

FORECASTED OUTCOMES OF LATVIAN REGIONAL POLICY'S IMPLEMENTATION IN MUNICIPALITIES

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Abstract. *The main instrument of regional policy in order to reach balanced development is formation of polycentric territorial structure so strengthening the role of regional towns in the development of surrounding territories and concentrating the support of investment in 30 development centres. Regional policy states that the concentration of capital and resources will form the necessary critical mass for socio-economic development not only in urban areas, but also surrounding rural areas, therefore mutual urban-rural interaction is very important. In the result of three scenarios, the most balanced spatial development in 2020 is estimated to be in the case of status quo scenario, which foresees the investment in development centres maintaining the existing development tendencies. However, it can be estimated that the most predictable development scenario is the third-competition scenario and balanced spatial development will not be achieved.*

Key words: *rural-urban interaction, regional policy, development, cooperation.*

INTRODUCTION

Urban-rural cooperation has been emphasized in the development planning documents at EU level since 1980s, including knowledge transfer, innovation creation and distribution, promotion of cooperation between local administrations and creation of small and medium-size city network [1]-[3]. Rural-urban interaction is considered as essential tool for polycentric development [2]-[4]. However, taking into account the significant differences between Member States – the institutional framework, economic development and cultural differences, there are not defined common political tools in order to achieve spatial development objectives.

In Latvia urban – rural interaction as component of spatial perspective has been emphasized in several development planning documents and legislative acts[5]-[7]. Long-term goal of Latvian regional policy foresees to “create equivalent life and work conditions to all residents regardless of their place of residence”. Development planning documents foresee funding for several blocks of measures, for instance, improvement of demographic situation (EUR 2 747.70 million), provision of public transportation's availability (EUR 1 697.56 million) and fostering of economic activity (EUR 2 131.69 million) [7]. As a result of reaching this aim, the development pace of undeveloped regions will be increased and balanced habitation structure of residents will be fostered. Measures to reach the goal foresee the concentration of public investment support in development centres of national and regional importance. Concentration of investments will create critical mass for the creation of significant growth as a result the situation must improve not only in development centres, but also in surrounding territories. However, there is not provided instruments which can encourage cooperation and positive interaction that benefits residents in both areas. Taking into account non-mandatory cooperation and lack of growth transfer instruments and funding, objectives of regional policy may not be achieved in planned period, deepening socio-economical differences in Latvian administrative territories. The aim of this research is to forecast outcomes of regional policy's implementation in municipalities in Latvia in scope of rural-urban interaction and cooperation.

MATERIALS AND METHODS

Evaluation of scenarios was carried out to reflect the impact of selected measures in reaching regional development policy aims on balanced spatial development as the main goal of regional policy. Evaluation of situation was carried out for medium-term development prognosis for 2020. Significant part of public investment support has been estimated from EU fund programmes, therefore no sooner

than in 2020 the first expected results reflecting real benefits and changes can be analysed. Possible socio-economic development tendencies of municipalities have been set in the first part of evaluation based on resultative indicators defined by National Development Plan 2020 (NDP 2020). Values of socio-economic indicators in development centres were respectively altered, taking year 2011 as the base year. The indicators of other municipalities were calculated according to the expected three scenarios.

1. *Status quo scenario* characterises the situation in which concentration of investments in 30 development centres improves their socio-economic condition in accordance with expected indicators stated by NDP 2020, while other municipalities continue to have the current development tendencies.
2. *Cooperation scenario* – investments in development centres improve their socio-economic growth, which is transferred to surrounding territories, so stimulating the development of all Latvian municipalities. However, the pace of development centre growth cannot be equal to the pace of surrounding territory growth because of several reasons. First of all, the areal of regional development centre impact can be different both because of physical and social infrastructure. Secondly, 30 development centres border with 77 municipalities, while 12 municipalities do not have formal border with development centres. Taking into account the above mentioned, the growth for bordering municipalities of republican cities has been estimated at 70%, but for other municipalities – at 50% of the growth pace of development centres. Differentiated rate has been chosen, because there is a bigger concentration of critical mass in a republican city, which gives higher influence intensity on surrounding territories in comparison to the development centres of regional importance.
3. *Competition scenario* reflects the most negative situation – concentration of investments in development centres improve their socio-economic situation, but growth is not transferred to surrounding territories, so stopping or even worsening the socio-economic development of these territories. Taking into account the tendencies of population decrease, this indicator submits to the changes according to the estimated situation in 2020 set by NDP 2020.

