



## **REGIONAL DEVELOPMENT SUPPORT TOOLS: EXPERIENCE OF LATVIA AND FINLAND**

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## **Regional Development Support Tools: Experience of Latvia and Finland**

### **Abstract**

Although membership of the European Union offers significant opportunities, e.g. access to the internal market and regional aid programs as well as support to agriculture, regional disparities between European countries remain large.

Therefore a tool at the EU level - the EU regional policy - has been introduced. Defining priorities for regional cohesion and sustainable regional development at the EU level also facilitates the national states to set up their own regional development strategies.

The aim of my research is to analyze the regional development strategies of the EU member states and identify the tools or instruments used by the state apart from the financial support for regional development through various EU aid programs.

The comparative analysis includes both theoretical and practical approach. The case of Latvia for setting up the strategy for social and economic cohesion in regions and implementing it will be compared with Finland and the results will be presented.

**Keywords:** EU regional policy, regional development strategies of the EU member states

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## **Introduction**

The theme of this paper is “Regional Development Support Tools: Experience of Latvia and Finland”. In the last decade the regional development has become an extremely important issue in agenda of national governments and at the EU level because the disparities among the regions in European countries remain large. Regional development policy consists of the set of certain principles, methods, instruments and activities to be taken that is called – regional development support tools.

The case of Latvia for setting up regional development support tools will be investigated and the good practice of Finland will be given. One could argue that Latvia and Finland are in some way similar - both countries are the part of Baltic Sea region and the member states of the European Union, but the social and economic indicators clearly shows that the performance of Finland has been much higher. Whether this is the result of appropriate choice and use of regional development support tools?

Although the membership of Latvia and Finland to the European Union results in access to different aid programmes and the structural funds, the author will focus on the national support schemes. This as well as other issues will be discussed further in this paper.

The methods used in writing this paper are analyses of theoretical literature, documents, statistical data and the comparative analyses. The research has inter-disciplinary approach – integrated research fields are political science and economics. In order to analyze the regional development support tools, regional strategies and development policies, it is essential to investigate both, the decision making at national level and the socio-economic situation in regions.

## **Basic principles of regional development**

Regions are the main research object for different scientists – specialists in field of geography, sociology, political science, history, regional and special planning. Several definitions of “region” exist, but a classic way to define a region is to say that it is an area that differs from another area in some way, like natural, cultural, political etc. Gilbert (1988) defined the region as a local response on an uneven global capitalism, a cultural identification express through the belonging of people to a region and the symbolic meaning they give to it and a medium for social interaction in which human agency and the social structure meet. The regions can be divided in the physical – natural regions, the economic – functional regions, the political – administrative regions and the socio – cultural regions (Jauhiainen, 2000), but the strict division cannot be set because normally the above-mentioned definitions overlap – the economic development regions do not follow the institutional political boundaries, neither the socio-cultural areas. Political scientist Hettne (1994) sees the region as a conflicted society system of cultural, political and economic integration. The role of the region usually is seen in the context of the functions delegated by the national government.

The most common definition for the regional development policy according to the theoretical literature the author got acquainted with is that regional development policy is a set of targeted activities of the state institutions, municipalities, international organizations or other bodies towards the reduction of socio-economic disparities using the certain tools or instruments for certain territorial units.

Regional development policy is a part of the structural policy that is developed in the long-term balanced interaction of local environment, economic activities and resources available. Setting the regional policy means setting differential development principles, trends and priorities that are in compliance with the common state development policy. Therefore the choice of the appropriate regional development strategy can be considered as a difficult task for the national governments and the experience of the author shows that the European countries use a slight different approach to implement the main goal – the reduction of social and economic disparities in the regions. The subordinate goals for regional development is seeking for the balance of economic development in regions, balanced and effective use of

material, natural and other resources in all regions, reduction of regional disparities in terms of income level and employment, stimulation of economic development of less developed territories and reaching the sustainable regional development.

The objects of regional policy are the territorial units – the administrative territories set by the state (cities, rural municipalities etc.), the territories fixed in national or local normative documentation aimed at implementation of certain goal and the borders of which may not be the same as administrative territories have. The objects of the regional policy may also be the entrepreneurs, NGOs, or even individuals. The subjects of the regional policy usually are the government bodies, the local authorities, the international organizations and NGOs.

