the form of credit advice, twinning arrangements, bank reorganisation and strategy, bank merger and consolidation support, and debt restructuring
- legal and institutional expertise for the creation of a securities market commission.

#### **SMEs ECU 2.25 million**

Support to the SME sector will concentrate on improving access to competent business services for SMEs, including further support to the Ministry of Economy to design and develop policies to stimulate the growth of the sector. Measures will focus on

- further support to SME advisory services
- SME policy, training, consultancy, research and banking support
- small forestry enterprise restructuring
- quality control of products and services
- training in food quality control and assurance
- product quality in the fisheries sector.

#### **Foreign investment and trade promotion ECU 180,000**

Both in the areas of national and international business promotion and in the tourism sector, Phare will assist in consolidating earlier achievements, by further support over a two year period followed by a review. Long-term support to the Latvian Development Agency (LDA) will include

- continued advice to the LDA director and staff
- practical follow-up to the original industrial sector studies
- further industrial sector studies in other priority sectors



- training and consultancy for selected Latvian companies
- continuing support with the LDAs promotional programme
- continuing in-house and overseas training for LDA staff
- support in setting up a Euro Information Correspondence Centre
- feasibility studies for international business projects.

Support to tourism will concentrate on the further development of promotional programmes, as well as support to strengthen the structure of the Latvian Tourism Board (LTB).

#### **Public finance and accounting ECU 5.725 million**

The following support measures are envisaged:

- continued support for implementing the computerisation strategy, including hardware, software development and training
- training, expertise and information to encourage maximum compliance and combat tax leakage
- continued expert advice for improving administrative structures, organisation, tax procedures, legislation and regulation
- long- and short-term support to reinforce the budgetary function and treasury management
- continued support for the development of accounting and audit through training
- support for strengthening the capacity of the Ministry of Finance to manage internal and external debt portfolios
- support for the Public Investment Programme in the Ministry of Economy.

Support to the Customs Service will include quality control of products and services and language training, as well investment support to the customs service, border control infrastructure and consumer protection services.

#### **Agriculture ECU 750,000**

Resources will be concentrated on acquisition of adequate administrative, linguistic, negotiation and communication skills, initially for Government officials involved with European Union agricultural issues, together with provision of basic knowledge about the European Union and the 'acquis communautaire'. This will include knowledge of the European Union's public administration and decision-making, its main policy areas, the impact of European integration, European law and other issues relevant to Latvia and its agricultural sector in particular. Support

will be provided in the form of long-term and short-term advice, training, project studies and equipment.

In order to strengthen and build on past Phare support in agriculture, fisheries and forestry, support will be provided to the Ministry of Agriculture to identify and develop rural economic diversification strategies.

#### **Implementation**

The contracting agency for this programme will be the European Commission on behalf of the responsible national authorities. Implementation arrangements will be applied at a sector or sub-programme level. The Latvian Government shall provide adequate staff, office space and equipment to carry out the programme. This includes payment of local salaries.

The implementation will be monitored by the Commission through regular work reports provided by the partners. Bi-annual assessment meetings will be organised. Independent experts may be hired to carry out mid-term and ex post programme assessments.



# Institutional, human resources and social sector development programme

Approved by the Phare Management Committee as part of the Country Operational Programme for Latvia at meeting N°43 on 23 February 1996.

