



**Implementation
of the Norwegian Financial Mechanism 2009-2014
in Lithuania**

Strategic Report No.4

Reporting period:
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Prepared by the National Focal Point (Ministry of Finance)

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Abbreviations

AA	Audit Authority
CA	Certifying Authority
CPMA	Central Project Management Agency
CC	Cooperation Committee
DoRIS	Documentation, Reporting and Information System
DPP	Donor Programme Partner
dpp	Donor Project Partner
EEA	European Economic Area
FMC	Financial Mechanism Committee
FMO	Financial Mechanism Office
GDP	Gross Domestic Product
Grants	European Economic Area and Norway Grants 2009-2014
IFR	Interim Financial Report
IRA	Irregularity Reporting Authority
NBF	National Bilateral Fund
NFP	National Focal Point
NDP	National Development Programme
NMFA	Norwegian Ministry of Foreign Affairs
MCS	Management and Control System
MoU	Memorandum of Understanding
PA	Programme Agreement
PO	Programme Operator
PP	Project Promoter
R&D	Research and Development
Regulation	Regulation on the implementation of the Norwegian Financial Mechanism 2009-2014
SFMIS	Structural Funds Management Information System

1 EXECUTIVE SUMMARY

All programmes financed under the Norway Grants remain in line with the National long-term (National Development Plan 2020 approved by the Government) and sectoral strategies and with highlight to bilateral cooperation element (transfer of knowledge and good practises from Donors country) are significantly important to Lithuania's cohesion policy. The Norway Grants supplement the EU funds in the national priority areas and moreover supports socially and economically sensitive niches which otherwise could not be afforded at current economic situation.

In 2014 all programmes turned into actual implementation stage, the reporting year was intensive in terms of organising open calls for proposals, assessment of pre-defined projects and implementation of the projects approved for financing. Due to accumulated delays, implementation of programmes and projects were in the initial stage and overall progress towards achievement of the expected programmes outcomes and outputs was rather limited. Nevertheless, it should be noted, that some programmes are more advanced and already produced first planned results.

Bilateral cooperation at all levels was rather intensive and provided a solid background for achievement of the planned bilateral objectives. Most of Programme Operators and their counterparts from Norway effectively co-operated in developing guidelines for applicants as well as implementing joined programmes' activities and realising initiatives to facilitate partners' contacts for future joint projects. As a result, some programmes already progressed towards the achievement of the set bilateral indicators through a number of partnership projects selected and partnership agreements signed in the public or private sectors, civil society. In 2014 the National Bilateral Fund's activities were targeted at facilitating pre-defined initiatives in the areas of energy security and human rights. In addition to direct bilateral outcomes (joint researches and results promotion event on energy security in the Baltic Sea Region, gender equality in scientific institutions, human rights situation in Lithuania), the wider effect is seen while developing professional networks.

During reporting period the national legal acts regulating implementation of the Grants were amended several times taking into account further development of the MCS, change in currency (adoption of Euro from 2015), clarification and amendment of the Regulation on implementation of Norwegian Financial Mechanism and seeking to upgrade requirements to ensure more effective and efficient procedures. The external audit company assessed the MCS created in Lithuania for Grants management and stated that notwithstanding some recommended improvements the established MCS complies with the requirements of the Regulation and generally accepted accounting principles in all significant aspects.

The main issues encountered during the reporting period, which delayed the start of the actual implementation of programmes, were longer than expected preparation and approval of calls documents, protracted evaluation and selection procedures as well as insufficient quality of projects' applications.

The most immediate tasks for the upcoming year should be directed at mitigating the risks arising from the accumulated and programme/project specific delays, implementation of the remaining open calls and contracting of all available funds as soon as possible. All the efforts should also be assigned for facilitation of partnerships and development of bilateral dimension of the programmes.

2 ASSESSMENT OF IMPACT AT NATIONAL LEVEL

2.1 Cohesion

National development strategies. The underlying Lithuania's long term-planning document - Lithuania's Progress Strategy "Lithuania 2030"¹ reflects a national vision and priorities for development as well as guidelines for their implementation by 2030. The Lithuanian National Development Programme (NDP) for 2014-2020², intended for the implementation of the Lithuania's Progress Strategy 'Lithuania 2030', is aimed at the creation of an advanced, modern and strong state distinguished by the harmony of smart society, smart economy and smart governance. The NDP covers not only the major provisions of the national policy but also the main provisions of the EU policy set forth in Europe 2020 (Smart, Sustainable and Inclusive Growth), and sets out the following five vertical priorities: 'Development of the society, science and culture', 'Active and solidarious society', 'Favourable environment for economic growth', 'High value-added focuses, integral economy' and 'Advanced public governance meeting the society's needs', as well as three horizontal priorities, i.e. 'Culture', 'Regional development' and 'Health for all' which can be implemented through vertical priorities.

The NDP provided for compatibility of all financial resources (EU funds, the national budget and other international financial assistance) while reaching set country development objectives. The National Reform Agenda is one of the key national documents, which establishes Lithuania's commitment to achieve Europe 2020 targets.

Country situation analysis, challenges and potentials. As observed in the Country Report 2015³, Lithuania showed remarkable adjustment capacity in the wake of the financial crisis. After a major recession (with one of the sharpest declines in real GDP across the EU in 2009), its regained competitiveness has supported solid growth in recent years, which averaged around 3.3% per year from 2012 to 2014. This was initially led by exports, but domestic demand has now taken over as the main growth engine. It is expected that domestic demand growth will carry its momentum into 2015, largely driven by rising wages, falling unemployment and subdued inflation. Unemployment is set to further continue its downward trend to 8.7% in 2015. However, despite the solid gains in employment, structural challenges persist, particularly demographic ones. As regard the external environment, growth in the EU is expected to remain weak and downside risks persist as geopolitical tensions between Russia and the EU mount. Population decline is due to negative demographic developments but aggravated by net emigration and poor health outcomes as illustrated by low life expectancy and high morbidity rates. Young people still face some difficulties to integrate into the labour market. With more than 30% of its population being at risk, Lithuania ranks among the worst performers in the EU in this respect. Although the situation has improved somewhat in recent years, the poor overall situation raises concerns about the adequacy of the Lithuania's social measures. Private sector investment, in particular into research and innovation is low, which may have negative repercussions for long-term growth. Lithuania will need to continue to work on ensuring security of energy supply and competition on its energy market. Several projects have been launched, and some have already been implemented, but more progress is needed. Energy-intensity in Lithuania is high making it one of the least energy-efficient countries in the EU.

According to the Eurostat analysis on achievement Europa 2020 targets⁴ Lithuania exceeded both of its national education targets. It also ranked among the best performing countries across the EU in terms of early leavers from education and training and tertiary educational attainment of 30 to 34 year olds.

¹ Lithuania's Progress Strategy "LITHUANIA 2030", approved by Lithuanian Parliament on 15 May 2012 (Decision No. XI-2015), <http://lietuva2030.lt>

² The Lithuanian National Development Programme for 2014-2020, approved by the Governmental Resolution of 28 November 2012, No. 1482.

³ Commission staff working document, Country Report Lithuania 2015, http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_lithuania_en.pdf

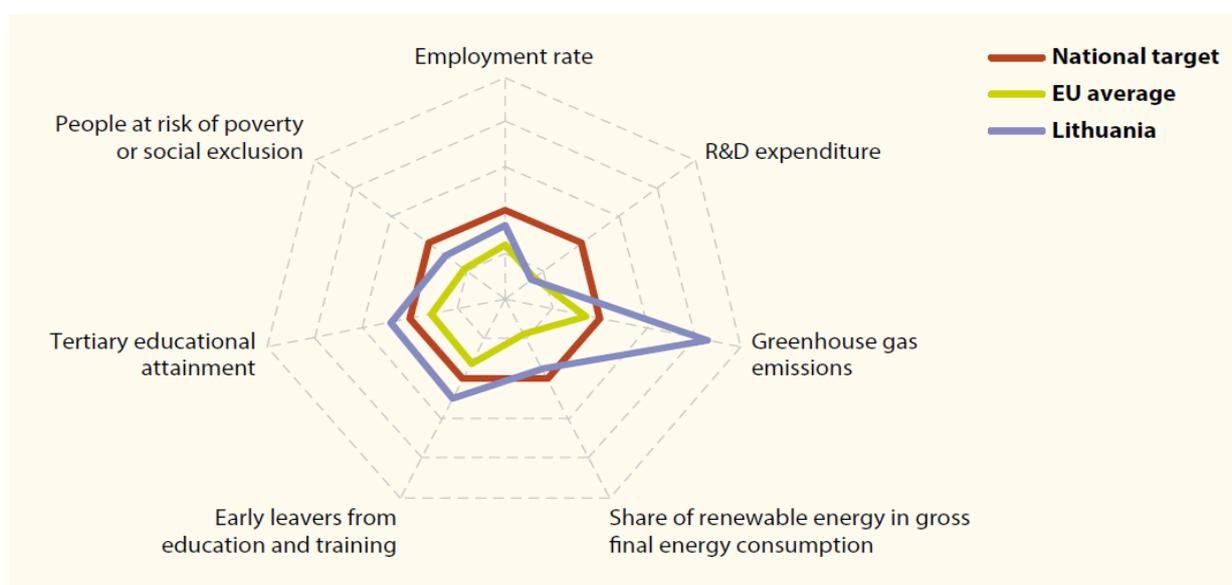
⁴ Smarter, greener, more inclusive? - Indicators to support the Europe 2020 strategy. Eurostat.

<http://ec.europa.eu/eurostat/documents/3217494/6655013/KS-EZ-14-001-EN-N.pdf/a5452f6e-8190-4f30-8996-41b1306f7367>

Additionally, by reducing its GHG emissions by 1.8 % by 2012, Lithuania has remained well below its target to limit emission increases to 15 %. A 4.7 percentage point increase in the share of renewable energies from 2005 to 2012 has moved the country close to its national target of 23 %. After a significant drop between 2008 and 2009, the country's employment rate increased again by 5.6 percentage points between 2010 and 2013, moving it closer to the national target than the EU average. Poverty rates have fallen since 2010, but Lithuania would need to lift another 100 000 people out of poverty to meet its national 2020 commitment. In terms of R&D expenditure, a one percentage point gap needs to be closed for the target of 1.9 % of GDP to be reached.

A comparison of the current values of Lithuania's national targets and the target values for 2020 is presented in **Chart No. 1** and **Table No. 1**.