The progress of regional development depends from the regional policy chosen by the national government, but the effectiveness of the regional policy depends from the variety of instruments used by the government bodies for promotion of development of cities, rural areas or regions. Armstrong and Taylor identified instruments available to policy makers for economic cohesion policy in the regions and classified them as:

- Micro-policy instruments – relates to division of labour force and capital among sectors, branches and regions;
- Macro-policy instruments – relates to division of common income and expenditure of the region (Armstrong and Taylor, 2001).

Some authors argue that the potential economic success of the region is in socio-economic type of activities within the region. The successful regions tend to be based upon creation an innovative milieu involving public and private institutions and the result is the innovation systems, the soft infrastructure, the learning capacity, the network paradigm, the unthreaded interdependencies, the supply architecture and the social capital (Jauhiainen, 2000). Learning increases the capacity of economic actors to concentrate on essential issues and to develop new knowledge. An understanding of the cultural and social relations involved in the development of a region is also required.

In the economic literature it is more often pointed out that the location of industry (market proximity, access to resources and transportation) nowadays is not the dominant factor for the success of the company, but the access to specialized, high-tech based infrastructure – possibility of research, universities, telecommunications and financial support for development of new business or extension of entrepreneurship are highly important (Blakely, 1994).

## **Role of the state in planning and implementation of regional policy**

The regional policy could be considered as a response of the government to the free market gaps in terms of integrated economic development within the state. If the labour market in the region remains the same for long period of time, the concentration of the economic activity in another region could create even bigger employment inequality; therefore the role of the state in supporting the creation of new workplaces in the less developed regions is essential.

The economic growth in the regions, where only one or some industries or sectors are developed, is more exposed to leap in the dark than regions with various economic bases. Therefore the region, where limited amount of industries are developed, should develop the strategy that ensures the economic and social attractiveness of this territory. Often this issue is on the agenda of the national government planning the regional development strategy of the country.

The state has always had an essential role in planning and implementation of regional policy, but in the last decade it has been growing. It is up to national government to choose and to apply certain tools in order to create the advantageous climate for sustainable economic growth in the country. It also sets and applies certain macroeconomic policy mechanisms.

National planning modes according to specific character of the implementation are divided as:

- Top-down approach – has strong relation to macroeconomic policy of the state, the decisions of the distribution of finance resources are made at the top level according to the strategies and development plans set also at the top;
- Bottom-up approach – the possibility for local authorities and NGOs to contribute with the proposals for the division of the investments, and the finance resources are allocated according the economic priorities of the state;
- Mixed approach – includes both above-mentioned models of planning.

Top-down approach, which is basically the initiative of the state, is called the regionalization. The aim of the regionalization is to modernize the administrative system because of the complicated economic and social situation, thus responding to the pressure of

the globalization. The process of the regionalization means that the power of the nation state remains at the central level, but the certain functions could be delegated to the regional authorities, in this way the state administration considered to be done in modernized – improved way. But the regionalism is the process based upon the bottom-up approach to regional integration. Regionalism is the political movement with the aim to preserve or to gain cultural or economic self-reliance (or both), often marked by clear aims or strategies.

In order to discuss the recourse management of the state and the sustainable development, we should stress the meaning of regional plan and regional planning. The regional plan is a specific document which lays out in physical detail the future desired end-state and it is usually based on the regional survey of social, economic and physical factors and may also contain social and economic policy statements. But the regional planning is the process by which regional plans are made. Thus, the regional policies are guidelines to realize and implement regional plans (Smelser, Balter, 2001).

Regional policy and regional plans cannot be implemented without the administrative capacity based upon the public institutions, which can influence the development of the regions or less developed territories by explicit and consequent policy, pointing out the priorities set in the aid programmes or other policy documentation, thus stressing the territories the state is willing to support offering the political, judicial or financial assistance. But the regions should not rely only on the support of the national government because in the economy of the free market the market fluctuations could lead to the diminishing of the state budget income, which results in reduction of the expenditure in terms of grants for regional development and other financial support. Therefore the aim of the regions should be to calculate their own maximal recourses and develop their own complex of concrete measures for dealing with the problems that already exist or might arise in future.

The local economic environment usually influences the political decision of national government to intervene with the aim to speed up the economic development of the region or not. Philip McCann argues that the most common used regional economic policy tools are those supporting the supply, therefore the regional policy usually are oriented towards the attraction of investments in the less developed regions, especially stressing the variety and the quality of the local infrastructure or reduction of the costs for land rent or other expenditure of entrepreneurs (McCann, 2001). Thus, the policy makers and those who implement the regional

policy tend to improve the roads, which results that the local entrepreneurs have the motivation to develop their businesses in rural areas because the accessibility to the bigger markets (city centres, other regions etc.) are better and the costs of transportation are less. The extension of local industries means the higher employment, social wellbeing that leads to the development of the region in general.

