Despite Latvia being a small country, it bears marked territorial or regional differences both between smaller administrative territorial units (local municipalities, republican cities and districts) and between larger territories—regions.

From 2004 till 2008 Riga received 50% of all European Union (EU) funding. Latgale received the smallest part of financing (10%); the rest of the funding was split almost equally among Zemgale (12%), Vidzeme (12%) and Kurzeme (13%).

As specific tasks for the development of specific territories or a balanced distribution of financing were not put forward for the strategy of acquiring funds, the fund investment has been attracted only to those territories where the yield could be the biggest or where the absorption capacity was the highest.

Key words: Structural Funds, financing, priority, activity.

Introduction

Economically underdeveloped regions is a problem for any country as, along with the increase of unemployment level, the level of crime, drug addiction, and alcohol addiction also rise. As a result social degradation sets in, which can take over the entire country and cause a deep economic crisis. In case of some EU Member States this situation is the heritage of the former centralized planning in economy. It is possible to agree with G.Anča and E.Lune that democratic and integrated regional development comprises many basic principles of economy development—sustainability, balance, participation, as well as a multisector development model. The region development is balanced if it fosters achieving balance between the preservation of cultural and social environment and development, human resource development, social welfare and economic growth (Anča and Lune, 2002). Therefore, it is important to apply a mix of EU structural policy tools and measures to promote economy growth, to enhance welfare in the underdeveloped region and to prevent the potential development of such unfavourable situations in the future. Iveta Šulca, the Manager of the European Commission (EC) Representative Office in Latvia, also admits that EU Structural Funds (EU funds) programmes directly supporting economic development, are meant for strengthening long-term sustainability and open an escape from an economic crisis. The more successful the acquiring of Structural Funds, the faster the escape from recession (Šulca, 2008).

Both the unfavourable territorial or regional differences and the different regional development potential (resources and opportunities) substantiate the need for a targeted national regional policy that would provide the regional development in the country. I.Vilka has also admitted that regional development policy is a part of common development policy of the country. Any regional policy has at least two aspects—economic and social (Vilka, 2004). Despite Latvia being a rather small country, it bears marked territorial or regional differences both between smaller administrative territorial units (local municipalities, republican cities and districts) and between larger territories—regions.

Along with joining the EU on May 1, 2004, the opportunities to participate in the processes of EU regional and structural policy were open to Latvia as one of the new Member States, with the goal to provide faster approaching of the economic and social indicators of Latvia to those of the average EU Member State levels. From 2004 till 2008 financial help in the amount of LVL 1.55 billion from EU and other foreign countries entered Latvia economic development. This funding arrived at the development of state and municipality infrastructure and was handed out as a support for enterprises, used to increase people’s qualifications and in other fields (Ministry of Finance, 2009). A balanced territorial development has been determined one of the main Cohesion policy goals also in the current planning period from 2007-2013.


In the study of Latvia State Agrarian Economy Institute and the World Bank, Riga region and Zemgale were marked as the biggest winners from the EU and state support programme assets for agriculture and rural development (Saktiņa and Meyers, 2005). Slightly later it was also concluded by “PKC”, Ltd. (2005).

As statistical data published by various institutions prove, so far the EU funds assets have reached the capital Riga and the territory in its area to satisfy their needs. But S.Keišš and the author’s group question the opinion that the biggest emphasis in acquiring the EU
Structural Funds is placed on Riga, its area and the biggest development centres that also in the future will ensure high growth rates of the gross domestic product (GDP), which will enhance a continuous increase of the welfare level of the inhabitants of Latvia up to the level of an average affluent inhabitant of the EU Member States. A group of researchers continued to study this hypothesis also in 2008, performing monitoring observations and carrying out research on the unrealized opportunities in the country’s regional development (Keišs et al., 2008).

Already in the 2004-2006 planning period several opinions about the effective use of the EU financing were put forward. As J. Brizga mentioned in her paper, these resources enhanced the hopes that Latvia would approach the welfare level of western countries faster than before. At the same time several issues related to the EU financing were set: Should the leading motive of fund acquiring be: “faster and more”? Does the inflow of large resources in the country automatically mean beneficial improvements? Will Latvia be able and manage to acquire the financial assistance it has the right to? Will the distribution of Structural Funds assets be open and fair? (Brizga, 2005).

