

REGIONAL CREATIVE INDUSTRIES ALLIANCE –
FROM EUROPEAN RECOMMENDATIONS TO BETTER
REGIONAL CCI POLICIES FOR A MORE COMPETITIVE
ECONOMY

ACTION PLAN

**JOINT STOCK COMPANY “DEVELOPMENT FINANCE
INSTITUTION ALTUM”**



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PART I – GENERAL INFORMATION

PROJECT: Regional Creative Industries Alliance – From European recommendations to better regional CCI policies for a more competitive economy

PARTNER ORGANISATION: Joint stock company
“Development finance institution Altum”

COUNTRY: Latvia

NUTS2 REGION: Latvia

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PART II – POLICY CONTEXT

THE ACTION PLAN AIMS TO IMPACT:

- Investment for Growth and Jobs programme
- European Territorial Cooperation programme
- Other regional development policy instrument

NAME OF THE POLICY INSTRUMENT ADDRESSED:

Operational Programme "Growth and Employment". Priority Competitiveness of SMEs. 3.2. Investment Priority.

Cultural and creative industries in national planning documents.

In Latvia, the economic potential of culture was first updated at the national level in the late 1990s, when one of the first evaluations of the economic importance of the cultural sector emphasized that it could be a profitable industry.

An essential push for development was the introduction of the concept of creative industries into the discourse of Latvian cultural policy. This step demonstrated the support of policy makers in the creative industries and encouraged them to move away from the legacy that culture is only a subsidized industry. The definition of Latvian cultural and creative industries emphasizes the economic potential of creative industries, their ability to create jobs and general well-being. Creative industries are recognized as an important element of Latvian economy in various policy planning documents.

In 2010, the Saeima adopted the Latvian Sustainable Development Strategy «Latvia 2030», the main document of the country's long-term development planning. As one of the priorities for the well-being and balanced development of society, this document highlights the creation of a creative society that includes the need to create a fertile ground for cultural and creative industries. Promoting the development of creative industries is based on the opportunity to diversify the Latvian economy and promote its sustainability.

The economic potential of culture has also been highlighted in the medium-term planning document «National Development Plan 2014-2020». (NAP2020), which mentions the need to develop creative entrepreneurship. Setting the industry as one of the priorities in this document is a major contributor to facilitating the attraction of funding from EU development funds. Within the framework of the NAP2020 programme, for example, EU funds were attracted for the creation of a creative industry incubator (see picture below).¹

¹ Union «Forum of Latvian Design» website: 22.11.2018., Kaspars Nesterovs, "Kas paveikts un kas darāms radošo industriju politikā Latvijā"; <https://www.fold.lv/2018/11/kas-paveikts-un-kas-darams-radoso-industriju-politika-latvija/>



Although cultural and creative industries are mentioned in all planning documents listed above, there is no Strategy for Creative industries in Latvia. This can be considered as a major setback for creating a broad and complex support scheme for creative industries. The Ministry of Culture of the Republic of Latvia consider Cultural policy guidelines "Creative Latvia" 2014 – 2020² as the main policy planning document with specific actions and steps set for creative industries.

Characteristics of Latvian cultural and creative industries

When evaluating the economic contribution of creative industries in Latvia, it has to be highlighted that they are characterized by stable growth. In 2007, 7% of Latvian enterprises and 4.8% of the total working population in Latvia were employed in creative industries, while in 2013 the number of companies operating in the sector had increased to 10% with about 8% of the working population employed in creative industries and related sectors. These data confirm that creative industries are an important complement to the economy, although, at the same time, a more detailed data analysis reveals problems in the industry.

Micro-enterprises make up about 90% of the total number of enterprises in creative industries. Many companies work only for the local market, not being able to take full advantage of their export potential.