Chart No. 1. Distance to national targets and comparison with EU average



Source: Smarter, greener, more inclusive? - Indicators to support the Europe 2020 strategy. Eurostat, 2015 <http://ec.europa.eu/eurostat/documents/3217494/6655013/KS-EZ-14-001-EN-N.pdf/a5452f6e-8190-4f30-8996-41b1306f7367>

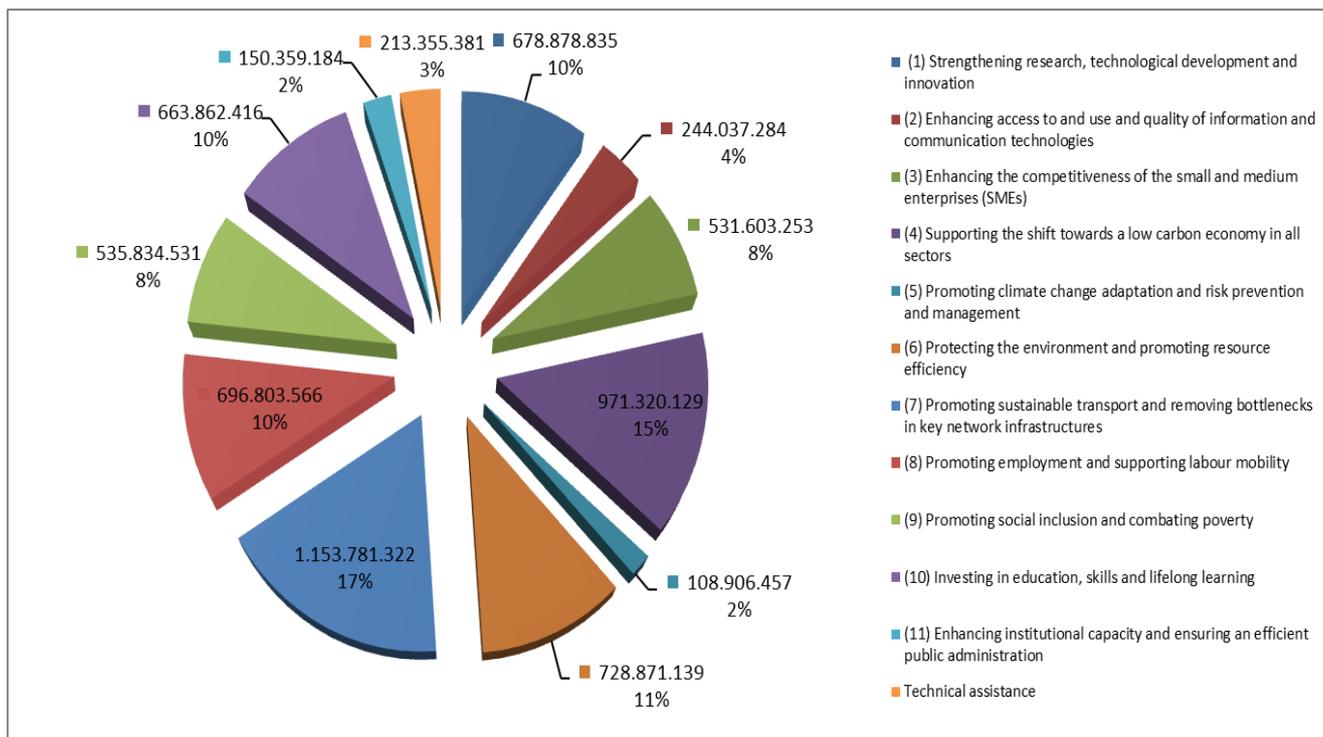
Table No. 1. Europe 2020 targets and current situation in Lithuania

Europe 2020 headline targets	EU28 average (latest available data)	Recent situation in Lithuania (latest available data)	National target for 2020
3% of the EU's GDP to be invested in R&D	2.01% (2013)	0.95% (2013)	1.9%
A 20% reduction in greenhouse gas emissions	17.86% (2012)	7% (2012)	15%
20% of energy from renewable energy sources	15% (2013)	23% (2013)	23%
A 20% increase in energy efficiency	12.8 % (2013)	2.49% (2012)	17%
75% of the 20-64 year-olds to be employed	68.4% (2013)	69.9% (2013)	72.8%
Reducing school drop-out rates below 10%	11.3% (2014)	5.9% (2014)	< 9%
At least 40% of 30-34-year-olds completing third level education	37.6% (2014)	52.6% (2014)	48.7%
At least 20 million fewer people in or at risk of poverty and social exclusion	24.5% of total population (2013)	30.8% of total population (2013)	170.000 less people in or at risk of poverty and social exclusion

Sources: http://ec.europa.eu/europe2020/europe-2020-in-your-country/lietuva/progress-towards-2020-targets/index_en.htm, 30 March 2015; <http://ec.europa.eu/eurostat/>

The major role in implementing of Lithuania’s medium and long-term development strategies is assigned for 2014-2020 EU structural funds investments (6,7 billion EUR). According to the Partnership Agreement⁵, approved on 20 June 2014, EU investments will focus on innovativeness and investments into R&D and innovations, ensuring quality, openness and creativity in education and training, ensuring efficiency in public administration, development of the digital society, development of modern basic infrastructure, creation of a better environment for business, sustainable and efficient use of natural resources, promotion of employment, reduction of poverty and social exclusion, and territorial development (for more detailed information see **Chart No. 2.**)

Chart No. 2 Distribution of the 2014-2020 EU structural funds according priorities, in euros



Source: Republic of Lithuania: Partnership Agreement (2014-2020), www.esinvesticijos.lt

Norwegian Grants contribution to the national development objectives. The funding from Norway Grants 2009-2014 supplements to EU funds and is expected to contribute to the above mentioned Lithuania’s medium and long-term national development strategies as well as sectoral ones.

Due to the size of the Norway Grants (see **Chart No 3**), the planned outcomes of the financed programmes could not be measured in terms of impact at the national level. The impact is further defragmented by rather high number of relatively small programmes. However, as the choice regarding the programmes to be financed during the MoU negotiation stage was based on the most pronounced need for financial support in specific areas that were not covered by other financial instruments, some quite significant and appreciable effects can be expected in these targeted niches (see **Chart No. 4**).

⁵ Republic of Lithuania: Partnership Agreement (2014-2020), www.esinvesticijos.lt – official website of the EU investment in Lithuania

Chart No. 3 Distribution of the Norway grants among programme areas, in euros

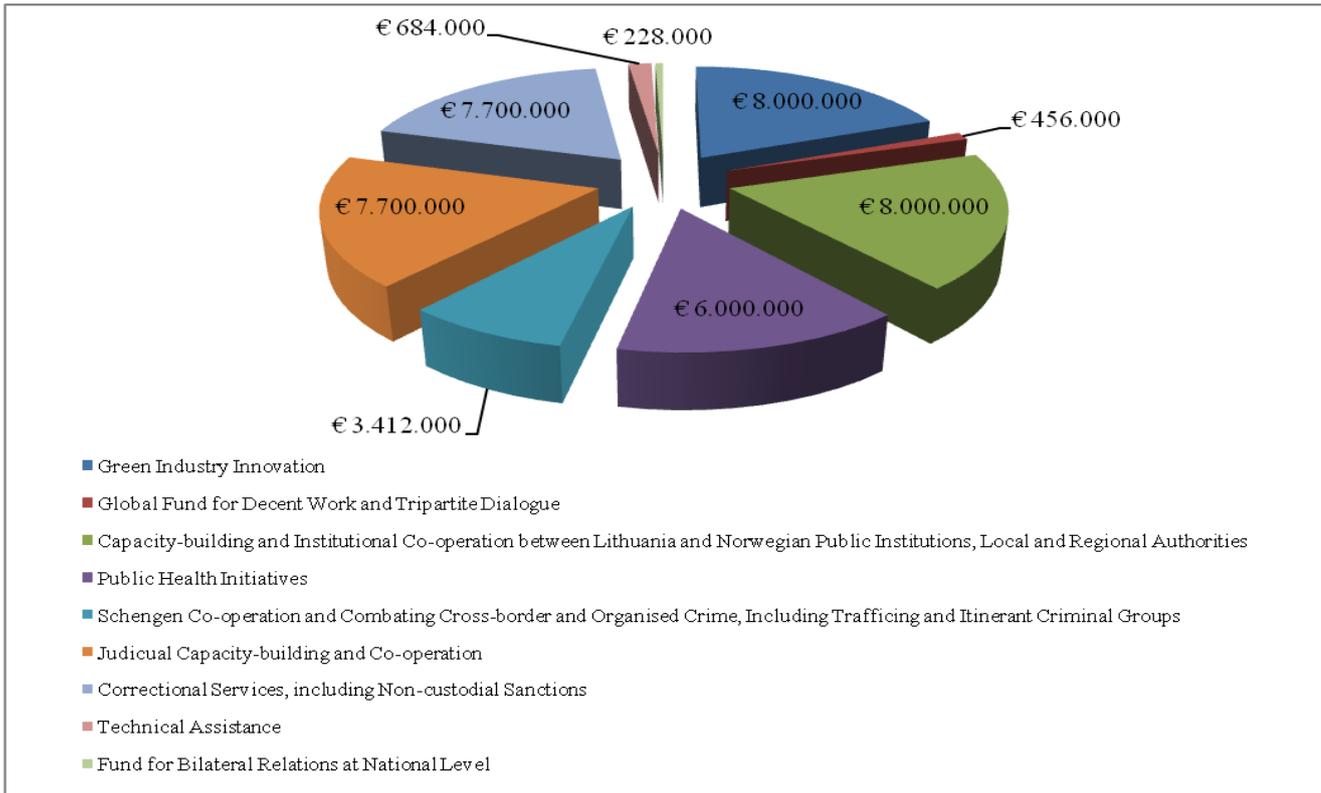
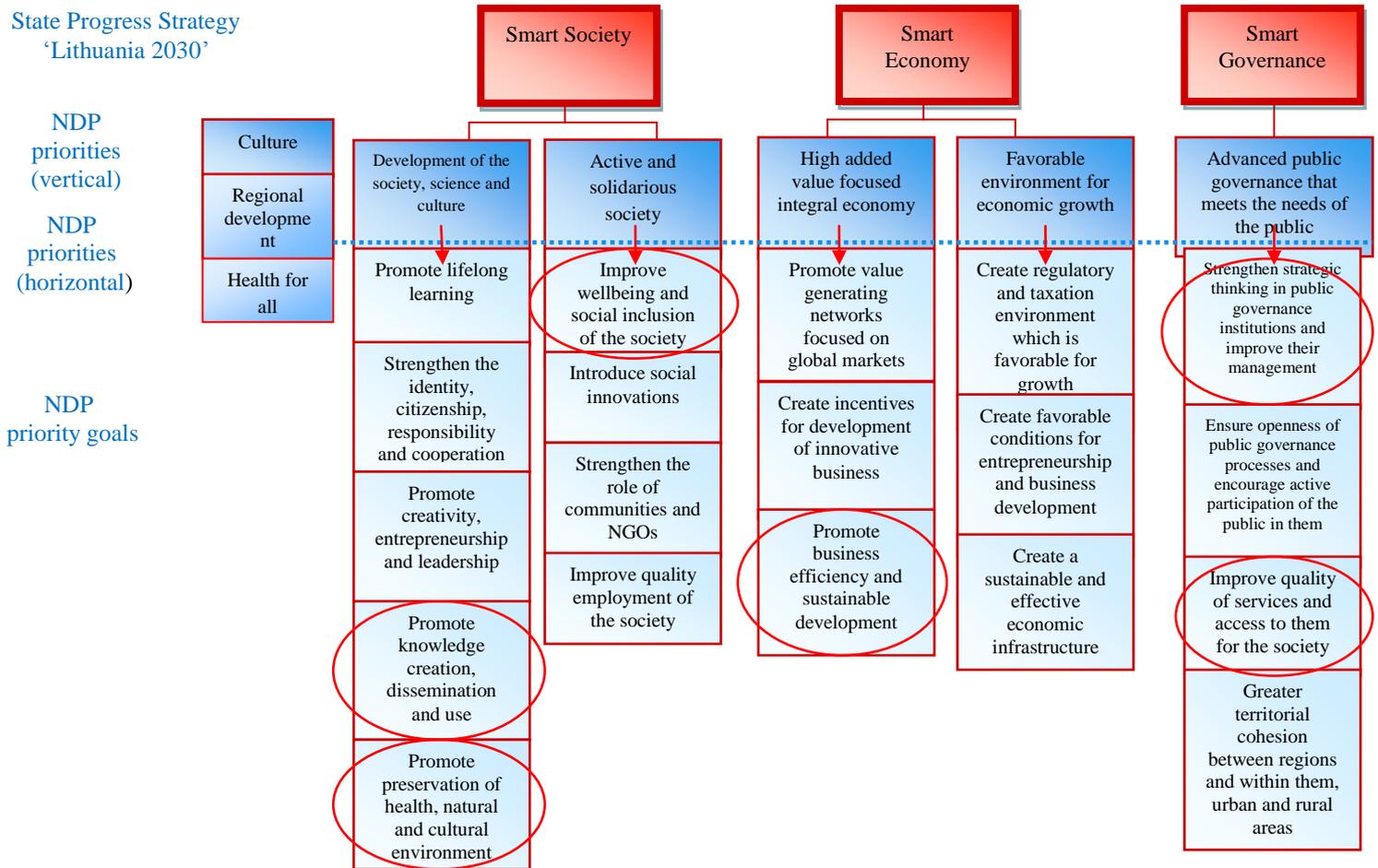