It has to be agreed with E. Jermolajeva et al. that the impact of the EU assets on the country’s development, including the development of its regions, can be evaluated not earlier than 2-3 years after the investment (Jermolajeva et al., 2008). Research to date indicates that regional possibilities and interests to acquire financing are not equal. The “reaction” of regional economy to the effectiveness of the invested resources is not identical either because various economic advantages and interests of economic development exist between regions (Saktiņa, 2008).

Therefore the formulated research goal is the assessment of the EU funds assets in the regions of Latvia.

To achieve the goal, the objectives were set:
1. to provide the characterization of the regions of Latvia;
2. to evaluate the use of the assets of the EU funds in the regions of Latvia;
3. to assess the use of EU funds in relation to economic indicators in the regions.

Materials and Methods

To study the theme the following were used: normative documentation of the Republic of Latvia – Single Programming Document (SPD), Programme Complement (PC) to the Single Programming Document, laws and regulations of the Republic of Latvia, Regulations of the Cabinet of Ministers on Introducing EU funds for 2004-2006, data summarized on the Ministry of Finance webpage, data of the Central Statistics Bureau of the Republic of Latvia, and studies of other researchers on region development problems and the EU funds.

Analyzing the resources of EU funds available to Latvia and their use, the priorities set for the 2004-2006 planning period and the financing allocated to them in the particular regions of Latvia were used: Riga region (hereinafter referred to as Riga), Kurzeme region (hereinafter referred to as Kurzeme), Vidzeme region (hereinafter referred to as Vidzeme), Zemgale region (hereinafter referred to as Zemgale) and Latgale region (hereinafter referred to as Latgale).

The main research methods applied: monographic descriptive method, testing content correspondence between documents of several levels, methods of analysis and synthesis to find out the problem elements and to synthesize interrelationship or to formulate regularities, acquiring and storing facts, statistical etc. data, specific information.

Results and Discussion

1. Characterization of the regions of Latvia

In total, according to the Human Development Index, which comprises life expectancy, literacy, level of education and GDP per capita normalized values all over the world, Latvia occupied the 50th place among 177 countries in 2002, the 48th place in 2003, the 45th in 2004 and 2005, the 48th in 2007. Thus, in general, the rise has been from place 50 in 2002 to 45 in 2005, but in 2007 Latvia fell to place 48 again. Latvia is the only Baltic state where the Human Development Index has improved from 2002 till 2005. In Estonia it has dropped from the place 38 to 44, rising to the place 40 in 2007, but Lithuania has changed its 39th place in 2002 to the 43rd place in 2005 and the 46th place in 2007. In comparison, Ireland occupied the 5th place in 2007, Sweden – 7th, Finland – 12th, Denmark – 16th, Germany – 22nd, Poland – 41st. Until 2005 Latvia’s position improved because the newly born life expectancy increased, gross domestic product and level of education also increased. (State Regional Development Agency, 2009). It is a good achievement for the country but it cannot indicate to a big jump in the development of the country or its regions.

Based on the statistical indicators and comparing regions with the highest and the lowest social economic indicators, it is possible to characterise the differences between regions.
According to the territorial space, regions in Latvia are similar. The proportion of Riga is 16%, but Zemgale occupies 17% of the territory of Latvia. The proportion of the other three regions slightly exceeds 20%. If regions are similar based on the territory they occupy, then the differences are bigger in the number of population. The large number of the citizens of Riga is based on the fact that almost 48% of all the population of Latvia lives in Riga. Differences in the number of population are not big among the other regions. Latgale has 348 thousand inhabitants or 15% of the total population of Latvia, then comes Kurzeme with 304 thousand inhabitants (13%) and Zemgale with 283 thousand (12%). Vidzeme occupies one fourth of the total territory but only 238 thousand inhabitants live there, which is only one tenth of the total population of Latvia. Differences can also be observed when comparing regions according to the population density. Riga stands out with the highest population density – 105 inhabitants per km$^2$. This population density about 3 times exceeds the average in the country, and it exceeds the population density in Vidzeme 6.5 times. In other regions the population density is lower than the average in the country – 35.

In Zemgale region it is 26 inhabitants per km$^2$, in Latgale – 24 and in Kurzeme region – 22 inhabitants per km$^2$. Vidzeme has the lowest population density – 16 inhabitants per km$^2$.