In the second step, factor analysis was conducted for those indicators characterising demographic situation and economic activity, which correspond to the motive of NDP 2020, which is *economic breakthrough*. Obtained results of factor analysis were compared by evaluating the influence of regional policy on balanced territorial development, which estimates that differences among municipalities should be lessened. Results of factor analysis have been evaluated by grouping municipality factor values in levels, which show the differences among regions: *clear* differences in comparison with the average level of Latvia, if factor values are greater than 1 or less than -1; *slight* differences – factor values are from 0.5 to 1 or from 0.5 to -1; *average* situation, if factor values are from -0.5 to 0.5, which characterise the homogeneity of municipalities. Balanced socio-economic development in municipalities characterizes maximum homogenous factor values, but as the number of those municipalities, which have clear high or low factor values, spatial structure becomes heterogeneous so creating basis for disbalanced development.

In the third stage, cluster analysis, municipalities are grouped based on the values complex factors, and then a cluster was set with the situation that can be valued most positively as well as cluster with the most negatively valued situation for every factor. When conducting complex grouping of municipalities, those fields have been identified, because of which a particular municipality has been included in cluster with the most positive or negative situation.

RESULTS AND DISCUSSION

Urban-Rural Cooperation. Cooperation and partnership among the municipalities is an important element in order to create balanced regional development. As a result of scientific discussions [8]-[18], spatial dimension as well as the importance of providing balanced urban-rural interaction has been included in development planning at international and local level. Sustainable administration of urban-rural interaction is directly dependant on the attitude of local administration structures, when developing territory development strategies, which can generate cooperation or exactly the opposite – conflicts among territories. Benefits are both economic and social, when deliberately forming urban-rural partnership and using existing linkages or forming new ones [8]-[12]. As a result of urban-rural cooperation, polarisation and stratification are lessened; local problems are solved in wider and more strategic level. Urban-rural cooperation promotes the integration of knowledge, ideas, innovation and entrepreneurship in rural economy and society [12]-[16]. Veneri [14]

points out that urban-rural interaction is influenced by region’s economic, spatial and administrative structure. Regional aspect has been reflected also in Čaplikas [9] researches in Lithuania – it has been concluded that if significant regional differences exist as a result of urbanisation process, then different interaction models must be created for each region separately, taking into account the spatial structure, agricultural development, availability of services and the level of urbanisation.

Forecasted scenarios in Latvia. In total 21 indicators was used to evaluate situation. In factor analysis 6 factors were determined. Residents’ income (including Personal Income Tax amount in the municipality budget per 1 resident, share of residents in the pre-employment age, density of population and share of residents after the working age), Residents’ structure (demographical load, share of residents in the working age and share of residents after the working age) and Number of residents (number of residents, changes in number of residents) describes demographic situation. Meanwhile economic activities’ in municipalities were characterized by Employment (number of employed, number of employed in public sector and private sector, gross salary and number of individual merchants per 1000 residents), Salary (gross salary in total, in public sector, number of companies per 1000 residents and unemployment level) and Basic forms of economic activity (number of economically active market sector statistical units of per 1000 residents, number of self-employed per 1000 residents and number of peasant and fishermen farms per 1000 residents)

Status quo scenario in the regional development of Latvia characterizes situation in 2020, if the support of public investment is concentrated in development centres of national and regional meaning, but other municipalities will continue existing development tendencies. Situation reflects post crisis growth period, however, natural growth of population and net migration remains negative.

The estimated values of indicators characterising demographic situation show disbalanced situation – only less than half of municipalities have homogeneous values, which show the disbalance of spatial development. Factor values characterising economic activity are homogeneous in the field of workplace offer in private and public sector, while municipality indicators are significantly different concerning number of employees and registered types of commercial activity.

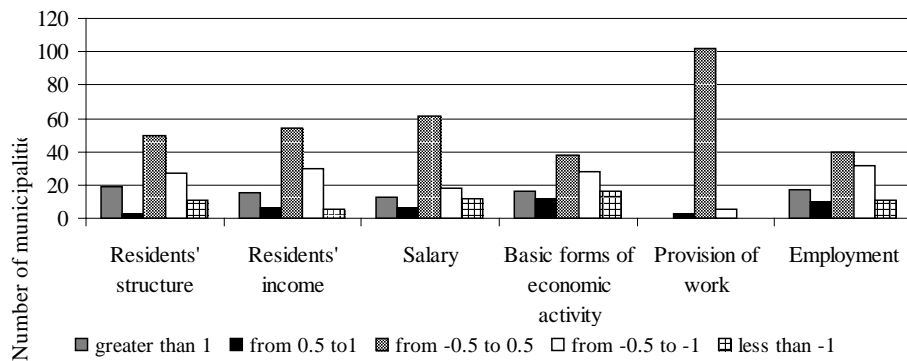


Fig.1. Estimated number of municipalities in groups of factor values in the scenario of *status quo*

