

Minutes of the Annual Review Meeting 2022
Concerning the Latvian FEAD Operational Programme (CCI 2014LV05FMOP001)
18th January 2023, Riga, Latvia

Summary:

- Last year was very challenging, given the displaced Ukrainian persons crisis and hence the increased target group. However, the managing authority, in collaboration with the intermediate body and partner organisations, managed to ensure that there was **no interruption of support** (merely a temporary limitation to distribute one aid pack per month from May 2022 until October 2022, without reducing the overall support per end beneficiary).
- Latvia took several measures to address the high inflation and energy cost increase (incl. raising the minimum income, housing benefits and non-taxable limits for pensioners), but still **demand for FEAD is at a record high**. Latvian authorities were reminded about their commitment to consider increasing financial resources for the new period in the mid-term review.
- There is a need to **digitalise the monitoring of aid delivery also at the level of partner organisations**. A pilot project will be launched in 2023. Latvia is however not interested in **e-vouchers** as supermarket prices for food would be 30% higher than for procured food packages and as there would be no sufficient access for end beneficiaries to supermarkets in more remote regions.
- The administration and partner organisations call for **reducing administrative burden**, also as the repeated changes in applicable rules have led to human errors and consequentially some **(limited) financial corrections** by national audit authority. Latvia is interested in applying Art. 83 CPR on enhanced proportionate arrangements for their management and control system.

Part I – European Commission (EC), Managing Authority (MA), Audit Authority (AA), Intermediate Body (IB), Partner Organisations (POs)

1. Introduction

L. Grafa, on behalf of the FEAD Managing Authority (MA) and D. Woehl, representing the European Commission, presented themselves, welcomed the participants and outlined the agenda for the meeting. The Commission explained that social exclusion and poverty remain a key challenge in Latvia (LV) and pointed to the challenges brought about by the current socio-economic situation (Covid-19 pandemic, Russia's war of aggression against Ukraine, high inflation and energy costs). The Commission reminded the participants of some of the key EU initiatives related to poverty reduction and social inclusion (EPSR Headline Targets for 2030 and LV national target of reducing the number of persons at risk of poverty or social exclusion by 95.000 by 2030; the Council Recommendation on Adequate Minimum Income Ensuring Active Inclusion; and the European Platform to Combat Homelessness).

2. Current situation with regard to the most deprived in Latvia (MA)

The MA presented the changes in poverty and material deprivation indicators. LV retains one of the highest social exclusion and poverty rates in the EU and inequality is the highest in the Baltic states. Material deprivation and inequality has decreased since the Guaranteed Minimum Income (GMI) reform took place in 2021. More people received minimum income benefits, following the new GMI thresholds. Family state support was also increased from 1 January 2022 – households with multiple children now receive significantly more support. Moreover, pensioners' non-taxable limit was increased, the pensions were

indexed earlier and the housing support applied a coefficient of 3x for all households (01.10.2022 – 31.05.2023). Other state support was provided specifically for vulnerable persons to partially cover the energy costs increases. Nevertheless, the GMI reform continues (proposals to raise annually the GMI and to follow a methodology of 20% median income for GMI to be adopted in 2023). The GMI is expected to rise to 125 EUR for the first person in a household (currently 109 EUR) by July 2023.

The EAPN-Latvia representative inquired about why the non-taxable limit of the pensions is not raised further, given the current inflation. This demographic group is very vulnerable in the crisis and without further support, more elderly persons will become needy persons. The MA replied that pensions have been raised last year and that this is a question to be put forward in writing for submission to the Ministry of Finance.

The Commission inquired about the support provided to low-income families who do not qualify for FEAD. The Ministry of Welfare explained that low-income thresholds and social inclusion measures remain different in municipalities. Soup kitchens are providing support irrespectively of income levels. The crisis situation requires more additional support measures than the increased GMI. Housing benefits are not related to the status of the household. Currently, Latvia has a technical budget for 2023. Negotiations to raise the housing benefits coefficients from the state budget are ongoing. Negotiations are also ongoing on the adequacy of the GMI threshold (i.e. if it should be higher than 20% of the median income), but one has to take into account that the social security system is linked to the GMI (there cannot be a situation where pensions are lower than the GMI) and pension reforms are inherently challenging. The annual GMI review and indexation will be a step in the right direction. In order to further support municipalities, negotiations are ongoing to raise co-financing from the state budget to 50% for the GMI, but in the end it looks like the 30% state co-financing will remain.