Looking at GDP indicators across the regions, it can be observed that most or 67% of the GDP in Latvia is for Riga. It is followed by Kurzeme with the GDP proportion of 10%, as well as Zemgale and Latgale with 8%, but the smallest part is made by Vidzeme with 7% of the GDP of Latvia.

To characterise and compare the social economic development in Latvia, a special region development index is used, which is a synthetic indicator that summarises indicators of particular territory groups, and it characterises the level of the territory development. It is calculated on annual basis.

According to the changes in the territory development index from 2002 till 2007, at regional level in Latvia, Riga showed good development dynamics, improving the good development index value (see Table 2). As the data summary for 2006 and 2007 indicates, the negative value of the territory development index slightly improved in Vidzeme, Zemgale and Latgale, though it was decreasing every year.
year before that. Whereas in Kurzeme the negative value of the territory development index did not change, in the middle of the studied period, but it significantly dropped at the beginning of the period and over the last year. Comparing the values in 2002 and 2007, it can be observed that the value of the territory development index has increased only in Riga, whereas decreased in other four regions of Latvia. Differences in the social economic development of the planning regions have slightly increased over the five years, which is proved by the difference of the territory development index of the least developed Latgale region from the stronger Riga region. Based on the performed data analysis, it can be observed that the difference between Riga and Latgale was 2.166 in 2002, but it was 2.226 in 2007.

It has to be concluded that the overall tendencies in the country indicate that significant social economic differences between various territorial parts of the country exist in Latvia and have been preserved for a long time. The development dynamics of the last year indicators prove that Kurzeme is strengthening its position of the second strongest region, approaching Riga. Vidzeme has also outpaced Zemgale in several indicators over the last years although the development level of these two regions does not significantly differ. Several development indicators of Latgale (GDP, development index) indicate to a slight positive development dynamics; however, differences with other regions are significant.

2. Use of the assets of the EU funds in the regions of Latvia

Since Latvia’s accession to the EU, the amount of the EU Funds that has flown into Latvia, mainly supporting the set priorities for the 2004-2006 planning period, comprises more than LVL 1 billion or on average 2% of the respective period GDP of the country. Over the given period, the EU funds supported Latvia with four financial instruments or funds – European Regional Development Fund (ERDF), European Social Fund (ESF), European Agricultural Guidance and Guarantee Fund (EAGGF) and Financial Instrument for Fisheries Guidance (FIFG).

In the period 2002 - 2007, the approaching of social economic development level of Latvia, including its regions to the EU level is clearly observed. Comparing with EU average indicators, GDP per capita made 41.4% in Latvia in 2002, but in 2006 it was 58.9% of the EU-27 level. In the period 2002-2004 Latvia approached the EU-27 level on average by 2 percent points, but in 2005, 2006 and 2007 it managed to lower the underdevelopment from the average level of the EU Member States by 4 percent points a year (Region Development in Latvia, 2008). The findings of the EC study from 1986 till 1996 also indicate that the GDP of the 10 poorest EU regions has increased from 41% of the average EU GDP to 50% over this period. In addition, over this period, the GDP grew considerably in the four poorest EU Member States – from 65% to 75% of the EU average. It is difficult to determine how big part of this increase is the result of closer economic integration and how big is the contribution of EU funds, but EC assumes that approximately half of the praise of this increase should go to the Structural Funds (Braun, 2002).

Based on the EC normative regulations, Latvia receives the assets EU funds as one region – state, not as separate its regions, as it is practised in most of the EU Member States. The 2004-2006 planning period finished on June 30, 2009. Currently it is already possible to start evaluating the achieved over the previous five years and to what extent the EU funds resources have met the set basic goal – to reduce social and economic differences between the EU regions, namely, to draw nearer the social economic indicators of Latvia, including its regions, to the average EU level.

Three main targets were set for acquiring EU funds in the 2004-2006 planning period: development of competitiveness and facilitating employment, development of human resources and infrastructure. Based on these targets, five priorities were determined:

- Priority 1: Facilitating balanced development (ERDF financing)
- Priority 2: Facilitating entrepreneurship and innovations (ERDF financing)
- Priority 3: Human resource development and facilitating employment (ESF financing)
- Priority 4: Enhancing agriculture and fishery development (EAGGF and FIFG financing)
- Priority 5: Technical support (ERDF and ESF financing).