### **Theoretical approach to reduction of regional disparities**

| <b>Free trade approach</b>   | <b>Market intervention approach</b>   |
|--|---|
| <i>Political ideology</i>  |   |
| <ul style="list-style-type: none"> <li>▪ Neo-classical economy</li> <li>▪ Traditional capitalism</li> <li>▪ Abolition of regulations, privatisation</li> <li>▪ Small state sector</li> <li>▪ Entrepreneurship culture</li> </ul> | <ul style="list-style-type: none"> <li>▪ Keinsim</li> <li>▪ Support to industry and trade supply</li> <li>▪ State intervention</li> </ul>   |
| <i>Reasons of economic disparities in regions</i>  |   |
| <ul style="list-style-type: none"> <li>▪ Inefficiency problems in regions created by immobility of labour market</li> <li>▪ Lack of entrepreneurship culture</li> <li>▪ Excessive state intervention</li> </ul>                  | <ul style="list-style-type: none"> <li>▪ Structural weakness</li> <li>▪ Low level of investments</li> <li>▪ Capital outflow to the prosperous regions</li> <li>▪ Inadequate input of government in regional development</li> </ul>      |
| <i>Approach for promoting less developed regions</i>   |   |
| <ul style="list-style-type: none"> <li>▪ Abolition of regulations in the labour market of the region</li> <li>▪ Tax relief promoting the effectiveness</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Efficient policies at local and regional level</li> <li>▪ State investments in infrastructure</li> </ul>   |
| <i>Regional policy</i>   |   |
| <ul style="list-style-type: none"> <li>▪ Low costs</li> <li>▪ Selective support</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Intensive support by the state</li> <li>▪ Decentralization of institutions involved in revival of the region – transfer of power to the local and regional agencies and authorities</li> </ul> |

Source: Armstrong H., Taylor J. *Regional Economics and Policy*. 3rd.ed. Blackwell Publications Ltd. Oxford, UK, 2001. pp.211.

The free trade approach (see the table above) basically states that the regional policy of the state should be oriented towards the promotion of employment lead by the free market. But the main idea of the market intervention approach stresses the intensive political support by the

state aimed at the reduction of regional disparities, mainly, in terms of investments in infrastructure.

The grouping of regions according to the socio-economic features and other factors, that influence the regional development, offers the possibility for the rational planning of the direct or indirect support measures to be taken in order to improve the situation in less developed territories. The central government has also the function of coordination of regional policy and it ensures the financial control in order to be sure that the financing of regional policy is adequate and aimed at the reduction of regional disparities. Therefore we can conclude that the state (central government) has an important role in planning and implementation of regional policy.

## **Regional policy of Latvia in the context of European Union integration**

Latvia has become a member state of the European Union (EU) in 1 May, 2004, but the guidelines of the EU regional policy have become a substantial part of regional planning and setting up the priorities for sustainable regional development and the reduction of the disparities among the regions in Latvia much earlier.

Historically the European regions have appeared on the basis of economic disparities in the society mainly affected by the predominated climate and natural resources. Only after the Second World War the European countries started the activities targeted at supporting the peripheries. In the treaty of Rome<sup>1</sup>, establishing the European Community, the necessity to reduce the disparities among the regions and support the sustainable development was pointed out despite the fact that the European Community at the very beginning was build up as an economic community of the member states.

Today we see the European Union providing a set of different activities, one of which is the support to the regional development. The European Regional Development Fund was established and the main aim of the EU regional policy became the reduction of number of less developed regions and regional disparities, but the economic and social cohesion became one of the central pillars of the EU.

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<sup>1</sup> The Treaty of Rome was signed in 25 march, 1957 and it entered into force in 1 January, 1958.

The Committee of Regions as a consultative body was established with the Maastricht Treaty in 1992. Latvia as a member state has the possibility to participate in the work of Committee of the Regions and represent the regions of Latvia, local municipalities and individuals at the EU level. The Committee of Regions ensures also the feedback because it provides the regions and the local municipalities with the information about the binding decisions made in the EU institutions that should be implemented.