Chart No 4. Lithuania's Progress Strategy, Priorities, Goals and link with Norway Grants Programmes



○ - Link with objectives of the LT programmes financed from the Norway Grants 2009-2014

Only one of the programmes financed from the Norway Grants, namely **programme LT09**, could be regarded as directly related to the economic development. The other ones could be described as being more of the social character. Lithuania is not among the leaders in the EU⁶ when it comes to green innovations in industry, especially in small and medium enterprises (SMEs). The changeover from traditional to more environmental-friendly technologies is a complex process which is gradually implemented in Lithuania. The programme LT09 is not targeted at research and development of eco-innovations on world or even European scale, but instead could be described as an inducement or motivation for Lithuanian SMEs to create and implement innovations that will allow to use energy and other resources at a higher efficiency and to minimize waste in the production process. Having regards that natural resources are becoming more and more expensive and environmental requirements are tightening, the facilities available under Programme LT09 was considered as very relevant for the Lithuanian companies seeking to maintain or even increase their competitiveness.

The aggregated programme LT09 implementation results show that although business still lacks experience and know-how for the implementation of green projects, the interest and demand in development of an efficient production processes remains. It could be observed that private sector investments in research and innovations during the last years were low mainly due to the limited possibilities of many enterprises to access finances. By adding a significant injection to the sector in amount of MEUR 92,68 under EU

⁶ Despite an increase in R&D intensity since 2010, Lithuania spends only about 0,95% of its GDP on R&D, which is far below its Europe 2020 target of 1,9%

Structural Funds investment programme 2014-2020, it is expected to increase SME investment into eco-innovation and other resource-efficient technologies noticeably thus soften possible negative repercussions for long-term growth.

Regional policy is aimed at ensuring the high quality of life for the all inhabitants of the whole country territory and a change for the better is very much dependant on the competency of public sector. Public administrations are not sufficiently result-oriented; they lack targeted and systematic monitoring, evaluation and improvement. The decision making process lacks openness and transparency, as well as effective consultations with the public. The research subscribed by the Ministry of the Interior showed, that 46% of citizens trusted municipalities and their subordinate institutions in 2012 (6% more than in 2011) and among the reasons of the distrust are such causes like unqualified staff, low work quality, etc.⁷. The government effectiveness (general governance indicator providing summary assessment of the quality of the public administration in general) have increased in 2012 in comparison to 2011 according to the EU data on quality of public administration, however remains lower the EU average⁸. Priority under **programme LT10** is given to institutions in problem territories and regional growth centres; hence the well-being in these regions will be impacted through better daily results and quality of the provided services of strengthened institutions to local communities. As transparent and effective management is a necessary condition for the country's rapid progress and the state can better perform its functions only by fostering administrative capacity, programme LT10 is expected to contribute to the achievement of aims of the NDP as Lithuanian administrative capacity shall be improved by taking over the Norwegian institutional, administrative and policy making experience. The results of LT10 programme shall complement and serve for the benefit of 2014-2020 NDP and namely its horizontal priority "Regional development", where efforts are directed towards assurance of balanced and sustainable development of regions and increase of territorial cohesion in the regions. It is strongly expected that overall results of the LT10 programme on the one hand will improve the competences, capacities and skills of the local and regional authorities though the bilateral cooperation with relevant Norwegian authorities and on the other hand shall ensure the platform for the achievement the national long term goals and enhancement of the quality and the efficiency of the public sector.

Reducing inequalities in health between different socio-economic groups, between rural and urban areas as well as different genders is one of the burning issues the Lithuania is facing. Although, life expectancy index is growing, it is still one of the lowest among EU countries. Health inequalities in Lithuania are ranked as one of the largest in Europe. Difference in life expectancy at birth between the women and men was 10,85 years, between population in urban and rural areas – 2,72 years in 2013⁹. General trend of deterioration of health of children and youth due to harmful lifestyle is also noticeable. The initiatives addressing child and youth health as well as health inequalities remain on the top of national political agenda. Year 2014 were announced 'Year of Child Health' with particular emphasis on public health initiatives. This ensured more political attention and support to the initiatives covered by **programme LT11** in general as well as to drafting of relevant strategic national legal acts:

- ✓ Lithuanian Health Programme 2014-2025, adopted by the Parliament of the Republic of Lithuania, endorsing the strategic aim of having a healthier population, increasing life expectancy and reducing health inequalities by 2025;
- ✓ Inter-institutional action plan under the horizontal priority "Health for all" within the National progress programme 2014—2020, adopted by the Government of the Republic of Lithuania, with focus for coordinated measures included those aimed at improvement and development child and youth friendly, high quality, accessible and effective healthcare, with particular focus on public health and inter-sectoral cooperation;
- ✓ Plan for reduction of health inequalities in Lithuania in 2014-2023, adopted by Minister of Health.

Although the programme LT11 is not big, but its concentration on the specific problems of health inequalities in Lithuania as well as efforts directed at creating friendly health care services for children and youth and system for consistent monitoring of health inequalities on national level will definitely have an impact in selected area.

⁷ <http://vakokybe.vrm.lt/get.php?f.654>

⁸ http://ec.europa.eu/europe2020/pdf/themes/34_quality_of_public_administration_02.pdf

⁹ Lithuanian Department of Statistics, <http://www.stat.gov.lt/>

The constantly increasing globalisation and changing geopolitical situation is directly related to the increase of cross-border crime and need for effective control over EU external borders. Lithuania's strategic location at an EU external border itself requires concerted efforts to improve all aspects of border control, i.e. sufficient human resources as well as appropriate material facilities, including measures relevant to the fight against smuggling of excise goods, stolen motor vehicles, illegal migration, people and drugs trafficking and itinerant criminal groups. Statistical data on almost all earlier listed offences does not console. During the years 2010-2012, EU Member States registered 30 146 victims of trafficking in human beings. 80 percent of victims of trafficking were female, and over 1 000 child victims were registered as trafficked for sexual exploitation¹⁰. Also, in 2013, there were 344 888 detections of illegal stay in the EU of third-country nationals who have been detected by Member State authorities while not fulfilling, or no longer fulfilling, the conditions for stay or residence¹¹. In this context, Lithuania is a transit country for the majority migrants to the Western Europe and Scandinavia. There is no official data on the number of irregular migrants in the country; data is only collected on persons who violated the conditions for legal entry, stay or residence. In 2013 there were 2 000 persons who breached the rules¹². Smuggling of cigarettes, which causes a huge financial damage to the national budget, is one of the top priorities to fight with. Lithuania is ranked the 2nd country in the EU with a share of 27,1% illicit tobacco market¹³. **Programme LT12** provides the facilities for better capacities of police and customs to fight and prevent cross-border crimes thus contributing to the safer environment not only to Lithuanian citizens but also to all European Community.

The justice sector is assigned with an essential role in guaranteeing social cohesion. The biggest share of the Norway Grants (44,6% of the total net assistance) is allocated to programmes aimed at strengthening capacities of police and custom, modernization of judicial system and improvement of imprisonment conditions as well as re-socialization services in penitentiary system in Lithuania. A significant change is being observed in public trust in the judiciary system starting from 2010. By the end of 2014 citizens' trust in the system has grown up to 39% compared to 22% in 2010¹⁴ (tendency of trust/distrust is presented in Chart No. 5). The main reasons of distrust in courts – belief, that courts are corrupt, having uncertainties about court decisions (complicated enough for lay persons), low quality of courts services especially for vulnerable group of society, as well as negative opinion prevailing in the media about the work of courts. Achievements under **programme LT13** directly contributes to creation of fairer, more transparent and more efficient judicial system in Lithuania. Modernisation will make it more effective and easier accessible to all citizens, which is one of the main preconditions for protection of human rights. Moreover, raising awareness and improving understanding of ordinary people in court activities will improve their ability to defend their rights through legal means.