Table 3 summarises the distribution of public financing of priorities among the regions of Latvia. As it can be observed, 3% of the financing was allocated to national scale projects – these are projects in the measures all of which are classified as national scale measures and also national scale projects are implemented in part of the territorial measures (result will have a positive impact on the entire country’s territory). When analysing Priority 3, which was financed from ESF resources and directed at investment in human resources, it can be observed that 6% of the total priority financing is invested in national scale projects. When comparing the distribution across the regions, Riga occupies the front with 31% of Priority 3 financing, Latgale follows with twice less financing (17%). The financing for Zemgale and Kurzeme in Priority 3 is 16% and for Vidzeme – 14% of the financing allocated for Priority 3.

Performing the analysis of the public financing allocated for the EU funds projects according to the place of funding allocation, the author concludes that Riga has received 50% of all EU funding from 2004 till 2009. Latgale has received the least part of financing (10%), but the other resources have been almost equally split between Zemgale (12%), Vidzeme (12%) and Kurzeme (13%).

Ilze Latviete
The information summarized in Figure 1 presents a direct correlation between the amount of financing and the territory development index – the higher the social economic development index of the territory, the larger the attracted amount of financing. The distribution of EU funds across various parts of the territory corresponds to the strategy the country adopted for 2004-2006, namely, facilitating the overall country's competitiveness and growth and investing in those industries and territories the use of which would give the fastest effect on the economic growth of the country. Respectively, as the strategy for acquiring funds did not set any specific objectives for the development of particular territories or a balanced distribution of financing, the EU funds investment has been attracted to those territories where their yield could be the largest or where the absorption capacity has been the highest.

3. Assessment of the EU funds in relation with economic indicators in the regions

The author uses the public financing per inhabitant allocated for the EU funds projects as another indicator of regional effect of the distribution of the assets EU funds, as it can be considered a more objective

<table>
<thead>
<tr>
<th>Priority</th>
<th>Riga</th>
<th>Kurzeme</th>
<th>Zemgale</th>
<th>Vidzeme</th>
<th>Latgale</th>
<th>National scale projects</th>
<th>Total</th>
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<tbody>
<tr>
<td>Priority 1</td>
<td>216 120</td>
<td>48 872</td>
<td>42 553</td>
<td>49 845</td>
<td>44 981</td>
<td>10 273</td>
<td>412 644</td>
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<tr>
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<td>10</td>
<td>12</td>
<td>11</td>
<td>2</td>
<td>100</td>
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<tr>
<td>Priority 2</td>
<td>539 629</td>
<td>68 902</td>
<td>71 542</td>
<td>72 928</td>
<td>48 897</td>
<td>25 568</td>
<td>827 466</td>
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<tr>
<td>Proportion %</td>
<td>65</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Priority 3</td>
<td>135 741</td>
<td>70 111</td>
<td>68 237</td>
<td>62 902</td>
<td>72 537</td>
<td>28 205</td>
<td>437 733</td>
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<tr>
<td>Proportion %</td>
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<td>16</td>
<td>16</td>
<td>14</td>
<td>17</td>
<td>6</td>
<td>100</td>
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<tr>
<td>Priority 4</td>
<td>118 525</td>
<td>85 095</td>
<td>55 961</td>
<td>59 197</td>
<td>36 771</td>
<td>2 636</td>
<td>358 185</td>
</tr>
<tr>
<td>Proportion %</td>
<td>33</td>
<td>24</td>
<td>16</td>
<td>17</td>
<td>10</td>
<td>1</td>
<td>100</td>
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<td>Priority 5</td>
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<td>459</td>
<td>481</td>
<td>418</td>
<td>533</td>
<td>440</td>
<td>20 213</td>
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<tr>
<td>Proportion %</td>
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<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>1 027 897</td>
<td>273 439</td>
<td>238 774</td>
<td>245 290</td>
<td>203 719</td>
<td>67 122</td>
<td>2 056 241</td>
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<tr>
<td>Proportion %</td>
<td>50</td>
<td>13</td>
<td>12</td>
<td>12</td>
<td>10</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Data of EU Structural and Cohesion Funds Management Information System on 07.11.2009. and author’s calculations