Despite the positive trends and bright success stories, there are still enough challenges in the field of export promotion. In 2013, only 43% of creative industry companies were exporting, and more than a half of them exported only a small part of their production. This is a long-standing problem in the creative industries segment of Latvia, and it is probably not just a lack of state support. Low turnover and hence limited business growth can be explained by an inadequate tax policy, a relatively low purchasing power of Latvian population and lack of awareness of the value of creative services – both from private and public sector customers. Various policy instruments should significantly boost the growth of small and medium-sized

² Website of the Ministry of Culture of the Republic of Latvia: Cultural policy guidelines "Creative Latvia" 2014 – 2020; <https://www.km.gov.lv/lv/kultura/kultura-fimekli/politikas-dokumentu/kulturpolitikas-planosanas-dokumentu>

enterprises, as well as large companies, as their competitiveness in the internal market and export capacity are significantly higher than those of micro-enterprises.

Kaspars Nesterovs in his article indicates that the issue that needs to be addressed is the availability and variety of support mechanisms for various creative industries. Considering, for example, the profiles of the members of the creative industry incubator, it has to be concluded that those involved are mostly companies related to the design industry. The Creative Week «radi!»), created as a platform for public information and engagement, has also been devoted to various aspects of design in recent years. These activities are largely explained by the proactive involvement of the design industry in the dialogue with the Ministry of Culture. Less is said about other areas of creative industries, such as IT, film industry, advertising industry, or visual arts.³ The Ministry of Culture has pointed out that, for example, design industry in «radi!» is always seen as a horizontal industry that positively influences the development of other creative and traditional industries, providing higher added value to services and products. For example, in 2019, creative tourism is the focus of «radi!», highlighting this industry as related to CCIs. Also, FOLD (brings forward the best in Latvian and foreign creative industries to help discover, understand, learn and collaborate)⁴, RaPaPro⁵ (programme for development of new partnerships between cultural educational institutions), activities implemented by the Northern Dimension Partnership on Culture and operations of Incubator of Creative Industries are significant support for CCIs in Latvia.

It is also indicated by Kaspars Nesterovs that although, large funds have been invested into the film industry at the moment thanks to the centenary film programme of Latvia, the availability of support after the end of the programme is of concern. This encourages the idea of finding alternative, sustainable forms of support for sectors that do not fit into existing support models, in order to ensure multi-dimensional and sustainable development of creative industries.⁶

Joint stock company "Development finance institution Altum" (hereafter - Altum)

Altum was founded on 27 December 2013 as the state-owned joint stock company "Development Finance Institution", acting upon a directive by the Cabinet of Ministers of the Republic of Latvia. All Altum voting shares belong to the Latvian state – shareholders include the Ministry of Finance (40%), the Ministry of Economics (30%), and the Ministry of Agriculture (30%). Altum took over all of the rights and obligations, including contract obligations with clients and partners of JSC "Latvian Development Finance Institution Altum" (until 1 January 2014 – JSC "Mortgage and Land Bank of Latvia"), LLC "Latvian Guarantee Agency" (hereinafter LGA) and JSC "Rural Development Fund" (hereinafter RDF).⁷

Altum implements various state aid programmes and offers financial instruments such as loans, guarantees, capital instruments and additional instruments, such as grants. The institution develops new aid programmes and financial instruments in cooperation with policy makers to advance the economy's development of Latvia. Main task of Altum is to compensate for the market's shortcomings that cannot be solved by private financial institutions. State aid programmes, administered by Altum, are implemented with public resources – European Union

³ Union's «Forum of Latvian Design» website: 22.11.2018., Kaspars Nesterovs, "Kas paveikts un kas darāms radošo industriju politikā Latvijā"; <https://www.fold.lv/2018/11/kas-paveikts-un-kas-darams-radoso-industriju-politika-latvija/>

⁴ <https://www.fold.lv/en/about-fold/>

⁵ <https://www.lnkc.gov.lv/nozares/kulturizglitiba/rapapro/>

⁶ Union's «Forum of Latvian Design» website: 22.11.2018., Kaspars Nesterovs, "Kas paveikts un kas darāms radošo industriju politikā Latvijā"; <https://www.fold.lv/2018/11/kas-paveikts-un-kas-darams-radoso-industriju-politika-latvija/>

