

EUROPEAN UNION FUNDS AND THEIR INFLUENCE ON THE REGIONAL DEVELOPMENT OF LATVIA

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Abstract

In the EU funds planning period 2004 – 2006 in total 1141.44 million Euros have been allocated to Latvian national economy. The most part of financing was assigned to the development of infrastructure, development of entrepreneurship and innovation and human resources. Analysing division of the Structural Funds allocation between the regions, most part of the Structural Funds financing of 2004 – 2006 – 49.52% from all the financing has been allocated to the Riga region. That points to unequal division because Riga region has three times bigger Gross Domestic Product than Latgale region. Direct link to the social economic indexes indicating the development of the region and attracted EU funds financing can be surveyed – most developed regions have received most important part of the financing and underdeveloped regions the smallest part. EU funds regional support has to be planned and there should be regional development policy in EU funds distribution. Possible means to endorse the development of the undeveloped regions of the country by support programmes include creating specific support programmes, giving larger aid intensity for projects from regions, consultation work in project development and implementation and other ways.

Key words: European Union funds, regions, development.

Introduction

Development of the country depends on the strong and competitive regions that would create value added for the development of the country. It is important to enhance the development of all regions, find out the possibilities of the regions, both those that are already developed and those that are not so developed. Currently there are significant regional disparities in Latvia, therefore it is essential to analyse this situation from different points of view and especially from the point of view of the EU funds investment and suggest the best ways for the improvements.

When Latvia became European Union accession country, Latvia gained possibility to obtain European Union funds financing. Since that period various EU funds have been allocated to Latvian economy and one of the aims of these funds is to stimulate regional development in the country. It is significant for the sustainable development of the country to analyse the implementation of this aim. Object of the paper is regional development of Latvia characterized by indicators.

The aim of the paper is to create the best solution how to enhance the development of regions in Latvia using EU funds financing. Tasks of this paper include:

- analysis of available EU funds financing for the planning period 2004 – 2006 and 2007 – 2013 according to regional development aspect;
- analysis of the indicators showing regional

development in Latvia;

- analysis of regional planning on Latvian and European level;
- pointing the problems that hamper regional development of Latvia;
- offering important solutions for the regional development problems using EU funds financing.

Materials and Methods

Materials used include Latvian Cabinet of Ministers and European Commission legal documents, data from the Ministry of Finance, State Regional Development agency and Central Bureau of Statistics of Latvia. Also conference proceedings, research paper on the regional development, and personal experience in the field are used.

The methods used to achieve the aim of the paper include economic analysis research, logically constructive method, analysis of statistics, statistic grouping, and historic approach making conclusions on analysis of past developments.

Results and Discussion

1. Available financing of the European Union funds

Analysing the Structural funds planning period of 2004 – 2006, it can be concluded that in total 1141.44 million Euros have been allocated to Latvian national economy.

Cohesion fund financing was allocated to transport infrastructure – railway and road development, and to environmental systems – waste and water infrastructure development of national importance. Structural funds financing was divided by priorities. If structure of the

structural funds allocations for Latvia in the programming period 2004 – 2006 is analysed, Latvia has received EU funds financing of 625.57 million euros that was divided in five priorities.

Table 1

EU funds allocations for Latvia

	Structural funds 2004 – 2006 (Million euros)	Cohesion Fund 2004 – 2006 (Million euros)	Total (Million euros)
Latvia	625.57	515.87	1141.44

Most part, 32.6%, from this funding was allocated to the priority “Promotion of Territorial Cohesion”, 25% - for “Promotion of Enterprise and Innovation”, 21.2% - for priority “Development of Human Resources and Promotion of Employment”, 18.5% - to “Development of Rural Areas and Fisheries”, and 2.7% to “Technical Assistance” priority (Ministry of Finance, 2007). Analysing Structural funds

division by priorities it can be concluded that the most part of financing is assigned to the development of infrastructure, development of entrepreneurship and innovation and human resources; also financing for rural areas and fisheries has been significant. In general, most part of Structural funds financing has been allocated to transport infrastructure development.