Chart No 5. Public trust in judiciary system



Source: http://ec.europa.eu/public_opinion/cf/

¹⁰ https://ec.europa.eu/anti-trafficking/sites/antitrafficking/files/trafficking_in_human_beings_-_eurostat_-_2014_edition.pdf

¹¹ http://frontex.europa.eu/assets/Publications/Risk_Analysis/Annual_Risk_Analysis_2014.pdf

¹² <http://123.emn.lt/en/irregular-migration/irregular-migrants-in-lithuania>

¹³ <http://www.kpmg.co.uk/email/06Jun14/OM014549A/PageTurner/index.html#198/z>

¹⁴ http://ec.europa.eu/public_opinion/cf/showchart_column.cfm?keyID=2196&nationID=21,&startdate=2010.11&enddate=2010.11

An indicator that visibly bares problems existing in justice sector in Lithuania is the imprisonment rate which is the worst among the EU countries – 315 prisoners for 100 000 inhabitants compared to EU average of 133 and Norway of 75 (in 2014¹⁵). Nevertheless, the imprisonment rate tends to decrease albeit very slowly (329 in 2013). High recidivism rate indicates that re-socialisation system is not really effective. Correctional system in Lithuania is overloaded with long lasting problems; however sufficient funds have not been available as well as appropriate legislation adopted to implement larger scale reforms. The majority of Lithuanian penitentiary institutions are located in longstanding buildings which do not comply with international standards. Inmates and detainees living conditions are not really adjusted for such type institutions and this influences inmate inter-violence, unsecure conditions for prison personnel and difficulties with providing efficient social inmates re-habilitation. Poor detention conditions, overcrowding, insufficient health-care services, the excessive use of force in prisons and segregation of life-sentenced prisoners were also highlighted in the report drafted by Council of Europe anti-torture Committee on 4 June 2014¹⁶. For resolving of existing problems, the Lithuanian Government by its resolution of 24 July 2014 approved Programme of Modernization of Lithuanian Custodial Institutions for 2014 – 2022. This Programme aims to create safe, efficient and economical penitentiary system, ensure appropriate imprisonment conditions for inmates and detainees and secure working conditions for prison staff. Return of the convicts to be full-fledged society members participating in its social and economic life is essential in safeguarding the security of the population, as well as human and social development. **Programme LT14** is a good kick-start in implementation of sidestepped reform in correctional services.

2.2 Bilateral relations

Existence of several different instruments (Donor Programme Partnership, National Bilateral Fund (NBF), bilateral funds under programmes, encouragement of partnership under open calls) ensure that bilateral relations are increasing and strengthened on both programme and project level and even outside the immediate boundaries of the implementation of the Norwegian Financial Mechanism. It could be observed that in 2014 year the bilateral cooperation at all levels in Norway Grants financed programmes was rather intensive (except of rather limited scope in LT10 and LT12) and provides a solid background for achievement of the planned bilateral objectives at the end of the Grants if risk factors were minimised.

NBF work plan was developed by the NFP in consultations with the FMO, Norwegian Embassy in Vilnius, Lithuanian Ministry of Foreign Affairs and relevant national line ministries back in 2012 and amended several times during 2013 and 2014. The Fund, implemented via financing of pre-defined activities, travel reimbursement scheme and planned open call, is designed to provide a platform for increasing mutual political, cultural, professional and academic relations in areas considered to have a cross-sector effect and are complementary to the agreed programmes.

Following the defined aims, in 2014 the NBF activities were targeted at facilitating pre-defined initiatives in the areas of energy security in the Baltic Sea Region and human rights as well as successful completion of the project on gender equality in research institutions. Approach to finance pre-defined activities proved to be successful in reaching tangible bilateral cooperation results as well as flexible in addressing both beneficiary and donors interests and rather simple in administration.

The project ‘Gender Equality Implementation in Research Institutions: Collaborative Approach’, implemented by Vilnius University in partnership with Norwegian University of Science and Technology, University of Iceland and University of Lichtenstein, and aiming at developing mechanism of ‘cooperative approach’ for collaboration between scientists, high level executives of research institutions and science policy making bodies and using them to support implementation of gender mainstreaming policy in science in Lithuania and other countries participating in European regional programmes, was prolonged and financing increased due to its high performance, visibility and delivery of co-operation results. In addition to the achieved direct bilateral outcomes of the project (partnership agreements, joint events, joint articles), the

¹⁵ http://www.prisonstudies.org/info/worldbrief/wpb_stats.php?area=europe&category=wb_occupancy

¹⁶ <http://www.cpt.coe.int/documents/ltu/2014-06-04-eng.htm>

wider effect is seen while developing professional networks between institutions in beneficiary and donor states, joint initiatives in the European or international arena.

Financing of the initiative ‘Energy security in the Baltic Sea Region: regional coordination and management of interdependencies’ from NBF was prompted by the current geopolitical situation. The Institute of International Relations and Political Science (Vilnius University) in partnership with the Norwegian Institute of International Affairs are working together on energy policy with focus on Lithuania’s recent experience and plans for addressing the new energy security related changes and the role Norway can play in those plans. The direct outcome of the project – a study in a form of a joined report - is being conducted by experts from Lithuania and Norway. The wider effect is expected on a later stage; energy projects like electricity and natural gas connections usually have a strong regional dimension and involve several countries, therefore the interest on the produced outcome will definitely go beyond the frame of only bilateral cooperation.

Proposal to contribute to the initiative ‘Human Rights in Lithuania 2013-2014: Overview’ from the NBF was reasoned by importance and relevance of the initiative while raising society’s awareness on human rights situation in Lithuania and strong bilateral dimension. Project is planned to be implemented with a partner – Icelandic Centre for Human Rights, contract signed in the beginning of 2015. Additionally to the expected direct bilateral outcomes of the project, due to close similarities of the nature of activities performed by the collaborating parties, there is a high probability that cooperation established for a certain activity will grow into a longer term partnership.

The idea of introduced reimbursement scheme was to facilitate POs and pre-defined projects promoters in development of bilateral relations by compensating travel expenses related to experience sharing events till the bilateral funds at programme level became available or eligibility of these funds is to some extent limited. However, the established measure was not requested as much as it was expected. After having assessed the future funding demand from this measure and with approval of the donors, the major part of the unused funds from this measure, i.e. EUR 60,000, was reallocated for financing pre-defined initiatives. Amount of EUR 3,438 (of which EUR 1,866 Norway Grants) was used out of EUR 10,000 (of which EUR 5,429 Norway Grants) available under the reimbursement scheme during 2014.

Open call for financing ad hoc initiatives that consist mainly of one or several related specific actions (e.g. participation in events, meetings or release of joint publications) with clear implementation schedules was not announced as planned in second quarter of 2014. After assessing the administrative burden in organising open call in comparison with expected bilateral results, the NFP suggests that better and much targeted results could be achieved if the different approach of projects’ selection is applied, i.e. selection of pre-defined project ideas and then development and implementation of the project with clear and targeted bilateral results. It is planned to reach the common decision regarding the NBF open call organisation during annual meeting in 2015 May. Indicative budget reserved for the open calls is about EUR 160,000 (of which EUR 86,857 Norway Grants).

Progress made towards the **expected bilateral relations results under programmes** can be described in the following four dimensions:

- *Extent of cooperation.* 4 out of 6 programmes operated by Lithuanian POs are being implemented with Donor Programme Partners (DPP) from Norway. 9 pre-defined projects are being implemented with donor project partners, too. Considering the aim of programme LT10 all the projects (pre-defined and selected through calls) will be implemented with Norwegian partners. Compulsory partnership requirements were set in the first call under the programme LT09 (partnership scheme). Bilateral cooperation was encouraged and prioritised in the calls under programmes LT11 and LT14. After open calls (LT09, LT11, LT14) 3 partnership projects were contracted (all under LT09) till end of reporting period. The list of contracted partnership projects is provided in [Annex 2](#).

Existence of programme bilateral funds facilitated partner search for potential applicants as well as the development of already established partnerships in pre-defined projects (measure “a”). However, the performance in years 2013-2014 demonstrated that the need for funds within measure ‘a’ was

relatively minor. The most common forms of implementation of this measure, i. e. partner search forums organised by POs (in cooperation with DPP when relevant) and calls for proposals for bilateral activities, did not received a lot of attention from both potential project promoters and potential project partners under LT11 and LT14 programmes, except LT09¹⁷. LT10 programme has not started using measure “a” because of general implementation delay. Despite a high interest from the potential applicants under programme LT09 and all the exertions made in promoting programme activities the outcome was rather modest. Given that partnership was mandatory under the first call for proposals and encouraged under following two, there were 24 partnership applications received throughout all 3 calls for proposal in total and only 4 partnership projects¹⁸ granted for financing.

Measure “b” provided opportunities for bilateral initiatives in addition to the ones already included into the projects. It is or will be used in all the programmes. Selected forms of support for bilateral cooperation under measure “b” include mostly pre-defined activities organized by POs and open calls. For the meantime, the most tangible benefit from the bilateral cooperation using available opportunities from this component and the progress made towards the achievement of bilateral objectives could be observed under programme LT13. As regards other programmes, it is too early to assess success and measure results except for those that come in form of signed partnership agreements.

- *Shared results.* The programmes themselves that are implemented in cooperation with the DPPs are already to some extent shared results. Although the extent of DPPs’ actual involvement in the implementation process differed among the programmes. The same can be said about project level, where partnership projects (and even those without formal partnership but having *ad hoc* cooperation elements) will definitely create some shared results although it is hard to forecast the quality and success of these results at this stage. The most likely types of shared results are joint articles on specific subjects published and new technologies/practices/methodologies introduced as well as projects with expected shared results implemented.
- *Knowledge and mutual understanding.* Share of competences is set forth in the programme documents. Generally the partner obligations cover content-related support of the national PO in the programme implementation, fostering establishment of partnerships and promoting a given programme in the donor states. In some programmes this has already materialised to a significant extent on the level of PO-DPP cooperation while preparing programme proposals, developing guidelines for applicants, actively participating in projects’ selection processes, generating ideas on bilateral programmes’ elements as well as implementing joined programmes’ activities. Regular Cooperation Committee meetings or pre-defined projects promoters’ visits to Norway and project partners’ visits to Lithuania carried out in programmes made possible to learn more about various practices and organisation of systems in respective policy areas in the shorter period of time compared to other communication means. On project level additional effect is expected when project promoters and partners participate in various related conferences, workshops and other events where third parties will also learn about the practices of partnering entities and countries as well as the EU and the Norway Agreement. In 2014 two flagship initiatives of bilateral and one of international nature, exceeding the programme framework, contributed to better knowledge and mutual understanding and to increased awareness of the Norwegian Financial Mechanisms implemented in Lithuania (programme LT13).

It is worth to mention that in parallel to possibilities available from programme bilateral funds the Complementary Action means also contributed to better knowledge and mutual understanding and created some additional added value in these fields (e.g. programme LT11, expertise from Norway and other countries was presented in international conference “Working together for health equity” organised in cooperation with WHO/Europe in Vilnius, November 2014).