### **Selective economic and employment indicators**

|                         | GDP growth, % (1995-2001) | Unemployment, % (2002) | Employment by sectors, % of total employment (2002) |          |                | Employment (age: 15-64), % of total number of people in this age group, 2002 |
|-------------------------|---------------------------|------------------------|---|----------|----------------|--|
|                         |                           |                        | Agriculture   | Industry | Service sector |  |
| Latvia                  | 5,7                       | 12,1                   | 15,3  | 25,8     | 58,9           | 60,4   |
| Lithuania               | 5,1                       | 13,7                   | 17,9  | 27,5     | 54,6           | 59,9   |
| Estonia                 | 5,2                       | 10,3                   | 7,0   | 31,3     | 61,7           | 62,0   |
| EU 15                   | 2,5                       | 7,8                    | 4,0   | 28,2     | 67,7           | 64,2   |
| 10 new EU member states | 4,8                       | 14,9                   | 13,2  | 32,1     | 54,7           | 55,9   |
| EU 25                   | 2,6                       | 9,0                    | 5,4   | 28,8     | 65,8           | 62,8   |

Source: Main Regional Indicators. *A New Partnership for Cohesion. Convergence, Competitiveness, Cooperation.* Third Report on Economic and Social Cohesion. European Commission, Belgium, 2004. 188.-201. lpp.

The table above shows that the performance of the Central and Eastern European countries that joined the EU in May, 2004 in terms of employment is much below the EU average. Therefore the EU regional policy has to experience certain changes in order to deal with the socio-economic disparities in the enlarged EU of 25 member states.

Since Latvia is the part of the new, enlarged EU, it will receive the co-financing for projects from the EU structural funds and from the Cohesion Fund, which is the Community initiative and aims to reduce disparities among the EU member states. In order to foster the socio-economic wellbeing of the people living in different regions of Latvia, the state should continue with implementation of its own regional development support programmes and instruments within the common goal – reduction of socio-economic disparities in the regions.

## **Regional development support tools in Latvia**

Regional policy of Latvia is based on the same principles as the EU regional policy – concentration, complementarity, programming, partnership, transparency, subsidiarity, sustainability and principle of effectiveness. The EU regional policy is often called the solidarity policy because it is based on several aspects of regional policy:

- The aid should concentrate on regions not the states;
- The broad labour mobility among the regions cannot be the main tool for cohesion;
- The aid should foster the development of regional competitiveness in order to create the sustainable income and employment;
- The independent financial resources should be available at the EU level and at the national level in order to ensure the stability.

Setting up the regional development tools at the national level Latvia ensures one of the basic aspects of the EU regional policy and provides the assistance to the less developed territories of Latvia apart from the financial support for regional development through various EU aid programmes and structural funds' assistance.

The basis for regional development policy in Latvia was set in the Regional Development Conception of Latvia, adopted in 3 December 1996. The aim of the Conception was to point out the integrated activities of public authorities, entrepreneurs, local municipalities and NGOs towards solving the regional development problems in Latvia. The guidelines for regional development, the tools and main methods were set in the Conception as well as the basic principles mentioned above.

The main financial instruments, the state realizes its regional development policy with, pointed out in the Conception are the state investment programme, development programmes for industries or sectors, grants-in aid, subsidies, tax relief and the Regional development fund recourses. The innovative approach to business development in the regions of Latvia introduced by the Conception was the free economic areas, the innovation centres and the technology parks.

The Conception stressed also the necessity of the democratisation and decentralization, which is considered to be a very positive moment because the successful and effective regional