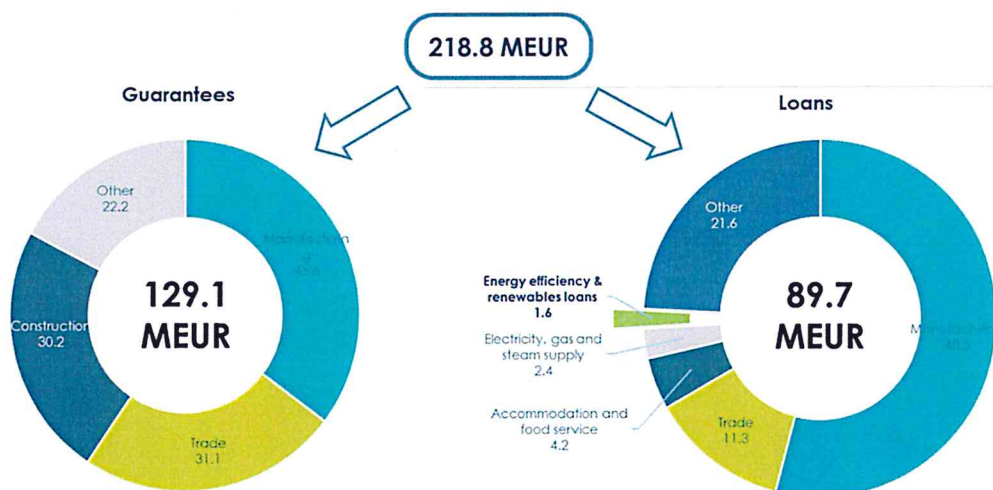
⁷ Altum's website: <https://www.altum.lv/en/about-altum/history/>

and other international institutions, national and Altum's attracted financing. Altum supports enterprises at different stages of their development, starting with developing business ideas to carrying out large projects if financing is not available in the private finance sector. State aid financial instruments administered by Altum, are meant for business start-ups, enterprises, rural enterprises and individuals.⁸

Altum provides products for business start-ups, enterprises, rural enterprises, venture capital, energy efficiency etc. Its products are Credit guarantees, Export credit guarantees, Startup loans, Microloans, Business angels, Co-financing (mezzanine) loans, SME Growth Loans, Energy efficiency loans for ESCO, Loans for the company's energy efficiency, The Land Fund of Latvia, Loans for the Purchase of Land, Working Capital Loans, SME Growth Loans for farmers, Agricultural and Rural Development Credit Guarantees, Energy efficiency in multi-apartment buildings, Grants for social entrepreneurship, Housing guarantees for families, Housing guarantees for young specialists.⁹

Altum's credit policy still is heavily influenced by its "heritage" from experiences operating as JSC "Mortgage and Land Bank of Latvia" and JSC "Rural Development Fund", meaning that operations of Altum can be considered rather conservative. Also, Altum's risk policy, determined by its stakeholders, at the moment is quite cautious. As a result, a large portion of Altum's credit portfolio consists of loans for traditional business cases that can provide sufficient collateral and risk coverage, that are predictable and easier manageable in cases of default, ensuring more income and less losses for Altum. The chart below shows Altum's SME and mid-cap portfolio by sectors, confirming statements made as to what kind of businesses are supported by Altum. Most supported sectors are manufacturing, trade and others, which in most cases are agriculture sectors.

SME and Mid-cap Portfolio by Sectors



In the light of Altum's conservative approach, with its credit and risk policy that is primarily designed for traditional businesses, it is harder for innovative and creative businesses to comply with the conditions and requirements.