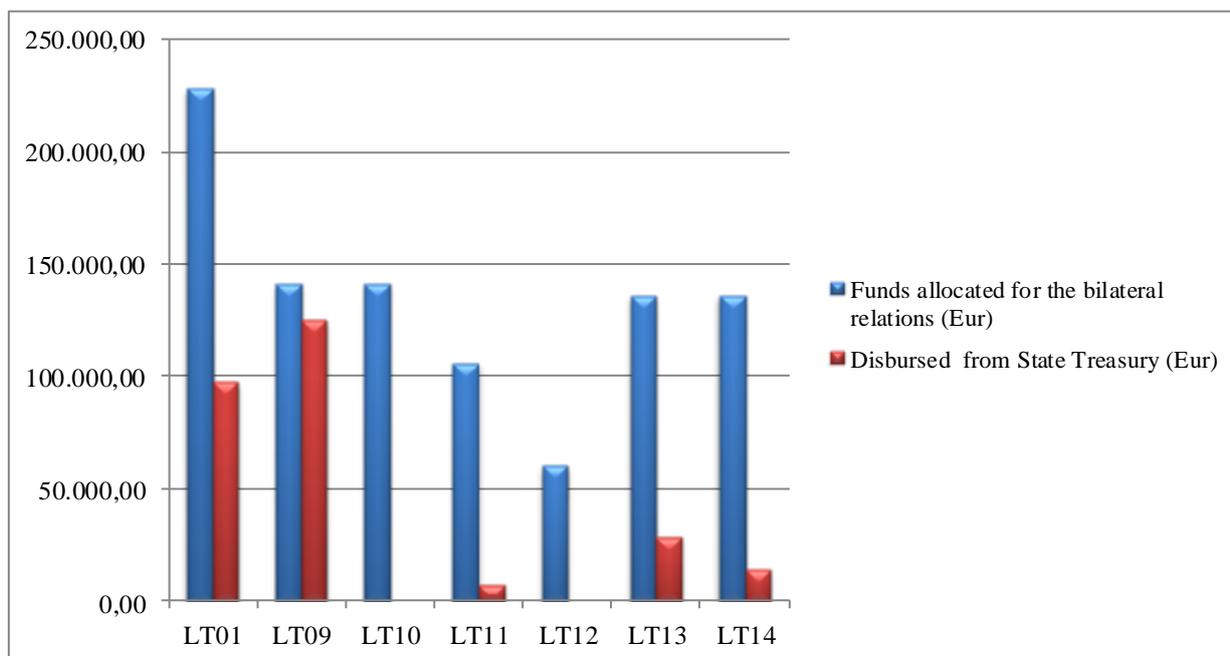
¹⁷ Measure “a” not relevant to LT12 and LT13 because of programme setup (only pre-defined projects).

¹⁸ 3 project contracts signed in 2014, 1 project contract for project with partner from Norway is due in beginning of 2015 after positive decision by PO.

Wider effects. Successful partnerships are likely to generate further cooperation initiatives but it depends heavily on the availability of additional resources. However, improved knowledge and capacities tend to have spill-over effects into other areas both on the institutional and individual level. Some visible contribution to wider results came out already from the initiatives funded under the NBF, although the size of investment was comparatively little.

The financial performance of the NBF and programme bilateral funds is presented in the **Chart No 6.**

Chart No 6. NBF and programme bilateral funds financial progress*



* Data as of 31 December 2014

The most prominent risk related to achieving bilateral goals at current stage - availability of partners from Norway – is still relevant. With the total number of 13 Beneficiary States and only 1 Donor Country it is obvious that Beneficiary States is practically competing for partners among themselves. Insufficient interest from partners from donor states, due to the already ongoing outreach to potential applicants from other beneficiary states or a very short time period left for the start and implementation of projects, should also be considered. The programmes that started earlier have a relative advantage, but even obtaining a partner cannot secure smooth implementation. This mostly relates to the uncertain interest of cooperative parties and different expectations from the partnership or even understanding of partnership as such. It is worth to emphasize challenges posed by differences in management systems in Lithuania and Norway, different specific natures of a given thematic area, practices established as well as some culture issues which do not work in a favour of establishment of basis for building of strong cooperation. Risks that might hinder the achievement of bilateral outcomes on both national and programme level are presented in **Annexes 6 and 7** to this report.

3. REPORTING ON PROGRAMMES

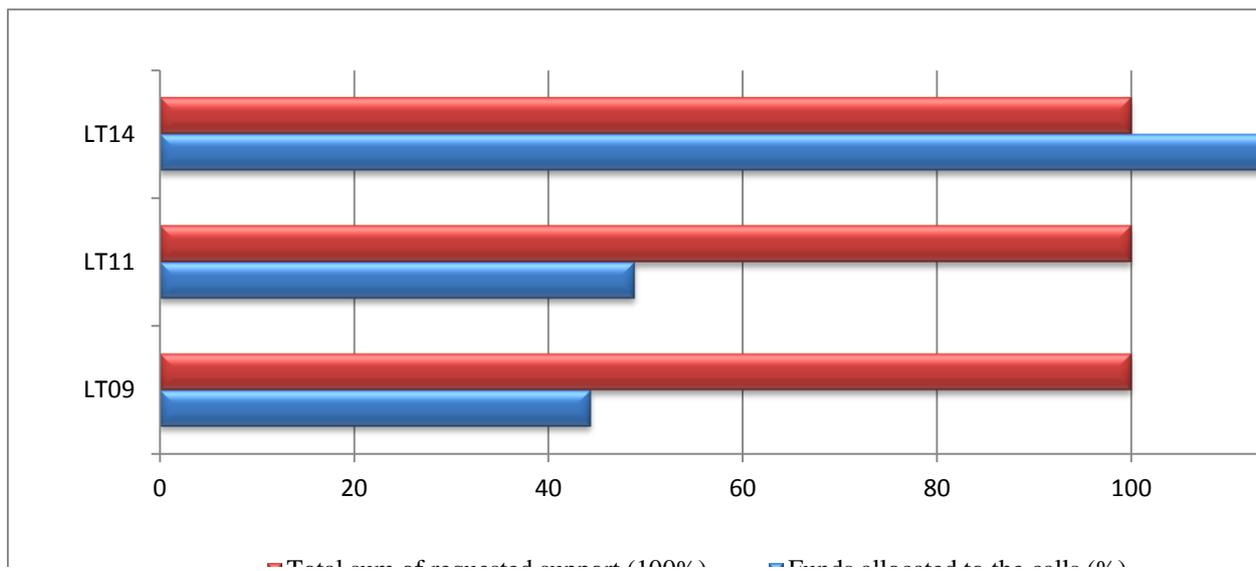
3.1 Overview of Programme status.

There are 7 programmes implemented within the Norwegian Financial Mechanisms in Lithuania. Six programmes are operated by Lithuanian national administrative bodies and the remaining one is operated directly by donor's entity (LT22).

The year 2014 was intensive in terms of calls for proposals, assessment of pre-defined projects and implementation of the projects holding the decisions on financing. In general, overall progress towards the expected programmes outcomes and defined outputs is minor. Given, that implementation of Grants was vulnerable to risks related to delays from the very beginning: late signing of the EU and Norway agreement, protracted harmonisation, approval and signing of programme agreements; the further delays were even enhanced by prolonged development and harmonisation of the Guidelines for applicants and pre-defined projects or evaluation of proposals due to inadequate quality of draft documents or presented applications. However, some results are already achieved or even defined goals fully met in certain programme areas.

The year 2014 was intensive in terms of preparation, announcement and implementation of calls for proposals within LT09, LT11 and LT14 programmes. Given, that substantial part of the funds available for re-granting is assigned to the pre-defined projects, the remaining ones (except LT10) were distributed via 6 open calls, including those announced in 2013 yet, but with results accessible only in 2014. The results of the completed calls for proposals demonstrate great interest of the potential applicants in the proposed funding, which far exceeds allocations available under LT09 and LT11 programmes. Big number of applications usually allows for selecting the most valuable projects. However the experience gained from the completed calls under LT09 shows that even a large selection range cannot secure the quality, mainly due to the specificity of the sector, very ambitious expected results and lack of capacity (administrative and financial) of the potential beneficiaries. The chart below (Chart No. 7) presents the results of calls divided into allocations available for re-granting with regard to the demand.

Chart No. 7. Proportion of available funds to the demand by programmes



Basic information of the status of actual implementation of the programmes as well as financial reflection is presented in Table No 2 below. (More detailed information on individual programmes status is provided in section 3.2 of this report).

Table No. 2. Operational and Financial Status of Programmes

Programme***	Calls/ pre-defined projects (actual status for 4Q)	Commitment		Disbursement		
		Projects* (EUR) (% of total available)	Programme**	Disbursed from State Treasury to programme*(EUR) (% of total available)	Disbursed from State Treasury to projects (EUR) (% of total available)	Disbursed from the Donors (incl. advanced payment) (EUR)
LT09	Projects selected under Small Project Scheme and 1 st Partnership Project Scheme calls under implementation Decision on financing of 2 projects under 2 nd Partnership Project Scheme open call taken, contracts due in beginning of 2015, some applications under appeals procedure	1,303,652 (15,66%)	1,088,101	341,126 (31,35%)	0	3,591,243
LT10	Calls delayed Pre-defined projects approved, contracts due in beginning of 2015	0	1,082,355	106,314 (9,82%)	0	2,316,616
LT11	Project under 1 st call selected and under implementation Projects under 2 nd call selected, contracts due in beginning of 2015 Pre-defined projects under implementation	2,801,538 (45,94%)	960,998	153,961 (16,02%)	673,022 (11,04%)	1,137,644
LT12	All (pre-defined) projects approved, contracts due in beginning of 2015	0	414,118	33,343 (8,05%)	0	1,309,811
LT13	All projects under implementation	8,210,465 (100%)	848,359	153,934 (18,14%)	369,385 (4,5%)	2,320,664
LT14	All projects under implementation	7,925,372 (99,08%)	1,059,929	181,505 (17,12%)	2,363,867 (29,55%)	4,755,698
Total		20,241,027 (47,56%)	5,453,860	970,192 (17,79%)	3,406,274 (15,03%)	15,431,676

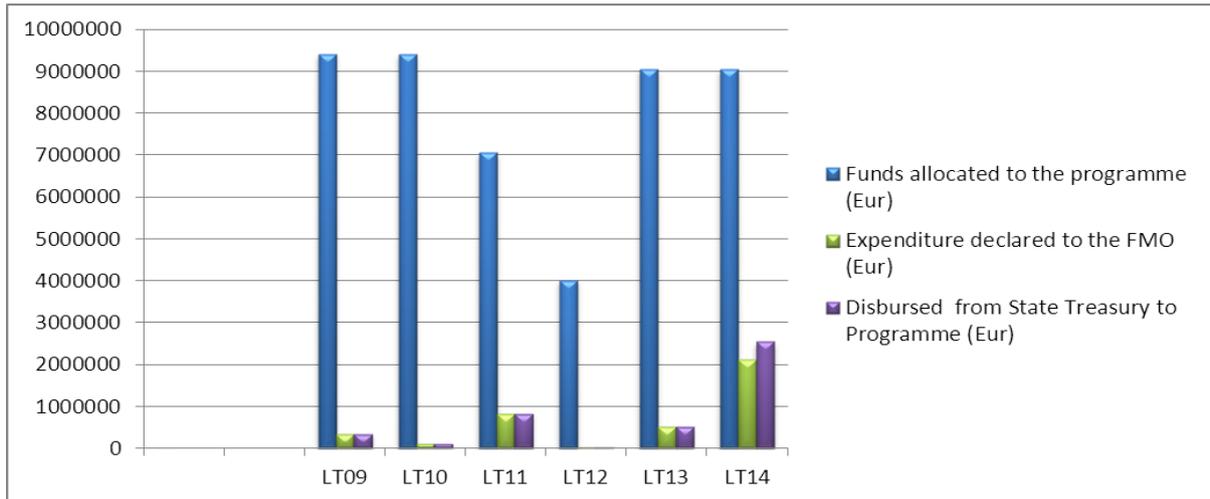
* Data according to the signed project contracts, projects approved for financing by POs in 2014, but with no signed contracts, are not included.