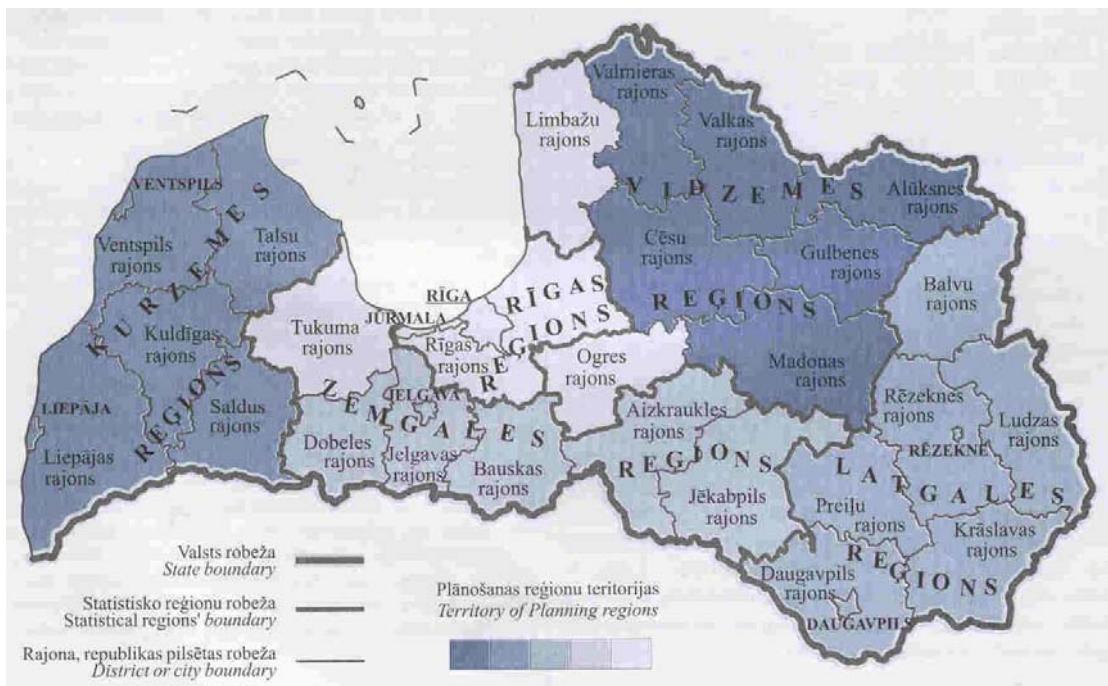
reform very much depends on the role of local authorities in the decision-making process. It is easier to implement the policy of the central government if the local authorities supported it in the decision-making process.

In May, 1997 the national parliament (Saeima) adopted the law for territories that need to be specially assisted with the aim to promote the entrepreneurship in the less developed territories and to seek for the appropriate economic tools to support the development of the mentioned territories.

The next step towards sustainable regional development and socio-economic cohesion supported by the state was the adoption of the Regional Development Law in 21 March 2002, which defines the tasks, and the responsibility of local and central authorities in development and implementation process of the regional policy in Latvia. The author observes that the Regional Development Law sets the complex system for implementation of regional policy in Latvia because it is pointed out that the regional development planning should be based on seven different level planning documents. But it is a positive moment because this is the way to ensure the democratic and decentralized approach to the regional development planning and it also ensures that the local municipalities have to develop their own territory development strategies pointing out the main problems they should deal with at the moment or the problems that might occur in the future. This approach helps the central government to be aware of the problems that exist all over the country and that could be the guideline for defining the appropriate short-term and long-term priorities of the regional development policy at the national level. The regional development instruments can only be effective if they are based on the specific characteristics of the region identified by the assessment of the strengths, weaknesses, opportunities and threats. This requires the specific planning and programming approach.

The territory of Latvia consists of five planning/ statistical regions, the boundaries of planning and statistical regions are almost the same, and the main difference can be observed looking at the territory of Riga (the capital city) statistical and planning region (see the map below). The statistical information is aggregated on five statistical regions, but the planning regions are subject of the territory planning documentation of Latvia. According to the EU statistical bureau Eurostat classification, the regions of Latvia are the NUTS 3 regions that are the smallest territory of the European regional map.

## Territory of Statistical regions and Planning regions in Latvia



Source: Summary of statistical data: *Regions of Latvia in Numbers 2003*; Central Statistics Bureau of Republic of Latvia, Riga, 2003. p. 9.

In comparison to other EU regions, the development level of all regions of Latvia is under the EU average. The most developed region in Latvia is Riga region and the less developed is Latgale region.

### The demographic and economic indicators of Latvia statistical regions, 2002-2003

| <b>Statistical regions</b> | <b>Territory, km<sup>2</sup></b> | <b>Population density per 1 km<sup>2</sup></b> | <b>Registered unemployment (% of economically active inhabitants)</b> | <b>Number of economically active enterprises</b> |                       | <b>Gross salary of employees (LVL per month - average)</b> | <b>GDP proportion in 2001, %</b> |
|----------------------------|----------------------------------|--|---|--|-----------------------|--|----------------------------------|
|                            |                                  |  |   | <b>Public sector</b>                             | <b>Private sector</b> |  |                                  |
| <b>Rigas region</b>        | 3 450,4                          | 272,5  | 5,2   | 378  | 26 283                | 196,62   | 60,6                             |
| <b>Vidzeme region</b>      | 19 791,6                         | 17,9   | 8,4   | 188  | 4 104                 | 135,12   | 8,6                              |
| <b>Kurzeme region</b>      | 13 600,8                         | 23,2   | 9,8   | 140  | 4 103                 | 154,99   | 12,9                             |
| <b>Zemgale region</b>      | 13 198,7                         | 26,3   | 9,8   | 184  | 3 558                 | 138,38   | 8,5                              |
| <b>Latgale region</b>      | 14 547,2                         | 25,8   | 18,1  | 142  | 3 454                 | 123,19   | 9,1                              |
| <b>Latvia</b>              | 64 588,7                         | 36,1   | 8,9   | 1 032  | 41 502                | 172,78   | 100                              |