To be completed by 31 December 1998

Amount ECU 9.84 million

Implementing authority

Central Statistical Bureau of Latvia

Lacplesa Str. 1

Riga

Tel (+371-2) 270 126

Fax (+371-78) 301 37

Contact: Mr Arvils Sautins, President

State Chancellery

Brivibas Blvd. 36

1520 Riga

Tel (+371) 728 44 87

Fax (+371) 782 14 45

Contact: Mr Otto Jespersen, PMU

Tempus Office

Ministry of Education

2 Valnu Street

226 098 Riga

Tel (+371-2) 223 981

Fax (+370-2) 882 0171

Contact: Mr Alberts Prikulis

Vocational Education and Training Reform PMU

Ministry of Education, Culture and Science

Valnu Iela, 2 - 507

LV Riga 1098

Tel (+371-2) 22 39 42

Fax (+371-2) 24 31 27

Contact: Mrs Dita Traidas, Director

Mrs Aleksandra Joma, PAO

Ministry of Welfare, Health and Labour

Skolas Str. 28

1331 Riga

Tel (+371-2) 27 38 83

Fax (+371-2) 782 03 96

Contact: Mrs Ilse Bumbiere,

Deputy Head

Division of Foreign Aid

Ministry of Welfare, Health and Labour

Kr. Valdemara Str. 38

1010 Riga

Tel (+371-2) 27 17 13

Fax (+371-2) 27 64 45

Contact: Mrs Andris Berzins,

Minister of Welfare

## Main components

<b>Statistical cooperation</b>	<b>ECU 1.313 million</b>
Statistics service capacity and European Union standards	ECU 1.313 million
<b>Public administration reform</b>	<b>ECU 2.56 million</b>
Support for administration of decentralised public tasks	ECU 450,000
Staff, legislative, information and coordination capacity	ECU 2.11 million
<b>Higher education</b>	<b>ECU 3.567 million</b>
Higher vocational education reform	ECU 1.5 million
Other institutional and human resources development	ECU 67,000
Tempus programme (committed in the 1996 Tempus multi-country programme)	ECU 2 million
<b>Social sector</b>	<b>ECU 2.4 million</b>
Health services development	ECU 1.05 million
Social security system	ECU 750,000
Employment and labour market	ECU 600,000

## Background

### Statistical cooperation

It is vital to ensure that reliable, detailed and up-to-date data is available to public authorities, statistical institutions and other international organisations. Under the 1995 Phare Programme, the Statistics Committee initiated a programme to carry out essential surveys in line with European Union standards and requirements. In addition, Phare dramatically improved the computer system available to the Statistics Committee, while a special training programme for staff at the central and regional offices was carried out as the information technology became available.

### Public administration reform

Decentralisation of authority to local government has been an integral part of the Government's sustainable growth agenda. The Phare programme has thus far focused on central government administrative reforms, technical advice and material support to the Public Service Information Policy, as well as support to decentralised Government reforms and institutional and human resources development.



### Higher education

There is a continuing need to assist higher education institutions in modernising and reforming the higher vocational education and training system. Since 1992, Phare has supported higher education reform through the Tempus programme, and a complementary programme focusing on vocational education reform is underway. Priorities for the Tempus programme over the period 1995-1999 include teacher training and the improved integration of higher education and research.

### Social sector

The Government is developing a broad range of measures to address the problem of growing unemployment and to improve the social protection system. Past Phare programmes have concentrated on labour market policy, reform of the social insurance fund and health reform. In the latter, support focused on training in budget management and on strengthening the Ministry of Welfare's capacity for policy formulation, planning and implementation.

### Programme objectives

#### Statistical cooperation

The main objective is completion of the modernisation of the Statistics Committee.

#### Public administration reform

The overall objective is to improve the quality of performance of the Latvian civil service to bring it up to the level of a modern European state. Specific objectives are to support public administration reform, to provide support for administration of decentralised public tasks, to improve the Government information system, and to develop the State Audit Office.

#### Higher education

Overall objectives are the development of a national strategy for higher education and modernisation and reform of the higher vocational education and training system. Specific objectives are the development of a system of national standards and new curricula, and upgrading teaching staff and materials.

#### Social sector

The overall objectives in the health and welfare subsector are establishment of an adequate social security system facilitating integration with the European Union, and the development and modernisation of health services. More immediate objectives are improvements to the client service and to the collection of social taxes, the purchase of communication systems, restructuring of the health care infrastructure and modernisation of the environmental health service.

In the employment and labour market subsector, the overall objective is development of an active labour market policy, improvement of labour mobility and the further professionalisation of the workforce. The immediate objective is the establishment of an information network for an integrated employment exchange.