** Columns show amounts committed/disbursed for programme management, bilateral fund, complementary actions and programme preparation.

*** LT22 not included.

In 2014, in addition to the programmes management costs where the first payments were made much earlier, the expenditure in projects were also reported. The relevant financial data on the amounts committed, paid out to programmes as well as declared to the donors is presented in the chart below (Chart No. 8).

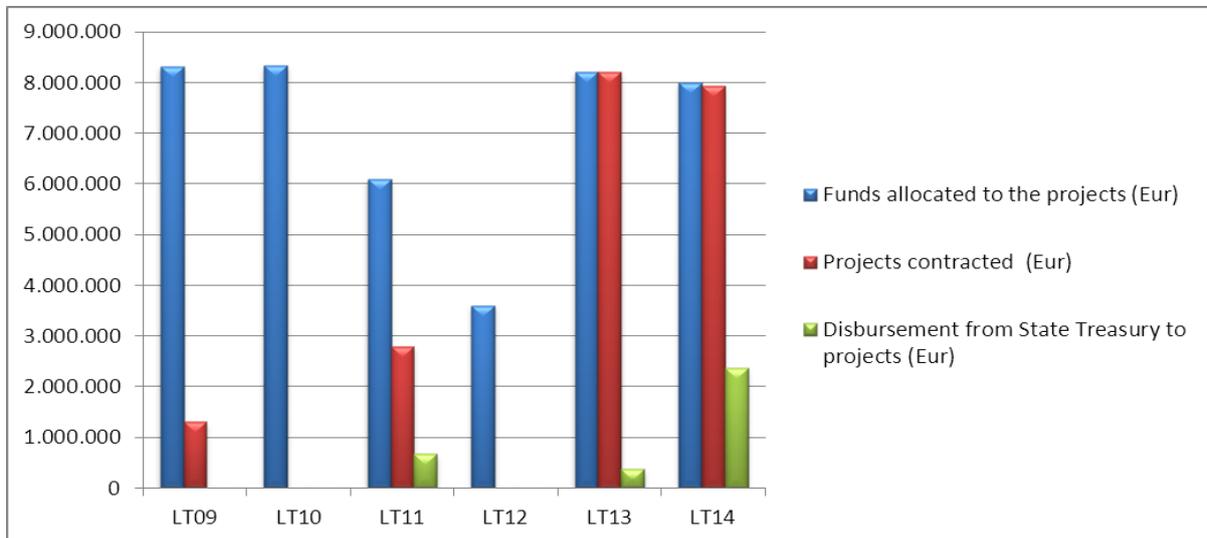
Chart No 8. General financial data breakdown*



* Data as of 31 December 2014

With regards to the pre-defined projects constituting a significant component under programmes LT10, LT11, LT12 (only), LT13 (only) and LT14 not all funds available for re-granting of these projects were committed, although decisions on financing of these projects were taken by the end of 2014. As regards projects selected under the open calls, only a half was contracted by data collecting deadline. No data presented for LT10; the call was moved to year 2015 and the pre-defined projects were not contracted. As can be seen from the chart below (Chart No. 9) disbursement to projects constituted relatively small share compared to total available funds. The major payments for the project promoters are planned in 2015 and 2016.

Chart No 8. Projects' commitment and disbursement data breakdown by programmes*



*Data as of 31 December 2014

3.2 Individual programme summaries

Based on the information provided by the POs in the Annual Programme Reports and NFP observations, a summary for each programme that include assessment on overall progress as regards implementation of the programmes and their sub-projects, progress towards expected outcomes and actual achievement of outputs, usage of bilateral funds as well potential risks that may threaten the achievement of the Programme objectives is provided below. Having overall responsibility for the implementation of the Norway Grants in Lithuania and for reporting on this annually a short status on the implementation of the LT22 is also provided.

LT09 Green Industry Innovations

During the first half of the reporting period evaluation and selection procedures of the projects under the Small Project Scheme and Partnership scheme were completed. In total only 3 applications, i.e. 2 under the Small Project Scheme and 1 under the Partnership Project Scheme were selected and approved for financing. The results of calls for proposals in both schemes showed that there were low interest and insufficient number of good quality applications therefore fewer funds than available were contracted under the both schemes. As remaining funds were comparatively small amounts and it was inefficient to have two additional calls for proposals according to the both schemes, LT09 Programme Agreement was amended with a possibility to reallocate all not used funds after the first calls to the Partnership Scheme.

In March 2014 PO launched a supplementary call for proposals (2nd call under Partnership Project Scheme) after advanced work with DPP and FMO improving guidelines for applicants. Requirement for compulsory partnership was withdrawn to reduce risk of not collecting sufficient number of applications but partnership projects were prioritized. 4 projects applications out of 20 received were selected and approved for financing on 29 December 2014 and one more project recommended for financing as a result of finished complaint procedure in March 2015. Main factors that resulted in a comparatively low commitment under the supplementary call were again insufficient number of good quality applications, i.e. non-compliance of applications with the minimum formal administrative or eligibility criteria, as well as lack of co-financing.

Among the scenarios on further development of the programme the reallocation of undistributed funds to other programmes or idea on implementation of a pre-defined project were also considered by the NFP and PO. A decision to announce one more supplementary call (3rd call under Partnership Project Scheme) with significantly reduced requirements was taken by the PO in consultations with DPP, the announcement of additional open call suspended until 11 February 2015 when minimally sufficient funds were released after appeals procedure.

It is likely that the Small Project Scheme related outcome indicators will be reached as planned, however, since the announcement of an additional call under this scheme was not foreseen, the initial output indicator "Number of projects developing or improving green products or materials" was revised pursuant to the provisions of the Programme Agreement. Since not all programme funds earmarked for projects have been used, and the third call for applications under the Partnership Project Scheme was announced, thus both the remaining Output indicator and Outcome indicators set in the programme are likely to be achieved.

The main risk and challenge for the upcoming year for the PO and the CPMA – to ensure smooth and as fast as possible appraisal, selection and appeal process in order to conclude project contracts and to leave still time for implementation.

During the reporting period the public, potential applicants and partners were actively informed about the Programme. Organized information events and applicant trainings received a lot of interest - around 200 people attended them. Promotion of bilateral business relations between Lithuania and Norway was actively performed: business matchmaking events-seminars were held in Lithuania and Norway. DPP - agency "Innovation Norway" greatly contributed to the promotion of bilateral partnership by distributing information on the Programme implemented in Lithuania. LT09 Programme Bilateral activities plan for 2015 is provided in **Annex 3** to this report.

LT10 Capacity Building and Institutional Cooperation between Beneficiary State and Norwegian Public Institutions, Local and Regional Authorities

LT10 Programme consisting of three predefined projects and calls for proposals for large projects and Small Grant Scheme, was at the very initial implementation stage in the beginning of 2014. Due to the late consensus on the provisions of the Programme Agreement and inadequate administrative capacity in the PO organization preparation of documents were delayed significantly.

During the first half of the reporting period programme activities were mainly targeted at drawing guidelines for pre-defined projects and submitting the pre-defined projects applications for appraisal. As open call was not launched in the first quarter of 2014 as provided in Programme Agreement the amendment was agreed with donors to reflect an updated schedule of programme implementation. Even some improvements were

identified in preparation of the open calls documentation, made efforts were too little to be able to announce the calls according to the updated schedule, i.e. in Q2. The first draft of call documents was submitted for consultations to the FMO only in late August. Several rounds of consultations were held later on while the consensus on all outstanding issues was reached and the calls were announced on 30 January 2015.

Given that decision on financing of pre-defined projects was signed only in November 2014 and none of the project contracts were signed during 2014 no significant changes in relation to outcomes and information on achievement of LT10 Programme outputs is recorded. Due to initial delays the main risk and challenge for the upcoming year is to ensure smooth and fast appraisal and selection process to conclude project contracts as soon as possible to leave still enough time for implementation.

As regards bilateral cooperation, during the reporting period bilateral activities were not intensive at programme level as well as at project level due to the programme status, except the pre-defined project for co-operation of Norway and Lithuanian police services, where the bilateral cooperation activities in a form of exchange visit started in autumn. As partnership in the projects is a compulsory requirement according to the Regulation, the main risk for potential applicants under the open call is to find a suitable partner willing to implement joint project. Programme launching conference and Partner search forum were organized in March 2015. The calls were very much awaited by potential applicants in Lithuania. However, announcement of the call within a time lag of one year as well as very late information available on Partner search forum did not attract their counterparts from Norway. LT10 Programme Bilateral activities plan for 2015 is provided in [Annex 3](#) to this report.

LT11 Public Health Initiatives

In summer 2014 both pre-defined project contracts were signed and started implementation as well as project selected via open call under the Measure 2 ‘Development of the model for the provision of youth-friendly health care services’.

Under the Measure 1 ‘Improvement of the provision of health care services in schools and pre-school institutions’ open call announcement, evaluation of applications and selection procedures ended by the end of 2014, contracts will be signed in the beginning of 2015. Due to a very large demand under this open call (covering 90% of municipalities and requesting more than 2,7 times more funding than available), exceptionally high quality of applications and seeking to ensure earlier achievement of results and to benefit the wider circle of target recipients as well as to save administration costs, PO has initiated a modification of Programme Agreement by proposing reallocation of composed balance from other measures also merging of both planned open calls.

As projects were at the very early state of implementation in 2014, neither the relevant programme level outcomes nor outputs have been achieved, however no deviations from contribution of projects to planned Programme objectives were identified, first achievement are expected in 2015. The biggest challenge for the PO and the CPMA for the upcoming year is mitigating the risks of delays, approval of the remaining guidelines, launch of the remaining (small grant scheme) open call, smooth and fast appraisal and selection procedures.

Although the programme doesn’t have the DPP, the PO is making all the efforts to stimulate partnerships and develop bilateral dimension of the programme. During reporting period first applications under the programme bilateral fund “a” and “b” measures received, bilateral cooperation initiatives implemented, initial contacts established or strengthened. LT11 Programme Bilateral activities plan for 2015 is provided in [Annex 3](#) to this report.

LT12 Schengen Cooperation and Combating Cross-border and Organized Crime, including Trafficking and Itinerant Criminal Groups Programme

Programme LT12, consisting only of two pre-defined projects, was at the very initial implementation stage in the beginning of 2014. Due to the similar reasons as for the LT10 Programme (the same PO), overall implementation of the programme was delayed.