Altum working with innovative, creative business cases

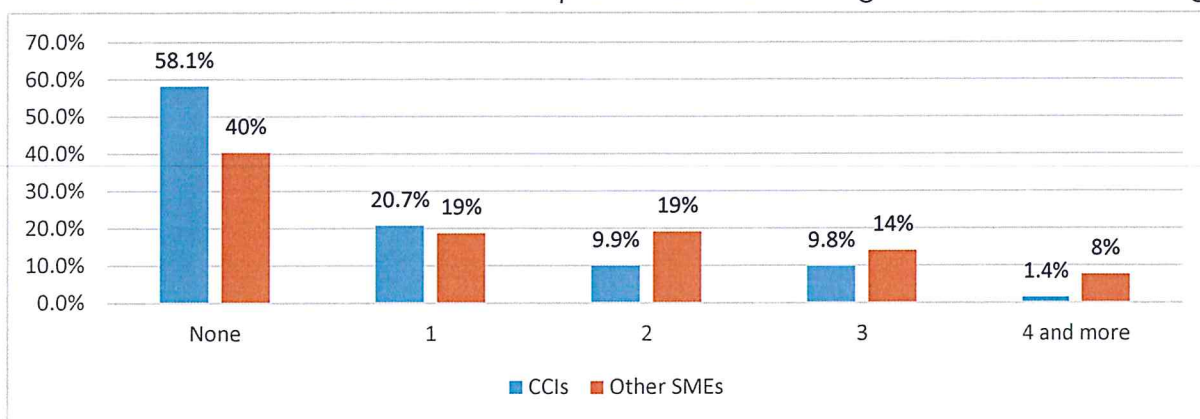
⁸ Altum's website: <https://www.altum.lv/en/about-altum/what-we-are/>

⁹ Altum's website: <https://www.altum.lv/en/>

At the beginning of 2018, a survey of more than 2,000 companies was conducted (18% of the companies were CCI's). The survey showed that despite of a rather broad range of Altum's programmes, creative companies in most cases do not try to attract additional external funding and in cases when they do, Altum is not an option they consider.

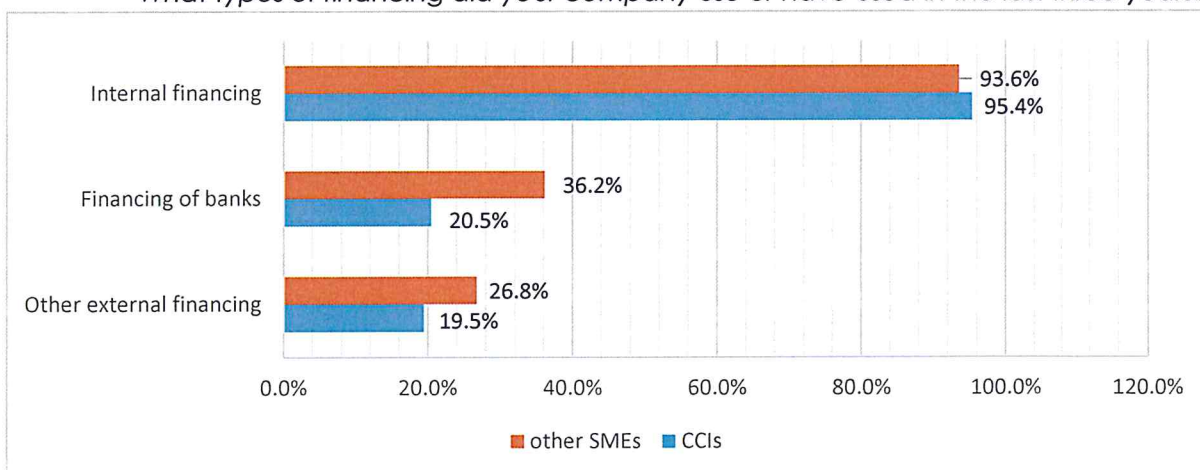
Answers provided by CCI's showed that in comparison to other SMEs, CCI's are more reluctant to attract additional financing (see picture below). Almost 60 % of CCI's have not tried to negotiate with any of financiers to access financing, and only 20% of them have negotiated with more than a couple of financiers.