### Programme description

#### Statistical cooperation ECU 1.313 million

Support will be provided in the form of training, know-how and equipment supply in order to consolidate and build on earlier Phare support, which aimed at

- ensuring that detailed and up-to-date data is readily available to public, statistical and international authorities
- supporting the establishment of a modern computer system to ensure efficient data processing and on-line data exchange
- ensuring the introduction of international and European Union standards specifically for classifications, statistical indicators and data processing.

#### Public administration reform ECU 2.56 million

Phare will continue to support public administration reform, through training, advice, equipment supply and the exchange of experience. Support will comprise

- the reform and modernisation of the state administration system
- the establishment of management systems and personnel policy guidelines
- the provision of equipment
- a large training programme
- the organisational development of local government
- the translation of European Union documentation and legislation.

A new element in the programme will be support to the development of the State Audit Office (SAO). Support measures will concentrate on

- developing a sound, effective and economic audit system similar to those in other Member States
- carrying out the auditing of government enterprises and agencies
- improving legislation governing the activities of the SAO
- implementing modern audit methodologies and techniques in compliance with European Union accounting and auditing standards.



**Higher education** **ECU 3.567 million**

Phare support to the higher education sector will concentrate on

- the development of national standards and new curricula
- improvements to teacher training, including upgrading teaching staff and teaching materials and developing practice-oriented training
- the establishment of partnerships between higher education institutes in the European Union and Latvia
- the purchase and installation of new teaching equipment.

**Social sector** **ECU 2.4 million**

In the areas of welfare and health, support measures will focus on

- development of an accounting system for personal social taxes
- restructuring of health care infrastructure
- purchase and installation of modern equipment and technologies
- training in health care management and financing.

In the areas of employment and labour, measures will concentrate on

- establishment of an information network for an integrated employment exchange
- computerisation of the employment exchange
- further pilot testing of the Governments labour market strategies
- training and installation of new equipment.

Other measures in human resources development include

- staff training at the Ministry of Transport
- professional training for the transport sector
- human resources development at the LPA, including training and seminars
- higher vocational education reform
- management and language training in DEDM.

**Implementation**

The contracting agency for this programme will be the European Commission on behalf of the responsible national authorities. Implementation arrangements will be applied at a sector or sub-programme level. The Latvian Government shall provide adequate staff, office space and equipment to carry out the programme. This includes payment of local salaries.

The implementation will be monitored by the Commission through regular work reports provided by the partners. Bi-annual assessment meetings will be organised. Independent experts may be hired to carry out mid-term and 'ex post' programme assessments.



# Infrastructure development programme

Approved by the Phare Management Committee as part of the Country Operational Programme for Latvia at meeting N°43 on 23 February 1996.

To be completed by 31 December 1998

Amount ECU 3.2 million

Implementing authority

Ministry of Economy  
Department of Energy Development  
Brivibas Blvd. 36, room 261  
1519 Riga  
Tel (+371-2) 22 01 51  
Fax (+371-2) 22 47 94  
Contact: Mr Alexandrs Osis,  
PIU Director

Ministry of Environment and  
Regional Development  
Peldu St, 25  
1050 Riga  
Tel (+371) 782 65 78  
Fax (+371) 782 04 42  
Contact: Mr Zigfrid Bruvvers

Ministry of Transport  
58 Brivibas Street  
1743 Riga  
Tel (+371-2) 28 55 07  
Fax (+371-2) 21 71 80  
Contact: Mr Vigo Legzdins,  
Head of PMU

## Main components

<b>Energy</b>	<b>ECU 900,000</b>
Legislation, institutional framework, energy planning	ECU 750,000
Efficient energy utilisation	ECU 150,000
<b>Environment</b>	<b>ECU 1.1 million</b>
Modernisation of the environmental health service	ECU 600,000
Environmental protection - water	ECU 500,000
<b>Transport</b>	<b>ECU 1.2 million</b>
Road network and bridge masterplan implementation	ECU 300,000
Railway development study and implementation	ECU 300,000
Via Baltica support	ECU 600,000

## Background

### Energy

Energy conservation is a high priority for the Latvian authorities and the Government has identified potential areas for savings through the rehabilitation of district heating systems and housing insulation. Phare support to date includes the establishment of an energy PIU, advice on energy-saving measures and privatisation/restructuring of the utilities. Support also provided for a review of existing energy supply policy and the formulation of medium- and long-term strategies for the energy sector. Financial expertise was provided to the Ministry of Economy, along with expertise to selected district heating suppliers.