Table 2

Structural funds financing divided between the priorities

Priority	Name	Fund	%	Structural Fund, EUR	Co-financing, EUR	Total, EUR
1	Promotion of Territorial Cohesion	ERDF	32.58%	203 810 000	65 389 046	269 199 046
2	Promotion of Enterprise and Innovation	ERDF	25.00%	156 392 000	52 130 670	208 522 670
3	Development of Human Resources and Promotion of Employment	ESF	21.22%	132 745 000	42 146 542	174 891 542
4	Development of Rural Areas and Fisheries	EAGGF FIFG	18.49%	115 668 000	65 183 128	180 851 128
5	Technical Assistance	ERDF ESF EAGGF	2.71%	16 953 826	5 651 283	22 605 109
		Total:	100%	625 568 826	230 500 669	856 069 495

Source: Ministry of Finance, 2007.

Almost all EU funds financing can be considered as an instrument for the regional development of Latvia because financing is granted to all the regions of Latvia in different spheres that enhance overall development with its contributions to the spheres of infrastructure, entrepreneurship, education and social development.

Analysing division of the Structural Funds allocation between the regions, most part of the Structural Funds financing 2004 – 2006 – 49.52% from all the financing has

been allocated to the Riga region. Kurzeme region has received 15.27% from the financing that is the second biggest allocation. Vidzeme and Zemgale region has received around the same portion – 12 to 13% from the EU funds financing. The smallest part of the financing – 9.8% was allocated to Latgale region. Riga region has received almost half of all financing thus worsening regional differences in the country.

Table 3

Structural funds financing divided between the regions

Region	Financing (mln. euro)	% from total financing
Latgale region	58.8	9.80%
Vidzeme region	72.3	12.05%
Zemgale region	80.1	13.35%
Kurzeme region	91.6	15.27%
Riga region	297.0	49.52%

Source: State Regional Development agency, 2009.

2. Regional development analysis

To determine the situation it is important to analyse the development of regions. For this reason the indicator – Gross Domestic Product per capita – is chosen and regional disparities in 2000, 2003 and 2006 are found using a new indicator – GDP in regions in percentage from the highest rate – Riga region GDP.

Analysing the GDP data from years 2000 and 2006 it has to be pointed out that in 2006 regional disparities, except for Pieriga region, have even increased. If we take Kurzeme region in 2000, its GDP was 56.03% from

Riga region GDP, but in 2006 this indicator was only 43.93%. The lowest rate in general is in Latgale region – only 27.35% from Riga region GDP in 2006. It means that Riga region is three times more developed than Latgale region. Riga region has almost two times higher GDP per capita ratio than in Latvia in total. Development problems in underdeveloped regions are connected with low entrepreneurship activity, low income level, rather high unemployment rate and lack of high – quality infrastructure.

Table 4

Gross domestic product by statistical region

	Per capita, LVL					
	2000	% from Riga region	2003	% from Riga region	2006	% from Riga region
Latvia	2 002		2 749		4 883	
Riga region	3 459		4 869		8 516	
Pieriga region	1 351	39.06%	1 786	36.68%	3 954	46.43%
Vidzeme region	1 127	32.58%	1 646	33.81%	3 033	35.62%
Kurzeme region	1 938	56.03%	2 412	49.54%	3 741	43.93%
Zemgale region	1 178	34.06%	1 574	32.33%	2 819	33.10%
Latgale region	975	28.19%	1 418	29.12%	2 329	27.35%

Source: Central bureau of statistics, 2009.

The positive trend is that in total the rate of GDP per capita has increased in all regions of Latvia since 2000 which points to some development even though sharp increase has not been observed.

In general regional development in Latvia is measured by regional development indexes calculated by State Regional Development agency. This index is the most

sophisticated indicator showing regional development and regional disparities. It is calculated based on range of indicators – unemployment rate, GDP per capita, personal income tax per capita, non financial investment, demographic situation, population amount and density, amount of entrepreneurs, value of land in the region (Locāne et al., 2009).

Table 5

Regional development indexes 2007

Region	Development index in 2007	Received EU funds financing (%)
Latgale region	- 1.267	9.80%
Vidzeme region	- 0.853	12.05%
Zemgale region	- 0.516	13.35%
Kurzeme region	- 0.647	15.27%
Riga region	+ 0.999	49.52%

Source: State Regional Development agency, 2009.

Most developed and the only positive indicator is for Riga region, Latgale region is less developed with - 1.267 points. Direct link to the social economic indexes indicating the development of the region and attracted EU funds financing can be surveyed – most developed regions have received most important part of the financing and underdeveloped regions the smallest part. That has also been admitted in research (Locāne et al., 2009) published by State regional Development agency.