3. Presentation on the problems and solutions found in the implementation (MA and IB)

Several regulatory changes were made to provide uninterrupted support for Ukrainian (UA) civilians. Same eligibility rules apply for UA citizens as for LV citizens (initial 3 months in crisis situation and then income thresholds are evaluated). Given the disruptions in global value chains and high inflation, in 2022, there was a risk for prematurely terminated contracts with suppliers. Many contracts were concluded before Russia's war of aggression against Ukraine, but the suppliers had to execute their contracts also given the influx of Ukrainian civilians. In response, special arrangements had to be made with suppliers to ensure that there is no cut in supply until a new contract is formed. The implementing bodies decided to temporarily reinstate the rule for beneficiaries to only take out one pack per month in order to reduce the pressure of the suppliers and partner organisations (POs). Overall, support did not reduce (i.e. beneficiaries would be eligible for full support, but would not be allowed to take multiple packs at once). Then, a temporary extra food pack was included for the beneficiaries during the heating season. From 1 January 2023, the threshold for low-income households eligible for FEAD was raised to 376 euros (previously 264 euros). All these amendments, increased the administrative burden on POs, which is why there have been some errors in the delivery; however, there was no interruption of support.

In 2022, a record amount of recipients of food aid for FEAD were registered in LV. Normally the number of recipients reduces in summer – but this year was different because of the inflation and the socio-economic situation. In general, the share of households with children as end-recipients was falling until the Covid-19 crisis and inflation. There are different demographics for LV and UA recipients (proportionally more women and children for UA; more seniors for LV). In terms of financial implementation, all of the funding has been absorbed (incl. REACT EU) for 2014-2020, but 10.4 million EUR extra financing was added from national resources, following reallocation in the 2014-2020 multi-fund operational programme. Extra

financing for UA citizens has also been allocated from the state budget. In response to the Commission inquiries, the MA explained that it is very difficult to forecast, if the UA target group will grow further in 2023, but the number of arrivals has currently stabilised. The first wave has been survived without interruptions in support, so the system should be able to cope with any future waves of UA arrivals. Adequate financing remains key, especially given the high inflation. The EAPN-Latvia representative suggested to the MA to organise procurement calls annually and not every three years. The MA explained that this has been discussed already, but that there is a risk that there will be disruptions in the support provided should procurements be more frequent.

The Society Intergration Foundation as the Intermediate Body (IB) explained that FEAD support has continued despite Covid-19 and the UA displaced persons crisis. In response to combating homelessness, a housing-first project is piloted within the framework of another fund. Already two weeks after Russia's invasion of Ukraine, packs were distributed to UA citizens (new target group) in Latvia. More than 36.000 persons from UA arrived to LV in 2022. Actions were taken to ensure that there was no interruption of support to the target group. Disruptions in global value chains were affected, so the support package content was affected. There was a need for more procurements, high inflation for products and increased transport costs. Suppliers were worried that they would not be able to fulfil their contracts. As a precaution, future procurements will take into account inflation, but it is difficult to predict exactly the effect of the potential inflation. POs made some errors in the distribution process given the increased administrative pressure. We are waiting to start the use of ESF+ resources in the second half of 2023.

The Latvian Red Cross representative thanked for the collaboration and effective crisis management from the IB and explained that the accompanying measures were successfully provided. He argued that procurement in a longer timeframe is more beneficial and that this is the reason behind successful non-interruption for support. The POs would like to contribute to digitalisation (the Latvian Red Cross offered to conduct the pilot project for a new IT system for digitalised accounting of distributed items). The IT project needs to commence this year and there needs to be trainings to POs on how to use the system. The digital competency of workers at distribution centres cannot be ignored, and any digitalisation will take time.