*Public funding – EU Structural Funds financing + national financing

The information summarized in Figure 1 presents a direct correlation between the amount of financing and the territory development index – the higher the social economic development index of the territory, the larger the attracted amount of financing. The distribution of EU funds across various parts of the territory corresponds to the strategy the country adopted for 2004-2006, namely, facilitating the overall country’s competitiveness and growth and investing in those industries and territories the use of which would give the fastest effect on the economic growth of the country. Respectively, as the strategy for acquiring funds did not set any specific objectives for the development of particular territories or a balanced distribution of financing, the EU funds investment has been attracted to those territories where their yield could be the largest or where the absorption capacity has been the highest.

3. Assessment of the EU funds in relation with economic indicators in the regions

The author uses the public financing per inhabitant allocated for the EU funds projects as another indicator of regional effect of the distribution of the assets EU funds, as it can be considered a more objective
comparison of regions (see Table 4). The number of population in 2008 was taken as the basis. After performing calculations and analysing data, it can be observed that Vidzeme has the highest indicator – LVL 1,031, which is followed by Riga and Kurzeme (LVL 936 and LVL 901 respectively). In Zemgale the EU funds financing per inhabitant is LVL 842, but the markedly smallest financing is for Latgale (LVL 585). The difference between the highest and the lowest indicator is 1.8 times.

Comparing the proportion of the assets of the EU funds allocated for a particular region with the proportion of the population in the respective region (see Table 4), the author analyses and relatively determines which regions have gained and which have lost. The result below 1 reflects the redistribution of funds resources against the benefit of the respective region, whereas the result above 1 indicates that the region has received more resources if compared to its number of population. It is possible to observe that Latgale and Zemgale were relative "losers" while Riga and especially Vidzeme were "winners".

When analysing the assets of EU funds according to the income produced by the respective region, another indicator of characterizing was created. As a result of this calculation, a very uneven distribution was achieved (see Table 5).

The data summarised in Table 5 indicate that resources were redistributed from Riga for the benefit of the rest of the regions, especially Vidzeme and Zemgale, which were the biggest "winners". Vidzeme and Latgale have received twice as much as in case the resources had been distributed according to the relative income.

**Conclusions**

1. The dynamics of the development of the indicators over the last years indicate that Kurzeme is strengthening its position as the second strongest region, approaching Riga. Vidzeme has also outpaced Zemgale on several indicators over the last years. Several development indicators of Latgale (GDP, development index) indicate to a slight positive development dynamics; however, the differences with other regions are significant. Common tendencies in the country indicate that considerable social economic differences between various parts of the country’s territory exist and have been preserved for long time in Latvia.

2. Analysis of acquiring EU funds in 2004-2006 indicates that the distribution of EU funds across the regions is not even. The biggest proportion of the assets of EU funds is concentrated in Riga – 50% or LVL 1,027.897 thousand, but the smallest – in Latgale – 10% or LVL 203,719 thousand.

3. A direct correlation between the amount of financing and the territory development index can be observed – the higher the social economic development level of the territory, the bigger the amount of the attracted financing.

4. 6% of Priority 3 funding, which was financed from ESF resources and which facilitates human resource development, is invested in national scale projects the result of which will have a positive impact on the entire country’s territory. Distribution across the regions in this Priority puts Riga in front with 31%, Latgale follows with twice less financing (17%), Zemgale and Kurzeme has 16% and Vidzeme has 14% of the financing allocated to Priority 3.
5. Analysis of the public financing allocated for the EU funds projects per inhabitant indicates that resources were redistributed from Riga to the benefit of the rest of the regions, especially Vidzeme and Zemgale, which were the biggest “winners”. Vidzeme and Latgale have received twice as much as in case the resources had been distributed according to the relative income.

6. The strategy for acquiring EU funds for 2004-2006 did not set specific objectives for the development of particular territories or for a balanced distribution of financing, thus the investments of EU funds were attracted to the territories where their yield could be the largest or where the absorption capacity was the highest. Distribution across the various parts of the territory corresponds to the strategy the country had chosen, namely, facilitating the overall competitiveness and growth of the country and investing resources in those industries and territories where their use would give the fastest impact on the growth of the country’s economy.

References


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