Also in this research it is stated that 88.7% EU funds financing have territorial impact but it is not possible to agree to such calculations because there has been regional inequality in funds division and no regional development aims have been achieved from the year 2000 as shows GDP analysis. Therefore specific measures have to be taken to improve the regional disparities situation.

After EU funds investment there is no significant impact made on the regional disparities and this funding has not achieved the aim of regional development.

3. Regional planning on European Union and Latvian level

Official regional planning document of the European Union “The Community Strategic Guidelines on Cohesion 2007-2013” developed by the European Commission and approved by the Council state that regional and cohesion policy should seek to target resources on the following three priorities that are essential for the future development:

- improving the attractiveness of regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies;

- creating more and better jobs by attracting more people into employment entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital. (The Council of the European Union, 2006)

According to Regional policy guidelines aims of Latvian regional policy include growth of competitiveness of Latvian regions comparing to other European regions, equal opportunities for living, employment and environment circumstances to all Latvian regions, equal opportunities for entrepreneurship in Latvian regions and increase of international competitiveness of capital Riga. EU funds financing can be used to achieve these aims with programmes supporting business development and investment in Latvian regions, employment, education, transport and environment in specific regions that are most underdeveloped. Innovation and high-tech centre development programme should be created for the development of capital.

According to Dr. John Rigg policy of urban economic development should be complementary for the requirements of the economies of the rural areas. Cities have significant potential advantages, they provide concentration of economic resources and assets, potential to exploit economies of scale but that is not sufficient. Successful cities are those that are attractive for people to live and work, close to sources of knowledge and innovation. That usually means network of education and research institutions together with good governance principles (Rigg, 2006). It implies that development strategies and specialization branches should be arranged and complementary both for biggest cities and surrounding rural areas.

4. Future perspectives

Analysing all the available Structural fund programmes in 2004 – 2006 which are past developments, and the

2007 – 2013 planning period which will result in future and their division by support areas, it can be concluded that actually many of these programmes could enhance regional development.

There are also a few of programmes in various spheres like business development, social sphere, transport and environment (see table 6) that are directly oriented to

regional development in the 2007 – 2013 planning period where mostly applicants from Riga and Riga district cannot apply. Like in the 2004 – 2006 planning period we can see good possibilities for regional development also in the 2007 – 2013 planning period. Using these programmes properly it would be possible to stimulate regional development.

Table 6

EU funds programmes for regions 2007 – 2013

Programme	Financing sphere
Support for investment in specially supported areas Business incubators	Business
Social services systems development in planning regions Development of the social rehabilitation and social care institutions in regions	Social sphere
Attraction of specialists to planning regions, towns and districts Capacity building of development planning in regions	Administration
Public transport outside Riga Development of infrastructure in small ports Traffic safety improvements in populated areas	Transport
Development of water management in populated areas with population under 2000 Development of Regional waste disposal systems	Environment
Growth of national and regional importance development centers for sustainable development of country	Sustainable development

Source: Ministry of Finance, 2009.

Conclusions

1. It can be concluded that EU funds offer diverse financing and great possibilities for the development of regions both in planning period 2004 – 2006 and planning period 2007 – 2013. But the most important aspect is that these financial means have to be allocated properly for those projects in those regions that will give the highest return and have impact on the development.
2. Unequal regional division of EU funds financing is unacceptable and therefore activities proposed should be taken to minimize regional differences in structural funds allocations and increase structural funds support in regions.
3. After all EU funds investment in 2004 – 2006 there is no significant impact made on the regional disparities and consequently this funding has not achieved the aim of regional development. According to the analysis of Gross Domestic Product and other indicators EU funds financing options have not enhanced the development of the regions in Latvia. It is important to find out the reasons why it is like that and suggest the best ways to improve the situation.
4. It can be concluded from the analysis that regions are supported in an unarranged way that does not promote the development of the regions and consequently the development of the country. Support has to be planned starting from the common State development plan and there should be regional development policy in EU funds distribution.
5. There is a purposeful action to be taken to arrange regional planning, finding the best ways of the support and increase the activity and capability of the regions to apply and implement EU funds to enhance development. There is a need to have united regional quotation for EU financing. That would mean definite amount of financing allocated directly for the development of specific regions. Now because of luck of this quotation financing is granted to those who are more active and more informed and mostly closer to capital. Rural Support Service has some quotation principles but other institutions do not have them and work rather independently.