As a result of cluster analysis, positive development has been estimated for 61 municipalities in 2020 – favourable age structure (7 municipalities), high level of resident income (11 municipalities), high employee remuneration (11 municipalities), high economic activity (14 municipalities), high number of employees both in private and public sector (19 municipalities). All development centre municipalities of regional importance have been estimated to have positive development, but bordering municipalities of republican cities are differentiated – bordering municipalities of Riga have been characterised with clearly positive and high values of socio-economic indicators, while municipalities, which are located in other regions, have negative values of indicators.

Clearly negative situation could be in 29 municipalities, the indicators of which are in the groups of indicators characterising the lowest demographic situation and economic activity. Relatively negative situation can be observed in municipalities, which are located in Zemgale and which focus on agricultural production, which was not subject to development forecast. It shows that the specialisation of municipalities can be evaluated as positive, however, it raises the risk, that in case of negative changes, for example, consumption

of agricultural production in the market, these municipalities could have important reduction of growth rate. Forecast obtained in cluster analysis reflects situation in 2020 and shows that by continuing the existing growth rate, it is possible to balance spatial development, because positive development tendencies could be estimated in 61 municipalities. The most significant differences among municipalities will exist because of different number of population, as a result also because of different number of employees and economic activity.

Scenario of cooperation in Latvian regional development – the most significant element of balanced spatial structure is cooperation of territories. By concentrating the support of investments in development centres of national and regional importance and so increasing growth rates, the positive effects of socio-economic changes are transferred to surrounding territories – most often – bordering municipalities.

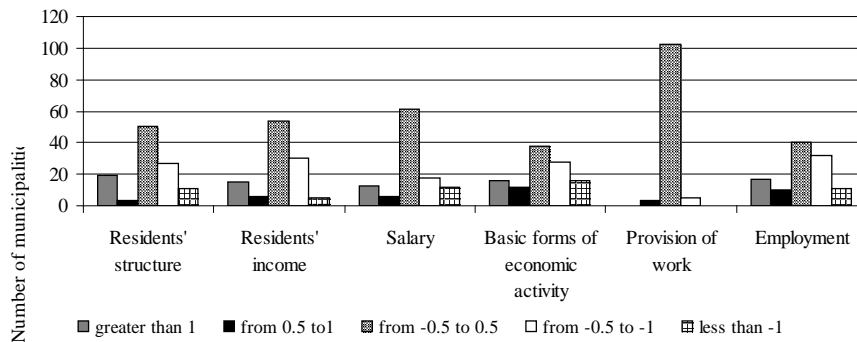


Fig.2. Estimated number of municipalities in factor value groups according to cooperation scenario

When evaluating all characterising indicator complex factors of and their values for particular municipalities, it must be concluded that significant differences exist – about half of municipalities have homogeneous demographic indicators, while others have different indicators both from positive and negative aspects. Particularly heterogeneous situation is regarding to the factor *Basic forms of economic activity*, while the factor *Provision of job* in municipality may be relatively even. By evaluating the results of factor analysis for indicators characterising economic activity, it must be concluded that there are differences among municipalities according to three factors – a significant aspect in the development of municipalities and in reaching the NDP motive – *economics' breakthrough*. Taking into account the observed differences, it must be concluded that the regional politics planned for 2020 will not reach the goal in the formation of balanced municipalities according to the scenario of cooperation, because significant differences of economic activity will still exist. Common development possibilities for municipalities, which can be perceived both positively and negatively, were obtained in the second phase of evaluation when conducting cluster analysis.

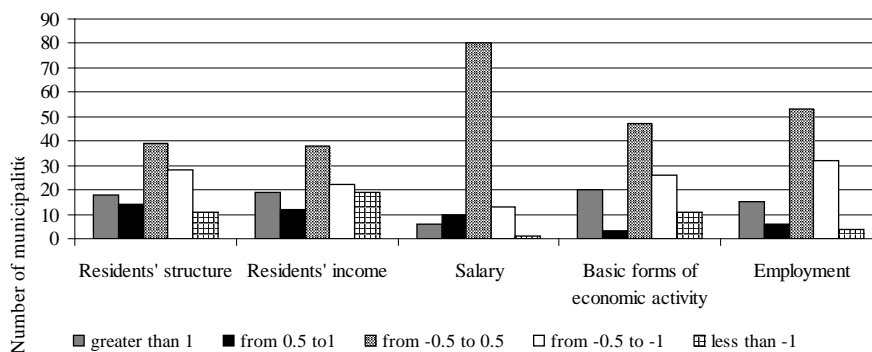


Fig.3. Estimated number of municipalities in factor value groups as a result of competition scenario