4. Presentation on the impact of the Russian war of Aggression against Ukraine (POs)

The PO "Baltā Māja" (Līvāni municipality) representative mentioned how support was provided to other POs caught in the Jēkabpils floods, ensuring that FEAD packages were transferred to security. The representative then provided an outline of the social services provided by the Samaritan Association of Latvia (e.g. home care, day care centre, showers, food packages) and touched upon the food bank project "Paēdušai Latvijai" (which provides support for low income households from food donations outside the FEAD framework). Grocery stores donate food that is not yet expired (often its bread that is distributed to beneficiaries on the same day). Around 300 tonnes of food were donated by Rimi in 2022, which provided considerable support to those in need. Regarding the UA crisis, most UA citizens came in April 2022. Municipalities needed to quickly find where to host persons (all UA civilians found accommodation). Social services provided the information. All of the displaced UA citizens in Līvāni quickly found a job. Now, the number of refugees has already decreased (most went to Riga, Daugavpils for work). During the last months a lot more families have come with children. One issue for providing support to UA citizens was the temporary restriction to distribute only one support pack per month. Replying to the Commission, the representative revealed that the lower involvement of UA citizens in accompanying measures is because of the larger working population in this group proportionally to LV beneficiaries. She also confirmed that there were no issues with distributing the support packs or accompanying measures to UA citizens. Most

accompanying measures were individual consultations, explaining why UA and LV citizens received individualised support. Group accompanying measures integrate both groups. The individual goals and vision of UA refugees have to be considered before conducting any wider integration measures.

5. Presentation on the state-of-play for the 2021-2027 programme (MA)

The implementation of the new programme will likely begin in May 2023. The Cabinet of Minister Regulation for management and implementation of programme has been adopted in May 2022, but it will require minor amendments, following the adoption of the new programme by the Commission in October 2022. The management and control system (MCS) will remain largely the same as in the current period, with some minor changes. SIF mentioned that the IT system will be updated to reduce administrative burden, whilst this will not negatively affect implementation. The current FEAD fund will keep working until autumn 2023. There are potential difficulties to be encountered for POs with package codes, given that there will be a transitional period, where both funds will be used simultaneously. The MA/SIF representatives explained that by taking into account previous programme experience, the plan is to distribute food and material packs with different funds (i.e. food support with one and material support with the other). The Latvian Red Cross representative mentioned that there could be an issue with the beneficiaries, if the pack content will be different between the two periods, so a transition period needs to be carefully planned. The Commission reminded the MA of the need to ensure adequate financing in the new period following the mid-term review.

Part II – European Commission (EC), Managing Authority (MA), Audit Authority (AA)

6. Anti-fraud measures (MA)

The MA explained that as part of the anti-fraud policy, there are regular checks for fraud, trainings for employees and countermeasures in case of identified fraud. The fraud risk assessment is documented and the process has integrated the Commission recommendation to consider the Covid-19 effects. Negotiations are ongoing with regard to the access to State Revenue Service (VID) database on income support to ensure less issues with end-beneficiary fraud. The MA believes that a provision should be included in the regulations for the programme to ensure access to this public database. The Commission welcomed the anti-fraud measures that have been put in place for the programme and outlined the need for transparency on the final beneficiaries, contractors and sub-contractors as well as the involvement of the civil society in preventing and investigating fraud.

7. Audit results and potential risks (AA)

The AA explained that one system audit took place in 2022. The monitoring and control system is in Category 2. Most previous recommendations had been considered, but a couple of issues remained, including the need for improved documentation by IB, information measures for POs and beneficiaries, and the application of ISO 270001 to the IT security management system. The MA explained that it has addressed the recommendations of the AA. SIF mentioned the difficulties in managing the programme and the importance of reducing administrative burden. It will need to work with POs to implement the planned IT system changes. Additionally, an operations audit examined 30 units of support packs in procurement and delivery. The heaviest part of work for AA is when auditing the POs – ensuring that flat rate payments to POs are in line with the number of distributed packs. Many regulatory amendments were made in 2022, affecting administrative demands on the distributors, which led to more human errors at the PO-level. This

led to findings with (limited) financial corrections. The MA inquired about the potential application of Art. 83 of the CPR on enhanced proportionate arrangements for the new programming period (i.e. other MS experience and guidelines on national schemes to be implemented). Following the Commission inquiry on the potential use of e-vouchers, the MA replied that the topic was discussed heavily two years ago. The low availability of resources means that the support provided in packs is more efficient than e-vouchers. In grocery stores, the food is 30% more expensive than in traditional procurement and for material assistance, the products are approximately three times more expensive in stores. E-vouchers would also likely negatively affect the provision of accompanying measures and accessibility to support in remote places.