Number of financiers that companies have tried to negotiate to access financing



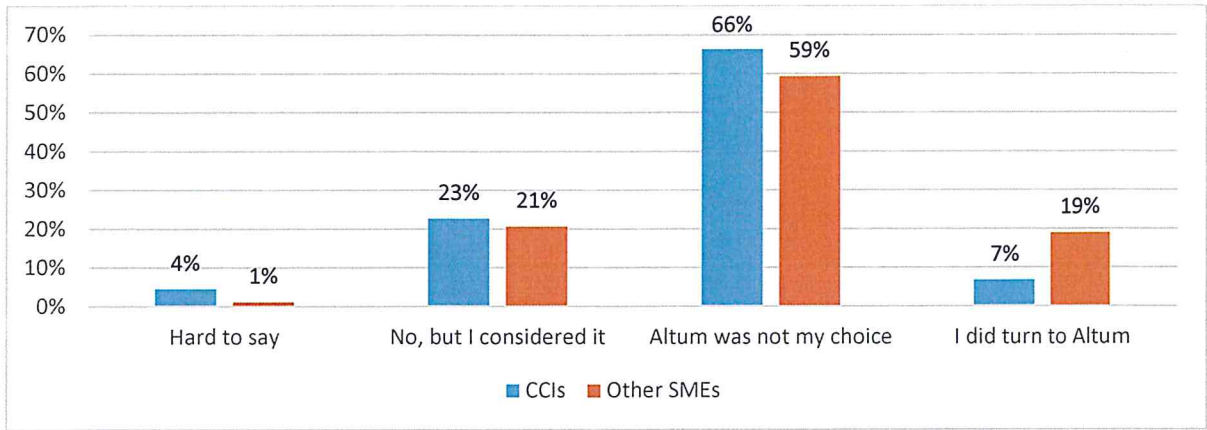
Considering the factor that CCI's are not active in seeking external financing, naturally, they use internal resources for their development and growth in most cases (95.4 %), only 20.5 % choose banks as their financier and 19.5 % use other external sources (see picture below). In comparison with other SMEs, CCI's again are more passive in search of alternative funding to their internal sources.

What types of financing did your company use or have used in the last three years?



From the previously mentioned 19.5 % of CCI's that have used other external financing, the largest part of them (66 %) had not considered Altum as their choice and only 7 % of them did turn to Altum for support (see picture below). Only a small portion of creative companies have turned to Altum to discuss opportunities for attracting funding despite of the fact that Altum has been organizing many seminars for companies (e.g. on social media). At the moment, the availability of information is good, but it seems that it does not reach clients from creative industries.

Did your company turn for new or additional funding to Altum?



At present, only about 5% of Altum's supported companies operate in creative or cultural industries. This tendency clearly indicates a need for a change in Altum's products to attract this kind of companies.

PART III – DETAILS OF THE ACTIONS ENVISAGED

ACTION 1

CAPACITY BUILDING

1. THE BACKGROUND

The staff exchanges both to Austria and Spain can be considered as crucial "breaking points" that highlighted various aspects that Altum should improve. Areas of improvement were identified concerning Altum's capacity to provide high quality, client-oriented services for innovative, cultural and creative companies. As mentioned before, Altum has a lot of experience in providing support to "classic" businesses and also Altum's credit and risk policy is built around a concept of caution and risk avoidance. This approach proves to be problematic as more innovative, cultural and creative companies are looking for opportunities to attract Altum's support. Those new business cases require additional knowledge in order to integrate appropriate conditions in support programmes, as well as to develop a new evaluation process, that would be more flexible and responsive to the needs of particular cases.

Shared experience of Austria Wirtschaftsservice (aws) clearly showed that there must be some know-how within the financing institution when evaluating CCl's and potential innovative advantages, as the business models and environment of CCl's is very different from a common production or services providing company. A similar approach is widely used also in Spain, Catalonia, by the Catalan Institute of Cultural Enterprises (ICEC).