In 2014 programme activities covered mainly preparation of guidelines for pre-defined projects and appraisal of the submitted pre-defined projects applications. Decision on financing of the pre-defined projects was signed in November 2014. As none of the project contracts were signed during 2014, no

significant changes in relation to outcomes and information on achievement of LT12 Programme outputs are recorded.

Late start of the actual project implementation, i.e. fourth quarter of 2014, and quite a significant infrastructural element under the projects poses a risk of non-completion of some projects' activities until 30 April 2016. The measures to minimise the identified risk – strict project activities schedule and control of its implementation, tight schedule for preparation of public procurement documents, ex-ante check of the procurements – should be implemented by the pre-defined project promoter and administrating authorities.

The bilateral cooperation during reporting period was rather limited (there is no DPP for this programme). Some achievements could be identified on project level between the Lithuanian police and KRIPOS in Norway as these authorities has entered into a partnership agreement pursuant to the provision of amended Programme Agreement. Programme bilateral fund is likely will be used for additional co-operation for pre-defined project promoters and their partners from Norway, however the elaborated plan on the use of bilateral fund as set forth in section 2.1(1) of the Programme Agreement is not prepared yet. LT12 Programme Bilateral activities plan for 2015 is provided in [Annex 3](#) to this report.

LT13 Efficiency, quality and transparency in Lithuanian courts

The foreseen activities of all three pre-defined projects were launched at the beginning of 2014. During 2014, while implementing activities of all three pre-defined, a lot of public procurement documentations were prepared, public procurement procedures for most of activities started and some were completed, the first study visits and trainings were successfully implemented. Although there was significant progress in the implementation of project activities made and all the activities were focused on reaching the outputs and outcomes, only one project ‘Strengthening the competence of representatives of judicial system (including judges, court staff and representatives of National Court Administration) (training)’ achieved measurable results and contributed to the implementation of one output indicator – 500 court staff and legal professionals trained. The first trainings for judges and representatives of the courts on communication with the media and the public were carried out and more than 5 percent of the necessary staff and legal professionals have been trained.

Activities under 2 out of 3 projects were implemented according to the work plan and no deviations were identified. However project “Modernization of the Courts Information System” Despite project promoter from the beginning of the implementation assigned all the necessary human resources and a special attention was given to the management of the project risks (especially timing- related risks), achievement of the main project objective - modernization of the Lithuanian courts information system LITEKO and its integration with relevant information systems of the project partners till eligibility deadline is highly at risk. Taking into account the importance of the LITEKO in Lithuanian judiciary system and in support of the DPP, PO initiated request to the donors to extend the deadline for 12 months.

Significant and very successful bilateral co-operation could be identified during 2014. Seven Cooperation Committee meetings (in-person meetings and videoconferences) seeking to monitor and analyze the implementation of the Programme and the projects were held and three bilateral fund activities were implemented in 2014. Cooperation at project level between Lithuanian and Norwegian project partners were also very close - Norwegian experts took part in the visits and meetings with the Lithuanian representatives sharing the best practice. LT13 Programme Bilateral activities plan for 2015 is provided in [Annex 3](#) to this report.

LT14 Correctional Services, including Non-custodial Sanctions

During the first half of the reporting period, open call for proposals was announced. After completion of the evaluation of applications and selection procedures of the open call, project “Implementation of mediation in probation offices (MIPT)” contract was signed in August 2014.

In order to contribute to the implementation of the first indicator of output - train 80 employees as mediators for criminal justice cases - the first primary trainings in Panevežys and Vilnius were carried out and 40 percent of the necessary staff has been trained. The implementation of the second indicator of output

– 1500 persons taking part in mediation programme during the Programme – will start in February, 2015 when the mediators will be employed and trained.

During the second quarter of the reporting period, 5 pre-defined projects contracts were signed and implementation of activities started. Given the fact, that the projects implementation has started in the 2nd half of 2014, neither the relevant outcomes nor the outputs of the Programme and projects respectively have been achieved during the reporting period.

Late start of actual implementation and quite a significant infrastructural element under the Programme poses a risk of non-completion of some projects' activities until 30 April 2016. The measures to minimise the identified risk – development of the strict project activities schedule and control of its implementation, start of preparation of public procurement documents before signing the contract, high quality of procurement documents, ex-ante check of the risky procurements – should be implemented by the pre-defined project promoter and administrating authorities.

In 2014, a need for adjustment of Programme agreement was identified. Delayed preparation of documents for call for proposal led to the postponement of open call from the 3 Q of 2013 to the 1 Q of 2014. Also, necessary modifications such as withdrawing reference to minimum grant amount for project under the Bilateral fund as well as introducing several changes of a technical nature in Programme outputs' description were requested.

Significant improvement on bilateral Programme implementation aspects could be identified during 2014. Two Cooperation Committee meetings were organized. Also, 4 very useful and successful bilateral activities under the Bilateral Fund at the Programme level were organized. These visits were very helpful for both Project Promoter and Donor Project Partners to understand the objective of particular projects, to specify the directions and acts which should be done in case to achieve the objectives of particular projects and influenced projects implementation. At programme (strategic) level in 2014, Programme Operator participated in Annual Criminal Justice Conference in Norway (in Loen) and had a meeting with representatives of the other PO from Latvia, Poland and Romania. LT14 Programme Bilateral activities plan for 2015 is provided in [Annex 3](#) to this report.

LT22 Fund for Decent Work and Tripartite Dialogue

Programme LT22 is directly operated by the agency 'Innovation Norway' appointed by the donors. Implementation of all 6 approved projects was completed by the end of the reporting period. Total Grant allocated for Lithuania under programme LT22 amounts to EUR 449,160. Total balance expected at closure of projects could make EUR 6,500. Absorption of 98,5% of the Grant according to programme objectives seems very satisfactory.

4. MANAGEMENT AND IMPLEMENTATION

4.1 Management and control systems

MCS set-up and national legal acts for Grants implementation. The institutional set-up MCS and functions and responsibilities of the central management authorities (NFP, CA, PA, IRA, AA), POs and CPMA were established back in 2012. Most of the legal acts establishing unified requirements and procedures for management and implementation of programmes and projects, including the Technical assistance and administration of NBF, were approved by respective orders of the Minister of Finance in 2013. In the course of 2014 the legal acts were amended several times taking into account further development of the MCS, change in currency, clarification and amendment of the Regulation requirements and to upgrade requirements which were not functioning in practice.

The set of legal acts regulating management and implementation of the Norway Grants was supplemented by the Rules on recoverable and recovered grant amounts under the EEA and Norwegian Financial Mechanisms 2009-2014 adopted on 9 September 2014 by the Minister of Finance order No 1K-277.

Based on the set general unified requirements the POs and the CPMA were further developing their internal work procedures. Structural changes introduced or additional units involved into administration and implementation of the programmes in some POs institutions and (or) the CPMA during 2014 as well as

implementation of recommendations provided in the Audit Report on the MCS 2nd stage are/were reflected in the relevant internal documentation.

Detail description of the MCS. In line with Art. 4.8 of the Regulation the Description of the MCS 2nd stage together with the Audit Report and opinion were submitted to the FMO on 9 April 2014. Detailed description of the MCS (excluding programmes administered directly by the Donor States institutions, i.e. Global Fund for Decent Work and Tripartite Dialogue LT22), considering the requirements specified in paragraph 2 of Article 4.8 of the Regulation (2nd stage) and based on the information provided by the central management authorities, POs and the CPMA, was prepared and approved by the NFP in the end of year 2013, i.e. on 16 December. It should be noted that due to specific Grants management set-up in Lithuania (centralised implementation system with one implementing agency and centralised unified rules for programmes' and projects' implementation) the NFP prepared one Description which covered description of centralised level of programmes implementation as well as procedures developed by each PO and the CPMA in the separate attachments. For the assessment of the 2nd stage of the MCS compliance to the requirements of the Regulation external audit office was contracted.

The Audit Report stated that notwithstanding some recommended improvements to the Description itself, legal acts and internal procedures of involved institutions the established implementation system in Lithuania complies with the requirements of the Regulations on the implementation of the Financial Mechanisms and generally accepted accounting principles in all significant aspects. The full list of found deficiencies, provided recommendations and follow up actions taken to implement these recommendations is provided in [Annex 4](#) of this report.

Development of IT system for grants management (SFMIS). Development of the IT system for the administration, management and control of the Financial Mechanisms was set in a manner to create the IT system functionalities taking into account the specificity of deferent project administration cycles. The functionalities of the first stage, i.e. subsystem's administration, project and payment modules have been installed and operate already since December of 2013. During the second stage, the functionalities of the data exchange website (which allows Project Promoter to receive partly prepared payment claims, submit payment claims in e-version, co-ordinate some documents for project implementation with CPMA etc.) and declaration of expenditure to the FMO were developed and installed. These functionalities fully operate since April 2014. During the third stage, until November 2014, the control module (storing and management of information on irregularities, project on-the-spot checks and performance of the project implementation plan, progress of implementation of financial and monitoring indicators, management of project public procurements) was created. The last functionalities for analysis (for making various section reports on the basis of the data stored in other SFMIS modules) and direct transfer of relevant information to the www.eegrants.lt website is going to be finalised in 2nd quarter 2015.

The adoption of euro from 1 January, 2015 could be identified among the additional challenges addressed to the responsible authorities. All relevant MCS legislation and IT based accounting and management system (SFMIS) had to be adjusted to the use of new currency accordingly. Transition to the new currency in terms of SFMIS was quite smooth, however it took more time and required some additional human and financial resources despite the efforts made while discussing major steps and planning resources for the adoption of the system.

4.2 Compliance with EU legislation, national legislation and the MoU

Apart from the exception on general payment model which was agreed with the Donors and described in the 1st stage description of the MSC, the implementation system of the EEA Grants in Lithuania is in line with the Regulation and the MoU. As a slight deviation from paragraph 2 of Article 4.8 of the Regulation could be identified – due to very specific set-up in Lithuania, the NFP prepared a single detailed description of the MCS 2nd stage covering all the programmes (see more details in the section 4.1 ‘Management and control system’ of the report).

All programmes were prepared and are being implemented in compliance with the MoU, Regulation, national legal acts, as well as relevant national and sectorial strategies, however, some issues regarding the compatibility of projects selection procedure established in the Rules on Financing and Implementation of

Programmes and Projects with the Regulation arose. After several rounds of consultation with the FMO the agreement was reached and respective changes were introduced to the relevant national legal acts in March 2014.

Regarding the related EU legislation, appropriate provisions of national legal acts on the implementation of the Financial Mechanisms and programme implementation agreements will secure that all involved actors must comply with applicable EU policy requirements including state aid, environmental directives and public procurements.

The only programme that falls within the requirements of State Aid is Green Industry Innovation programme. The grant given in all the calls under this programme is considered to be de minimis aid.