Summarized by the author. Source: Summary of statistical data: *Regions of Latvia in Numbers 2003*; Central Statistics Bureau of Republic of Latvia, Riga, 2003. p. 11, 43, 45, 52 and 56.

The table above clearly shows that the Riga region is the most developed region in Latvia and it provides 60% of GDP. The author has investigated the data that indicates the performance of the regions of Latvia during the last decade and the main conclusions are that the Riga region has been growing rapidly in terms of socio-economic development because of investments in industry and development of services etc. while Latgale region has had a very slow progress. Despite the fact that Riga region territory constitutes 24% of Latgale region territory, the population density in the Riga region is 10 times higher and it concentrates the economically active enterprises (both: private and public sector), which results in very low rates of unemployment in the Riga region.

The number of economically active enterprises increased in all regions in Latvia in 2003, but again, in the Riga region it increased by 15.8% per 1000 inhabitants and in Latgale region it increases only by 0.6%. The economic inequalities among the regions in Latvia are intensified by the fact that 60% of total value added is allocated in Riga statistical region. The main factors that influenced the lagging behind of Latgale region are the poor developed social infrastructure and services, low competitiveness of industrial products, lack of fertile soil for agriculture production and the outflow of educated young people (mostly - to Riga region).

Therefore there need for reduction of the socio-economic disparities among the regions in Latvia is a highly stressed issue at the level of local authorities and the central government. The economic cohesion in Latvia cannot be reached by preventing the development of Riga region – this would be the politically incorrect decision and, taking into account the fact that Riga region is also under the EU average, the further development of Riga region must not be stopped or somehow held back. What the government can do (and what it actually is doing) is to support the economic activity in less developed territories, thus fostering the development of less developed regions.

The main regional imbalance indicators are the GDP, the level of unemployment, the number of enterprises per 1000 inhabitants, the industrial structure, the investments, the productivity, the number of population in working age and the number of population with higher education. In order to identify the less developed territories the weighted average index of territory development in Latvia has been introduced. The index consists of eighth different indicators (see the table below) and it clearly shows the comparison of the regions.

## Disparities in the regions of Latvia according to the weighted average index indicating the development of the territory, 2002

| Name of the indicator   | Statistical meaning of the indicator |                          | Difference, times   |
|---|--------------------------------------|--------------------------|---------------------|
|   | Best performance                     | Worst performance        |                     |
| GDP per capita, LVL, 2001                                       | Riga region<br>3064,0                | Latgale region<br>1158,0 | 2,6                 |
| Registered unemployment level, %, average in 2002               | Riga region<br>5,2                   | Latgale region<br>18,1   | 3,5                 |
| Personal income tax volume per capita, LVL                      | Riga region<br>122,1                 | Latgale region<br>49,3   | 2,5                 |
| Non-financial investments per capita, LVL                       | Riga region<br>809,0                 | Latgale region<br>261,0  | 3,1                 |
| Demographic burden level per 1000 residents                     | Riga region<br>569,0                 | Vidzeme region<br>643,1  | 1,1                 |
| Number of economically active enterprises per 1000 residents    | Riga region<br>28,4                  | Latgale region<br>9,5    | 3,0                 |
| Population density per km <sup>2</sup>                          | Riga region<br>274,7                 | Vidzeme region<br>18,0   | 15,3                |
| Changes in the number of residents, % (01.01.1998.-01.01.2003.) | Zemgale region<br>-1,4               | Latgale regions<br>-4,8  | Not for calculation |

Source: The report of Latvian national economy progress. Ministry of Economics, the Republic of Latvia. Riga, December, 2003.P.75.