Another result of the Policy Round Table in Latvia was that Altum's frequent attempts to raise efficiency by standardizing all processes, unifying financial instruments, moving away from sector-specific support instruments, might be problematic for CCl's, because they require a different approach. One of the conclusions was that Altum should consider a separate body for dealing with creatives and start-ups in general. Edgar Garcia Casellas from Spain pointed out that there should be external experts in the credit committee from entrepreneurial, business venture or incubating eco systems – people that are used to work with early stage companies and evaluate their business potential. One of the suggestions was to have someone in Altum's credit committee who could be considered as an expert on cultural and creative sectors, someone who could be considered by CCl's as one of their own, someone who could "speak their language".

This separate and new approach would request the following:

- The involvement of experts in the decision making
- Making the decision process more similar to the one in the private market
- Providing trainings for Altum employees with specific knowledge of creative business
- Having employees in Altum that are experts on CCl's, with specific knowledge of the sector and close connection with creative companies

Background gained at the staff exchanges in Austria and Spain and at the Policy Round Table in Latvia has led to the conclusion that one of the Local Action Plan actions should be building capacity, which would include training, re-evaluation of the evaluation process, etc.

During discussions, all the experts concluded that the development of new products for innovative and creative companies would be in vain and without the desired effect, if there is no training of employees, no redesign of the decision-making process, or no designing of programmes in closer cooperation with clients.

For the implementation of new products and processes to be successful, training should be provided on issues such as:

- The 'new economy' (creative companies, start-ups, deeptech), so that in supporting these new kinds of businesses Altum could become as successful as it is with agriculture and traditional businesses
- Real business cases that are out of Altum's "comfort zone"
- Innovating approach in the evaluation process, so that truly meaningful changes can be made
- How to develop a new process that is built around the concept "Client first"
- How to organize and manage brainstorming about internal processes, set out and make a decision on changes that should be made

Within this step, our main ambition is to provide strong and united insights on:

- Altum process optimization
- Measuring intangible clients
- Innovation accounting that is crucial for work with creative companies

This action will directly impact changes and improvements in current programmes that support creative un cultural industries - Start-up Loan programme and SMEs Growth Loan programme.

2. ACTION



FIRST STEP

IDENTIFY STAFF TRAINING NEEDS AREAS, COMPANY-WIDE STAFF SURVEY.

Employees have expressed their need for regular training; therefore, it is necessary to conduct a survey encompassing the internal stakeholders in this matter – Altum's units that are involved in programme design, client management, evaluation of projects. There are a number of ways how to identify staff training needs – by talking to the head of each unit or by means of internal tools to carry out an internal questionnaire. It would be useful to do a survey of a scale as broad as possible to get the most possibly accurate overall "picture" of the needs of employees.



SECOND STEP

IDENTIFY THE POTENTIAL PROBLEM POINTS FROM THE PERSPECTIVE OF EXTERNAL STAKEHOLDERS IN FOCUS GROUPS.

From our point of view, it is also necessary to map out problematic areas in cooperation with entrepreneurs from their perspective, as it would provide clearer guidance in locating areas where capacity building is needed.

We see engaging external experts as the best approach in this case. We would be most interested in companies that have failed to establish a fruitful cooperation with Altum.



THIRD STEP

DESIGN A TRAINING PLAN.

A training plan will be produced after collecting views from internal and external stakeholders. Proposals for the plan's design should be made in cooperation with stakeholders, which would generate more to the point ideas for training sessions, as well as single out potential speakers that Altum employees could meet with to discuss crucial issues for making possibly better cooperation in the future.

This plan should furnish information regarding the number of training sessions and their schedule, the potential speakers, etc.



FOURTH STEP

APPROVAL OF THE TRAINING PLAN.

Considering that the training should be provided for as many Altum's departments as possible, this plan must be presented to the Altum's management board and be approved by it. With an approval from the board, it is more likely to ensure the implementation of the plan in a manner that will provide real benefits for a wide range of Altum's employees.



FIFTH STEP

IMPLEMENTATION OF THE PLAN.

Development of a new learning and training platform "Academy of Altum" was started in Altum. We see this as great place where to implement the approved training plan.