### Environment

Inadequate water treatment and solid waste management have affected the water quality of the Daugava and other rivers, and have caused localised ground water pollution and pollution of stretches of the Baltic coastline. Phare support began in 1992 and was initially targeted at waste water treatment in two of the worst affected cities, Liepaja and Daugavpils. A PIU was established at the Ministry of Environment and ongoing support provides for the development of a water resources policy and improved planning and management.

### Transport

Development of the transport sector is based on the exploitation of Latvia's favourable geographical location to facilitate international east-west trade, and on integration into a common European transport network. Phare support began in 1992 with the establishment of a PIU in the Ministry of Transport, followed by a management training programme and the provision of extensive policy development advice covering transport planning, legislation, harmonisation with the European Union, and environmental issues.

## Programme objectives

### Energy

The main objectives are to establish and develop an institutional and regulatory framework for the energy sector to ensure fair competition and consumer protection in line with European Union standards, and to improve the financial viability of selected district heating suppliers.

### Environment

The main objective is to build on the results of earlier Phare assistance and to provide support to Project 800+ (referring to all small and medium-sized sewage treatment plants and water supply systems, numbering about 800). Project 800+ covers strategy development and design of pilot projects (know-how), implementation of pilot projects (investment) and monitoring and evaluation.



Feasibility studies will be required before investment begins, and the 1996 programme will finance the first group of feasibility studies. Modernisation of the environmental health service is a further objective in this area.

### **Transport**

The main objectives are the integration of Latvia into the trans-European transport network, harmonisation of transport legislation with that of the European Union and the development of the transport infrastructure to support Latvia's economic transition and development.

## **Programme description**

### **Energy** **ECU 900,000**

Phare will provide know-how, training and equipment for

- the establishment of an institutional framework
- an energy concept for towns and cities
- legislative harmonisation with the European Energy Charter Treaty
- secondary legislation on institutional and methodological matters
- a fuel supply strategy for Latvia
- a PIU for energy.

### **Environment** **ECU 1.1 million**

Support will include feasibility studies, know-how, training and equipment for development of a strategic plan for the establishment of small and medium-sized sewage treatment plants and water supply systems. Know-how and training will also be provided for the first phase of the modernisation of the environmental health service.

### **Transport** **ECU 1.2 million**

Support in the transport sector will comprise

- harmonisation of transport laws with those of the European Union
- professional training for staff in the transport sector and the Ministry of Transport
- studies and implementation assistance for the railway network, the road masterplan and major river crossings
- feasibility study for Riga's North Bridge
- feasibility study for the Riga by-pass
- pre-feasibility studies in the framework of the Via Baltica.

## **Implementation**

The contracting agency for this programme will be the European Commission on behalf of the responsible national authorities. Implementation arrangements will be applied at a sector or sub-programme level. The Latvian Government shall provide adequate staff, office space and equipment to carry out the programme. This includes payment of local salaries.

The implementation will be monitored by the Commission through regular work reports provided by the partners. Bi-annual assessment meetings will be organised. Independent experts may be hired to carry out mid-term and ex post programme assessments.









**European Commission** • Directorate General External Relations:  
Europe and the New Independent States, Common Foreign and Security Policy and External Missions (DG IA)  
For further information: DG IA Information Unit - Phare

**Office Address** Montoyerstraat 34 Rue Montoyer B-1000 Brussels

**Mailing Address** MO 34 3/80 Wetstraat 200 Rue de la Loi B-1049 Brussels

**Tel** (+32-2) 299 16 00 / 299 14 44 / 299 15 55

**Fax** (+32-2) 299 17 77