In order to support the development of regions the state uses the several instruments or tools that could be divided in administrative instruments (decisions, laws, defined functions and procedures), financial instruments, innovative approaches and territorial planning. The experience of several countries shows that the most common used instruments are those aimed at:

- Investments in infrastructure, especially in development of economic and social infrastructure;
- State subsidies and loans to the local authorities;
- Establishment of free ports and special economic areas;
- Tax relief policy in certain territories;
- Foundation of business consultation centres, technological parks and innovation centres;
- Assistance to entrepreneurs in staff training etc.

The main regional development tools of the government of Latvia apart the planning documentation and the EU aid programmes are the special purpose grants to municipalities, free ports and special economic areas, and the support programme for the less developed territories.

The Ministry of Regional Development and Local governments are responsible for setting the priorities and procedures for allocation of special purpose grants to municipalities.

### **The amount of special purpose grants to local municipalities (LVL), 1996-2003**

| <b>Year</b> | <b>Amount in LVL</b> |
|-------------|----------------------|
| 1996        | 570 991              |
| 1997        | 1 000 000            |
| 1998        | 1 000 000            |
| 1999        | 350 000              |
| 2000        | 431 661              |
| 2001        | 440 000              |
| 2002        | 440 000              |
| 2003        | 440 000              |

Summarized by the author. Source: *Regional Development in Latvia State Ltd. "Regional development"*. Riga, 2003. P. 47.

The table above shows that the financial amount of special purpose grants to municipalities is rather limited. Nevertheless it has a positive impact on reduction of socio-economic disparities among the regions in Latvia.

The policy of free ports and special economic areas was introduced in 1996 and at the moment there are two free ports and two special economic areas in Latvia. The Ventspils free port and the Riga free port was created with the aim to promote the participation of Latvia in the international trade, the attraction of investments, the development of industry, services and new jobs. The Liepaja special economic area was created with the aim to develop and promote the trade, the industry, the shipping and the air traffic as well as to support the international exchange of goods through the territory of Latvia. But the aim of the Rezekne special economic area is to attract the investments in the industry, infrastructure and new jobs as well as to develop the traffic for import and export through the territory on Latvia. The positive result of the policy of free ports and special economic areas apart of the above mentioned is the special tax relief for real estate, thus the saved money could be invested in infrastructure and other sectors with the aim to foster the development of the certain territory.

Since 1997 the state implements the certain policy aimed at fostering the social and economic development of the less development regions through the special programme. The financial support from the Regional Fund was granted to the projects oriented towards the development of entrepreneurship in less developed territories. In the time period from 1998 to 2003 the 5.5 million LVL was spent to support the development of entrepreneurship in less developed territories by supporting the investments in fixed assets, refund of loan interests (to certain extent), economic training activities, co-financing of activities of municipalities in field of infrastructure development and support to enterprises. The result of the support from the Regional Fund in the first five years: more than 3 thousand new jobs were created, 3.5 thousand seasonal jobs were created and 3.9 thousand jobs were maintained in the less developed territories.

In the time period from 2004 to 2006 the above-mentioned activities will be supported by the European Regional Development Fund within the grant scheme. The amount of money available from the EU as the co-financing of projects aimed at development of entrepreneurship in less developed territories in Latvia is 1 million LVL in 2004, 1.5 million LVL in 2005 and 1.8 million LVL in 2006. The entrepreneur can get 50% of co-financing from the European Regional Development Fund to support the developed project of the company.

The less developed regions in Latvia can benefit also from several sector policy instruments, such as the State Investment Programme and the state subsidies to agriculture and development of rural areas.

The state investments in Latvia in the last years are around 4% of the GDP and approximately 2 % of GDP is the matter of the State Investment Programme. If the support of the State Investment Programme in Zemgale region, in Vidzeme region and in Latgale region mainly went to the environment protection, the support field dominant in Vidzeme region was transportation and in most developed region of Latvia – Riga region – the energy sector.

In the programme of state subsidies to agriculture and development of rural areas the main beneficiaries have been the large companies specialized in agriculture production, therefore the less developed Latgale region could not benefit as much as other regions of

Latvia because the specific feature of the Latgale region is that there are many small traditional agriculture companies.

The above mentioned government policies for national development and regional development should be better coordinated in order to reach the goal: the reduction of the socio-economic disproportions in the regions and the sustainable regional development.

## **What can Latvia learn from Finland?**

The Ministry of Interior is responsible for coordination and evaluation of regional development in Finland. The overall guidelines on regional development are outlined in development programmes for the individual regions. In case of Latvia only some regions have their own development programmes, but those regions, which have not the regional development programme, are planning to adopt it in the nearest future.