4.3 Irregularities

In compliance with the MoU and established MCS the National Fund Department of the Ministry of Finance is designated as national authority responsible for reporting on irregularities (IRA). IRA following the definition of irregularities set forth in Article 11.2 of the Regulation and fulfilling obligations according to Article 11.4 of the Regulation provided the FMO with the immediate report on suspected irregularity under programme LT11 which finally was not confirmed (see [Annex 5](#)). The nature of the suspected irregularity related to possible public and private interests conflict in allocating funding to the selected project. In order to assure the maximum transparency two separate investigations were initiated and carried out by the Internal Audit of the Ministry of Health (MoH, PO) and the Chief Official Ethics Commission (COEC). Both the Internal Audit of MoH and the COEC by their decisions within the frame of competence confirmed that neither infringement of established selection procedure nor breach of the Law of Public and Private Interests were determined. After having assessed the above mentioned case, new risk and relevant mitigation measures were included in the risk management plan.

4.4 Audit, monitoring, review and evaluation

No audits or/and evaluations have been undertaken by the NFP during the reporting. However, the NFP having its overall responsibility for reaching the objectives of the mechanisms carried out regular day-to-day monitoring of the programmes. Mid-term evaluation on the implementation of the Norway Grants in Lithuania is planned for 2nd half 2015.

The audit of 2nd stage of the MCS as requested in Art. 4.8 of the Regulation started in December 2013 and completed in March 2014. The task was performed by certified and independent external auditors appointed by the AA (more details provided in section 4.1 'Management and control system' and [Annex 4](#) of the Report).

AA, in compliance to the Audit Strategy for EEA and Norway Grants 2009-2014 and annual audit plan for 2015, will carry out audits to verify the effective functioning of the MCS at the national and programme levels. For this task external audit company will be contracted via procurement procedure.

CA and IRA performed 2 financial checks/audits of selected programmes' or projects' expenditure recognised to be declarable to the FMO in April and in November 2014. The scope of the checks allowed also verifying if the CPMA is acting in compliance to the Work Procedure Manual established according to the requirements of the MCS. CA and IRA stated only minor inaccuracies, no shortcomings that would have essential importance on proper fulfilment of the functions assigned were determined. 4 recommendations for the improvement as regards noticed inaccuracies were proposed as a result of the first check and only one after the second. The recommendations according to the first check were implemented by 30 September 2014, and the remaining one shall be implemented by the end of March 2015.

In addition, within the monitoring actions at the programme level, in 2014 three meetings of the Monitoring Committee took place. The Committee aims at ensuring effectiveness of utilization of funds and monitoring of the implementation of the Norwegian Financial Mechanism. The first meeting in the reporting year was held on 7 April 2014 to discuss status of implementation of the Financial Mechanisms and express opinion in respect of the Strategic Reports for 2013.

The second meeting of the Committee took place on 27 August 2014, the Committee discussed status of implementation of mechanisms and recommended the NFP re-allocation of funds between programmes.

During the third meeting, organized on 26 September 2014 the relevance of proposed additional reallocations between the programmes was assessed.

4.5 Information and publicity

The Communication Strategy for the EEA and Norway Grants was approved on 14 November 2012. Given the fact that the implementation of Communication Strategy was divided in to three stages, year 2014 was half way through the implementation of the second stage of the planned activities.

Qualitative analysis of media coverage was carried out during 2014. 892 reports related to the EEA and Norwegian Financial Mechanisms were captured during January-December 2014. Majority of the reports (108) were published in January, the fewest (50) – in December. The EEA and Norwegian Financial Mechanisms were mentioned most often and accounted for 75.7% of all keyword hits. Keyword hits of programme ‘Health care initiatives’ with 4.1% and programme ‘Efficiency, Quality and Transparency in Lithuanian Courts’ with 3.6% were mentioned most often among programmes, financed from Norwegian Financial Mechanism. The rest of keywords were less visible in the Lithuanian mass media (varying from 3.2% to 0.4%). The neutral publicity was dominating the communication flow and accounted for 66.2% of all keyword mentions. Positive mentions accounted for 33.0% of publicity, while the share of negative hits amounted for 1.1%. In 2014, 76 reports with a logotype of the EEA and Norwegian Financial Mechanisms were detected; their reach amounted to 5.10 million.

During the first quarter of the reporting period, the new joint EEA and Norway Grants website for all programmes was launched. During the reporting period, 6780 visitors have visited new website, 58 percent of them were returning visitors. The most visited Norway Grants programmes were “Public Health Initiatives” and “Green Industry Innovation”.

At the end of the fourth quarter of the reporting period a new user profile was created in social network Facebook dedicated to EEA and Norway grants in Lithuania. This new profile will help us to increase awareness of existence, objectives and benefit of the EEA and Norway Grants and will also ensure public access to all relevant information about the Grants.

The communication strategy needs adjusting regarding the time plan. It was planned to have electronic newsletters and information publication about the programmes in the second half of 2014, but due to delays in public procurement procedures for acquisition of various publicity activities (including newsletters and information publication), the contract with the service provider was signed only in October 2014. As the contract was signed only in the fourth quarter of the reporting period, it is planned, that the newsletters will be published in the first half of 2015, and the information publication will be published in the second half of 2015.

The intensity of publicity and information activities of POs depended on the progress made by each Programme. Publicity and information activities were more intensive in whose programs which open calls were launched earlier and pre-defined project contracts were signed earlier, such as LT11 and LT13, and less intensive or no activities in those programmes which didn’t launch their open calls and didn’t sign pre-defined project contracts, such as LT10 or LT12.

4.6 Work plan

Task	Planned implementation deadline	Responsible institution(s)
<i>Management and control system</i>		
Monitoring Committee meeting	29 April 2015	NFP
Completion of creation of last modules of the EEA/NOR Grants subsystem in the SFMIS	2Q 2015	NFP (CA, IRA, Paying Authority, POs, CPMA also involved)

<i>Implementation of programmes</i>		
Supplementary call for proposal under Programme LT09	1Q 2015	PO, CPMA
Call for proposal under Programme LT11 (Small Grant scheme)	2Q 2015	PO, CPMA
Call for proposal under Programme LT10 (large projects)	1Q 2015	PO, CPMA
Call for proposal under Programme LT10 (small grant scheme)	1Q 2015	PO, CPMA
<i>Implementation of the National Bilateral Fund</i>		
Launching of the open call under NBF	4Q 2015	NFP
<i>Audit, monitoring, review and evaluation</i>		
Mid-term evaluation on the implementation of the Norway Grants in Lithuania	3-4Q 2015	NFP
Procurement of the external audit for the verification of the effective functioning of the MCS.	2Q 2015	AA
Audits of the selected programmes and projects: LT10, LT11, LT12, LT13, LT14	3Q-4Q 2015	AA
<i>Communication and Publicity</i>		
Provision of relevant information on the joint website	throughout 2014	NFP, POs, CPMA
EEA and Norway Grants poster	1Q 2015	NFP
Other communication activities (electronic newsletter, Facebook account, information publication about the programmes, poster, roll-up banners)	1Q-4Q 2015	NFP (through outsourced service provider)
Analysis of media coverage	throughout 2015	NFP (through outsourced service provider)

5 SUMMARY LIST OF ISSUES AND RECOMMENDATIONS

In general it could be stated that during the reporting period programmes turned into actual implementation stage and progress in the implementation of the Norwegian Financial Mechanism have been achieved, however due to initial implementation stage attainment of the expected programmes outcomes and defined outputs is still minor. It should also be noted, that overall implementation of the programmes is behind the schedule, while level of advancement significantly varies from programme to programme - highest progress noticeable in LT13, LT14 (fully contracted, projects well advanced), less in LT09, LT11 (only part of funds contracted) and low performance in LT10 and LT12 (zero contracting).

More visible results were achieved in bilateral cooperation fields both on national, programme and project level; close PO and DPP work (with some exceptions) and consultations on implementation of bilateral elements as well as organized joint activities succeeded in establishing contacts and developing partnership in project. Therefore some programmes already progressed towards the achievement of set bilateral indicators through a number of partnership projects selected and partnership agreements in the public sector, civil society or private sector signed and joint activities implemented/or under implementation. However,

the high risk of not contracting and using significant part of LT10 funds might significantly damage overall achievement of bilateral objective under the Norwegian Financial mechanism.

Overall, the implementation of Grants was vulnerable to risks related to delays from the very beginning: later than anticipated agreement reached between the EU and the Norway, protracted preparation of some programme proposals, approval and signing of programme agreements. The cumulative delays were even enhanced by prolonged development and harmonisation of the Guidelines for applicants and pre-defined projects, protracted applications appraisal and selection procedures, ultimately – not smooth procurement procedures at project level. All accumulated and system complexity (a big number of actors at different levels involved in the coordination of every task) delays are considered as a major challenge to successful implementation of programmes and achievement of the agreed cohesion and bilateral objectives. Furthermore, due to overall delay, the priority given to timely completion of the projects could leave aside the quality element of expected results.

To minimise the above mentioned risk the POs and CPMA are requested to assign adequate resources to announce remaining open calls, to ensure smooth and fast appraisal and selection process to conclude project contracts as soon as possible to leave still enough time for implementation. In specific cases request to the donors to prolong the implementation deadline for the project might be initiated. Moreover, in case of non-completion till project eligibility deadline – the remaining funds is suggested to be transferred (in agreement with donors) to programme bilateral fund and/or Complementary actions for implementation of additional bilateral activities in the programme area.

Constant dialogue and exchange between FMO and NFP, between NFP and POs/CPMA, the NFP and CPMA involvement in communications between POs and DPPs/FMO on programme major developments would provide for reducing system complexity risks.

Regarding the risk of achievement of bilateral objectives, the availability of partners from Donor State for remaining calls remains most prominent risk. To minimise this risk the POs are suggested to use strategic approach and set priorities in which specific programme/call partnership is desired (no obligatory requirement (if in line with Regulation) for all the calls but instead for calls of specific interest and potential). Advanced involvement of the DPPs and other relevant institution for setting the plan how to encourage and facilitate partners from donor countries to participate in projects also publicising information about the goals of the programmes and expected activities to the targeted audiences as widely as possible proved to be very effective and suggested for future calls.

A number of operational risks, identified for most of the programmes and closely related to the time risk: protracted public procurements or unsuccessful procurement procedures, late start of the projects - will be addressed with means of additional consultation and exchange of good practise, closer monitoring of programmes and projects with higher risk, training of the project leaders on preparation of the procurement documents and ex-ante control of risky procurements, start for preparations for implementation as early as possible before signing the project contract, reorganisation of project activities were possible.

6 ATTACHMENTS TO THE STRATEGIC REPORT

Annex 1 List of applications received and projects selected/contracted

Annex 2 List of donor partnership projects at programme level

Annex 3 Bilateral activities plan for 2015

Annex 4 Follow up of MCS assessment

Annex 5 Lis of irregularities at Programme level

Annex 6 Risk assessment at the national level

Annex 7 Risk assessment of the programmes

Annex 8 Implementation of the Technical Assistance