3. PLAYERS INVOLVED

EXTERNAL PLAYERS



THE MINISTRY OF ECONOMICS OF LATVIA	The Ministry of Economics of Latvia is an institution, which is one of the shareholders of Altum. Also, as assigned by this ministry, Altum has been implementing various support schemes for SMEs.
THE MINISTRY OF CULTURE OF LATVIA	The Ministry of Culture of Latvia is the institution responsible for policies for cultural and creative sectors.
LATVIAN INVESTMENT AND DEVELOPMENT AGENCY	This is the agency of the Ministry of Economics of Latvia that ensures operation of the Creative Industries Incubator, which can be considered the provider of main support to creative companies in Latvia.
CREATIVE COMPANIES	It is important that companies represent different sub-sectors/fields of creative industries, particularly with focus on innovative businesses.

EXPERTS	National and international experts with experience in creative and innovative businesses.
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INTERNAL PLAYERS



PROGRAMME DEVELOPERS	A unit in Altum, the mission of which is designing programmes, to develop requirements for external and internal regulations. There are 7 employees in this department.
CLIENT MANAGERS	A unit in Altum that has the closest contact with the current and potential clients. There are 5 regional centres with client managers.
CREDIT AND GUARANTEE DEPARTMENT	A department in charge of the evaluation of projects, preparation of decisions in line with the credit policy of Altum and state support programmes, managing and maintaining the quality of loan and guarantee portfolios according to Altum's objectives and commissions revenue.
RISK ASSESSMENT PROVIDERS	A department taking care of the evaluation of projects according to the Altum's risk management policy.
CREDIT COMMITTEE	A body in Altum in charge of an objective and independent analysis-based decision-making on support provision to clients.
MANAGEMENT BOARD	The highest internal body sustaining day-to-day operations. There are 5 members of the Management Board.

4. TIMEFRAME



01.01.2020-
01.02.2021

5. FUNDING



COSTS: EUR 10 000

SOURCES: Internal resources¹⁰

6. MONITORING

INDICATOR	DESCRIPTION
NUMBER OF TRAINING SESSIONS HELD (12)	Training sessions dedicated to various aspects of financing creative and cultural industries will be provided.
NUMBER OF EMPLOYEES THAT HAVE PARTICIPATED IN TRAINING SESSIONS (10)	To ensure capacity building as far-reaching as possible every internal department will be asked that at least one of its representatives attends every training session.
NUMBER OF LOANS PROVIDED FOR CCIS (30)	Annually Altum employees that have participated in the training will be asked to fill out questionnaires to indicate

¹⁰ Altum receives its funding mainly from programmes managed by the Ministry of Economics of Latvia, that are financed by EU structural funds, EIB loans, State Treasury. Altum also has access to recycled funding. Certain portion of this public funding is used for covering Altum's management costs, including costs for capacity building measures.

	whether the training has positively impacted their ability to assess and make decisions on approving loan projects for CCLs.
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ACTION 2

DEVELOPMENT OF A NEW PRODUCT

1. THE BACKGROUND

From the focus groups conducted within the RCIA project, one of the conclusions made was that development of a new product most likely would be necessary. Being aware of the criteria of the existing Altum's products, it is doubtful that even making changes to them would result in a noticeable increase in applications from creative companies. In order to provide support that addressed the needs of this kind of companies (that lack collateral), an innovative approach in evaluation of loan applications is required.

At Altum, we believe, that the experience gained particularly during the staff exchange to Barcelona can be put into use in developing new proposals for a support scheme for creative companies. From our point of view, the approach of ICEC to support creative companies can be considered as a "next level".¹¹ Such support programmes as Participation Loans or Repayable Contributions are instruments that Altum is particularly interested in.

As this staff exchange allowed us to get a clearer view of these support schemes as well as of the project evaluation criteria, we believe that this visit will enable us in very practical ways in developing applicable proposals for alternative support schemes. Repayable contribution could be a way of changing the widespread and misleading perception that public support is limited to the form of grants. Repayable contribution makes businesses aware that public support is repayable as well as transferable in the case of a successful project – to extend the help further to other companies in implementing their projects.