Positive development tendencies have been identified in 63 municipalities – as a result of cluster analysis they have been included in clusters with particularly favourable situation in one or several expected aspects for instance, high resident income and high wage in 12 municipalities, high population and

high number of employees in 15 municipalities, high economic activity in 18 municipalities, higher population and/or depopulation in 13 municipalities. Municipalities, which are grouped in clusters with negative development tendencies, are mainly located in the north of Vidzeme and Sēlija – further from the development centres of national or regional importance, which proves that growth is not transferred to these territories; therefore a set of several measures must be developed to foster the development and growth of these regions.

Scenario of competition in the regional development of Latvia – is based on assumption, that investments in development centres will not create positive changes and growth in other territories in 2020, because development centres will state the socio-economic development of its municipality as more important so fostering the attraction of resources and promotion of competitiveness. Mutual cooperation of territories is not mandatory setting for regulations of national level, so in the case of competition scenario increasing the risk to have weak relationships of cooperation for the interests and needs of municipalities among development centres and surrounding territories.

When comparing the results of all three scenarios, it must be concluded that in the implementation of *competition* scenario, the values of indicators characterising demographic situation in municipalities will show the biggest differences, so creating basis for disbalanced development of municipalities in future. The level of remuneration will equalize in 2020, but economic activity, including offer of working places and the number of employees working in private and public sector, will be significantly different in more than 50% of municipalities. Socio-economic development will be disbalanced in 2020 creating different development basis for municipalities and future potential, which is affirmed by the factor analysis of estimated activity concerning demographic situation and economic activity.

17 municipalities in cluster analysis were grouped in more than three clusters with particularly positive situation; Cesu municipality should be especially pointed out as it is in five of the most positively valued clusters. Other municipalities are development centres of regional importance and Marupe municipality (rural municipality). Other municipalities have favourable situation just in separate areas. Favourable age structure has been estimated for 12 municipalities, high income could be at 3 municipalities, economic activity – 3 municipalities. When considering the total amount of employees in the territory of a particular municipality, employees working in a private sector prevail in 7 municipalities. As a result of competition scenario, 64 municipalities are grouped in clusters with negative development, for instance, clearly low economic activity and small proportion of employees at a private sector could represent the situation in 20 municipalities. Negative age structure, which is characterised by high load of demographic level and the proportion of working age population from the total population, is foreseen in 12 municipalities.

In the result of three scenarios, the most balanced spatial development in 2020 is estimated to be in the case of *status quo* scenario. However, taking into account the views of experts about the current lack of cooperation among municipalities as well as absence of a measure set for certain development and growth transfer, it can be estimated that the most predictable development scenario is the third – *competition* scenario, as a result, NDP motive of *economic breakthrough* and the main goal of regional policy about balanced spatial development will not be achieved. It is very important to develop a set of measures for transferring the development from development centres of national and regional importance to surrounding territories by stating it as a duty to develop cooperation with municipalities of surrounding regions and not delegate this task to development centres.

CONCLUSIONS

1. The balanced spatial structure and reduction of socio-economic differences in administrative territories in 2020 can be achieved in framework of current regional policy, if growth will be transferred from development centers to other municipalities. In the result of three scenarios, the most balanced spatial development in 2020 is estimated to be in the case of *status quo* scenario, which foresees the investment in development centres maintaining the existing development tendencies.
2. Taking into account the views of experts about the current lack of cooperation among municipalities as well as absence of a measure set for certain development and growth transfer, it can be estimated that the most predictable development scenario is the third – *competition* scenario, as a result, NDP motive of

economic breakthrough and the main goal of regional policy about balanced spatial development will not be achieved.

3. In Latvia, the formation of urban and rural cooperation is delegated to local governments. It could jeopardize achievement of long-term development objectives and performance indicators, especially in the case of limited public investment. Therefore Ministry of Environment Protection and Regional Development must elaborate municipalities' cooperation guidelines, requiring mutual cooperation to ensure economic activities and equal quality of life in both rural and urban areas; as well as require inclusion of the set of measures that would promote cooperation between rural and urban municipalities in development planning strategies in national and regional development centers.

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