6. Future investment in regional development has to be based on the long-term regional planning principles. Consequently, long term regional development plans for all the regions of Latvia need to be elaborated including such parts as:

- urban and rural development – construction, reconstruction;
- infrastructure – public services, reconstruction of roads and streets, water supply etc.;
- development of entrepreneurship – business incentive schemes, special production areas, business incubators;
- innovation and science development – research institutions, innovation development centers;
- education sphere development – elementary, secondary, higher and professional education for youth and lifelong education.

EU funding support for regions should be aimed at the range of programmes involved in elaborated regional development plans and connected with public services, entrepreneurship development, innovation and knowledge economy development and human capital investment. Implementing this scope of programmes with definite aims and locations in Latvian regions it will be possible to achieve the development aims.

7. Before allocating direct EU funds aid there is a need to perform a research and investigate which are the strong sides of the regions, what are the most important potential development industries. Clustering has to be supported from the existing enterprises in the spheres that are the strong sides of the regions.

8. In order to facilitate the development and competitiveness there is a need to concentrate on the strong sides of the regions and not on the prevention of the weak sides because the state aid oriented to weak sides will not bring the desired result. On the other hand, by developing strong sides and industries, it is possible to achieve significant result and economic progress. Every region has its strong sides and industries it should concentrate on; it is not effective to develop all the sectors everywhere.

9. One possible way of the development would be to introduce specialisation of the regions on some core industries. This can be implemented when funding and state aid is available just for stated branches, and different clusters of branches are made in every region enhancing development in one purposeful direction. Riga region can be definitely seen as innovation and high value added production centre. It is quite

incredible to create such centre in Latgale region, in the regions bordering Russia and Belorussia, but these regions have other strong sides – they are transit and agriculture centres. In Zemgale region, wood industry and agriculture connected with plant growing products could be the core industries. Kurzeme with its ports is a transit region and also has perspectives and background in metal and machinery components industry. Vidzeme region has strong traditions in food processing industry.

Both urban and rural territories of the country should be strong because towns act as a catalyst for innovation and regional development which stimulates development of rural areas.

10. Riga region and Kurzeme region are also regions that need to develop and, for example, entrepreneurs from Riga district should have possibilities for development. Support programmes for these regions should be with different aims and having smaller co-financing rate from EU funds.

11. New EU funds regional allocation system has to be implemented according to the suggestions and improvements offered. In general, possible means to endorse the development of the undeveloped regions of the country by support programmes could be divided into three parts:

- 1) Creating specific support programmes for the development of regions. It implies specific support programmes that are designed with definite aims like water supply development in towns with definite population amount. Project applicants from Riga, Riga region and largest towns usually cannot apply for such kind of programmes. This is the most effective way to achieve specific development results.
- 2) Having criteria allowing giving more points for projects in regions. This option implies that there are specific project evaluation criteria in which those projects from regions can gain more points than projects from Riga, Riga region and largest towns. This option has a drawback as it creates a not very fair competition between applicants because all good and appropriate projects that could enhance development of every region deserve financing.
- 3) Giving larger aid intensity for projects from regions. It means that projects coming from regions or specially supported areas can gain larger co – financing from EU and government side than projects from Riga, Riga region and largest towns so they have more options to implement projects.

This is a very acceptable way for supporting more those regions that do not have possibilities for large co-financing rates.

12. Applicants from regions need to be active enough, to develop and submit projects in order to receive financing. Project application and implementation capacity has to be increased in regions.
 13. For implementation process of all the Structural Fund programmes there should be created united regional branches of implementing agencies. Their functions should include project application reception and information on support programmes. Thus regions would have more information and consultations on different aid programmes, which would increase the participation of regions and project applicant activity in regions, which in its turn would assist to achieve regional balance objective.
 14. In order to ensure effective project implementation there is a need to demand regional cooperation in entrepreneurs and public institutions.
- large programmes, for example, Business incubator development, Cohesion fund programmes. As Latvia is a rather small country it is not effective to implement such projects in all the municipalities separately. To achieve development results, neighbour municipalities should work together.
15. One of the important aspects is that it is not enough just to have support programmes, but there should be special working party organized that first of all lends assistance to the development of projects as such and gives preliminary assessment if this project is suitable and effective for the development of the region. Consultation work has to be organized for regions to increase regional potential. After that when projects are approved, this working party supervises implementation of projects in regions and offers free consultations. This actually would mean consultative work that is available free of charge for a range of applicants from underdeveloped regions both for

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