Regional policy in Finland aims for the balanced regional development all over the country. The aim of the new Regional Development Act, adopted in July, 2002 is to create the preconditions for economic growth, industrial and business development, and a higher employment rate, which would guarantee regional competitiveness and well-being on a basis of competence and sustainable development.

What is interesting and might be thought over in case of Latvia, Finland has adopted a programme-based regional policy and a system of graduated regional support for businesses and industry according to a geographical breakdown of aid areas. The aim of national regional policy and the measures taken to implement them are confirmed in the Regional Policy Objective Programme accepted by the Government. These include the Centre of Expertise Programme, Regional Centre Development Programme, Rural Policy Programme and the Development of the Island areas. The last mentioned programme is not an issue in case of Latvia, but the Centre of Expertise programme should be investigated in depth in order to see whether this could be a case of a good-practise for Latvia.

The idea of the Centres of Expertise is to utilize top-level knowledge and expertise as recourse for business operations, job creation and regional development. This special programme approved by the government of Finland supports regional strengths, specialization

between regions and co-operation between various Centres of Expertise. There are two nationally networked Centres of Expertise for the years of 1999-2006 in Finland namely the Centre of Expertise for Food Development and The Centre of Expertise for Wood Products. The Centre of Expertise programme seeks:

- To identify regional strengths and create economic growth;
- To increase the number of competitive products, services, enterprises and jobs based on the highest standard of expertise;
- To increase the internationally competitive businesses and research operations calling for a high level of expertise;
- To attract international investment and leading experts;
- To continually reinforce and regenerate regional expertise.

The quality of the living environment becomes a competitive factor between regions in attracting inhabitants and businesses. The Centres of Expertise would assist the reduction of the socio-economic disparities among the regions, thus, promoting the attractive living environment in all regions.

## **Conclusions and Suggestions**

The dynamics of the economic development of the region might be left to the working of the market, with no specific state intervention focused at fostering the economic development of less developed territories. In the reality government actions will have the consequences on the development of regions, even when not intended. Without government support, the decline of certain regions through the impact of market forces would lead to social instability and lack of economic and social cohesion.

The economic progress of the region is closely related to the social aspect and the living conditions of inhabitants of the particular region as well as the attractiveness of others coming to the region.

The factors that make the difference for regional development are the natural endowments, the infrastructure, the human resources, the production costs and the quality of services, the innovation capacity, the local institutions and the regional identity.

The EU regional policy facilitates the European countries to point out their own regional development priorities and to set up the strategies taking into account the basic principles of the EU regional policy even before becoming the EU member states (The conclusion is based on example of Latvia and Finland).

The Regional development law and other normative acts successfully set the framework for development and implementation of regional development policy in Latvia.

In development process of national strategies in future the government of Latvia should review how national strategy might be applied more effectively at the regional level across a range of policies including, for instance, rural policy, R&D, entrepreneurship, labour market policy and transport and communications.

The main regional development documents of Latvia and Finland generally reflects a mix of external and internal convergence objectives, and they are aimed at growth and balanced regional development, and include similar strategies focused on enhancing competitiveness of regions in terms of development of industry, human resources, infrastructure and transport links, restructuring agriculture and promoting rural development, and protecting the environment.

Latvia could derive the idea of Centres of Expertise from Finland, which by author's opinion would be a very positive moment towards the sustainable regional development in Latvia and towards the reduction of socio-economic disparities among regions because the idea of the Centres of Expertise is to utilize top level knowledge and expertise as a recourse for business operations, job creation and regional development. For example, the Centre of Expertise for Wood Products would be really useful for assisting the enterprises specializing in the wood-working sector, thus the entrepreneurs would have the possibility to learn more about how to use the wood resources more efficient. The indicators to evaluate the efficiency of the Centre of Expertise would be the number of new high-skilled jobs created, jobs maintained, new high-tech businesses created, new innovations (products, concepts), number of people trained and number of projects implemented.

Expertise, innovation and specialization are the key factors in the growth of regional economies and employment, therefore the R&D should be stressed in Latvia not only at the national level but also at the regional level by encouraging companies to network with other companies, research institutions and universities.

The evaluation and anticipation of labour demands and training needs should be reinforced at regional level in order to guarantee the availability of expert labour, which means that regular evaluation of changes taking place at the regional economic, industrial and services structure should be ensured and coordinated.

The regions should calculate their own maximal recourses and develop their own particular measures for dealing with the problems that already exist or might arise in future apart from support of the national government.

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