Also, during Policy Round Table in Latvia significant conclusions were made. Project partners from Austria, Denmark, Spain, Poland and Latvia was united on idea, that development of new product might be the most proper way to make a significant impact on improvement of access to finance for creative and cultural companies. Partners also agreed that new product, created on a bases of Spanish Repayable Contributions and with creative companies as the main target group, can be catalyst for bigger changes in Altum's approach of providing support. It is clear that Altum must find ways to be an efficient partner for companies that become more relevant in economy, and creation of new product could be great tool for finding these new ways.

We plan to implement this policy instrument based on the ICEC Repayable Contributions programme during EU planning period for 2021.-2027. So, it is important to develop a proposal of the programme in advance, and test its feasibility, so the support for CCIs could be provided as effectively and soon as possible.

¹¹ Website devoted to promote the Catalan creative companies by the Catalan Institute for the Cultural Companies; Subsidies and financing:
http://icec.gencat.cat/ca/serveis/tramits/subvencions_financament/?queryNat=internacionalitzaci%C3%B3

2. ACTION



FIRST STEP

PREPERATION OF PROVISIONAL TERM SHEETS.

Based on the example of Repayable Contributions provided by ICEC, term sheets should be prepared, covering main conditions, benefits, flaws and the possible scale of the support scheme.



SECOND STEP

DISCUSSIONS AND FOCUS GROUPS ABOUT CONDITIONS OF REPAYABLE CONTRIBUTIONS WITH EXTERNAL PLAYERS.

Term sheets should be discussed with external players in order to identify the most acceptable propositions from their point of view. In this step focus should be on such external players as Creative Industries Incubator, creative companies and experts.



THIRD STEP

DISCUSSIONS AND FOCUS GROUPS ABOUT CONDITIONS OF REPAYABLE CONTRIBUTIONS WITH INTERNAL PLAYERS.

Term sheets should be discussed with internal players. This step can be implemented during the first activity of "Capacity building" in a form of training and seminar on such an innovative support scheme as Repayable Contributions.



FOURTH STEP

FINALIZATION OF PROPOSAL AND APPROVING WITH EXTERNAL AND INTERNAL STAKEHOLDERS.

After discussions both with internal and external players, term sheet should be finalized and approved by all parties involved. Term sheet would be based on ICEC Repayable Contribution, with adjustments needed for the Latvian market conditions, so this kind of programme could be implemented in Latvia.



FIFTH STEP

PRESENTATION OF PROPOSALS OF THE NEW REPAYABLE CONTRIBUTIONS PRODUCT TO INTERNAL PLAYERS.

In order to finish this action, proposal should be presented to stakeholders and internal players of this Local action plan. This step should provide indications or even decisions on next steps needed to be taken to include Repayable Contribution in plans for new support programmes for SMEs.

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RISK ASSESSMENT PROVIDERS	A department taking care of the evaluation of projects according to the Altum's risk management policy.
MANAGEMENT BOARD	The highest internal body sustaining day-to-day operations. There are 5 members of the Management Board.

4. TIMEFRAME



01.07.2019-
31.12.2021

5. FUNDING



**COSTS: UP TO 3
MEUR**

**SOURCES: ERDF
FUNDING OR
OTHER RESOURCES
(RECYCLED
RESOURCES FROM
EU FUNDS)**

6. MONITORING

INDICATOR	DESCRIPTION
TERM SHEET OF NEW POLICY INSTRUMENT (1)	Detailed proposal that has been discussed and tested both with internal and external players must be developed.
SUBMISSION OF PROGRAMME PROPOSAL TO THE MINISTRY OF ECONOMICS OF LATVIA (1)	Official channels shall be used for this submission, and the policy makers would proceed with the review and approval of this proposal.



**Interreg
Europe**



European Union | European Regional Development Fund

DATE 07.05.2020

NAME Reinis Bērziņš

POSITION Chairman of the Management Board

SIGNATURE 

STAMP OF THE ORGANIZATION 