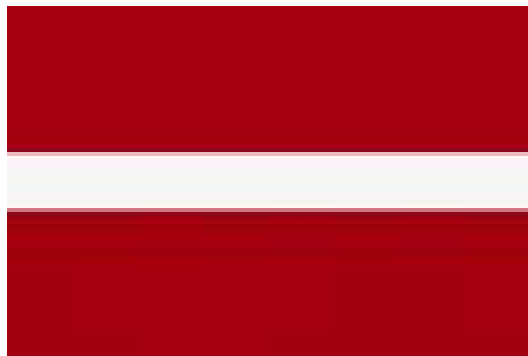


Master Thesis

The influence of sub-state actors on EU Cohesion Policy A case study of Latvia



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Table of contents

1. Introduction	p. 3
1.1 Introduction	
1.2 Research outline	
2. Theoretical framework	p. 7
2.1 Multi-level Governance	p. 8
2.1.1 Multi-level Governance in CEEC	p. 9
2.2 Policy network analysis	p. 11
2.3 Principal – Agent concept	p. 12
2.4 Rational Choice Theory	p. 14
3. Legal background	p. 16
3.1 The European Union	p. 16
3.1.1 EU Regional Policy	p. 17
3.1.2 Definition of region	p. 21
3.2 Institutions in charge	p. 21
3.3 Policy-making and Decision-making competences	p. 28
3.3.1 Constitutional arrangements and legislative competences	p. 29
3.4 Resources	p. 31
3.4.1 Latvia's budget	p. 32
3.4.2 The impact of Structural Funds	p. 32
3.5 Relations	p. 33
3.5.1 The relation between Latvia and its regions	p. 34
3.5.2 The relation between Latvia and the EU	p. 34
3.6 Preliminary conclusion	p. 38
4. EU Regional Policy in Latvia – a practical approach	p. 39
4.1 Latvia	p. 39
4.2 The sub-national level in Latvia	p. 40
4.2.1 Reform of the sub-national level	p. 43
4.2.2 Current economic situation in Latvia	p. 45
4.2.3 Regional Policy in Latvia	p. 47
4.3 Policy networks in EU Regional Policy	p. 50
4.3.1 Phase 1: Creating a budgetary envelope	p. 50
4.3.2 Phase 2: Creating the institutional context	p. 51
4.3.3 Phase 3: Structural programming	p. 51
4.3.4 Implementation	p. 53
4.4 Structural programming in Latvia	p. 54
4.4.1 The Pre – accession process and its programmes	p. 54
4.4.2 Planning period 2004 – 2006 in Latvia	p. 59
4.4.3 Planning period 2006 – 2013 in Latvia	p. 60
4.5 Preliminary conclusion	p. 61

5. Field research	p. 62
5.1 Interviews	p. 63
5.2 1 st experiences with Structural Funds 2004 – 2006	p. 65
5.2.1 Central state vs. decentralisation	p. 66
5.2.2 Major problems	p. 68
5.2.3 Adaptation of theories	p. 72
5.2.4 Definition of influence	p. 75
6. Conclusion	p. 77
7. Bibliography	p. 87
Appendix A: interview scheme	p. 92

List of abbreviations

CEEC	Central and Eastern European Countries
CEFTA	Central European Free Trade Agreement
CI	Community Initiative
CoR	Committee of the Regions
DG REGIO	Directorate General – Regional Policy
EAGGF	European Agriculture Guidance and Guarantee Fund
ERDF	European Regional Development Fund
ESF	European Social Funds
EU	European Union
EUCP	EU Cohesion Policy
EURP	EU Regional Policy
FIFG	Financial Instrument for Fisheries Guidance
GDP	Gross Domestic Product
INTERREG	= CI
ISPA	Instrument for Structural Policies for Pre-Accession
LALRG	Latvian Association of Local and Regional Governments
MA	Managing Authority
MEP	Member of the European Parliament
MLG	Multi – level governance
MRDLG	Ministry of Regional Development and Local Governments
NGO	Non – governmental Organisation
NSRF	National Strategic Reference Framework
NUTS	National Units of Track Statistics
OP	Operational Programme
PHARE	Poland and Hungary Aid for Restructuring of the Economies
RDA	Regional Development Agency
Reg.	Regulation
SAPARD	Special Accession Programme for Agriculture and Rural Development
SEA	Single European Act
SPD	Single Planning Document
TEC	Treaty of the European Community
TEN	Trans European Networks
ULRGL	Union of Local and Regional Governments of Latvia

List of figures

Figure 1: NUTS map of Latvia	p. 47
Figure 2: Pre-Accession process of Latvia	p. 57

1. Introduction

The European Union (EU) is a unique political system in the field of political science. Its structure is complex and the variety and number of actors is enormous. Twenty seven Member States are willing to work as a single body in order to improve the economic, social and political situation for European citizens. The number of Member States and the amount of policy fields the EU covers, increases the need for new techniques of communication between the different actors in order to influence policy-making and decision-making of the EU. In order to facilitate the management of the European Union, the regions were re-discovered as a national entity which helps to unravel the complicated processes of the EU and its Member States, especially in the field of EU Cohesion or Regional Policy. Since the regions are the closest connection to the EU citizen, they are able to address specific issues to the Member States and the EU. As an important actor in the field, the EU started to enforce the regional or sub-state level with the Single European Act and proceeded with the strengthening of the regions in the Maastricht Treaty. But not only the legal aspects played a role, the regions discovered their influence in European Regional Policy. According to this development, the main research question of the Master thesis is:

How do sub-state actors influence EU Regional Policy?

To give a detailed view on the possibilities to influence, the first chapter of the thesis deals with the theoretical background. The theories offer the information and framework which is needed to elucidate the mechanisms of EU Cohesion Policy, on the one hand. On the other hand the theories are supposed to explain the role of the regions in the complex system of the EU. Five different theories are introduced to the reader and all of them try to focus on the relationship between region – Member State – and the EU. The first theory introduced is Multi-level governance (MLG) which gives a theoretical overview of the different layers and levels of the EU and it illustrates the position of the regions within the European Union. The second theory is called Policy Network Analysis and beside the vertical dimension of politics it shows the horizontal dimension of actors and explains the interdependences and connections between the different actors and their interests. The Principal-Agent Theory was chosen because this theory is able to show the different possibilities in the principal-agent relationship which is certainly applicable for the EU Cohesion Policy. Finally, the thesis will describe the Rational Choice Theory which derives from the intergovernmentalist theory. The theory is based on the concept of the homo oeconomicus which is defined as an individual which always chooses the most economic alternative. But the theory also pays attention to the social context of the individual's decisions and it discusses the importance of resources

in order to choose between two options. In this thesis the individual actor is seen as the individual region in the context of EU Cohesion Policy.

The legal background of the thesis will take a closer look to the designated actors of EU Cohesion Policy and it will explain the legislative way how EUCP works. Therefore the European Union and the history of EUCP will be discussed and with the help of Keating's criteria on the "possibility to influence" Latvia's government and its regions will be in the focus since Latvia had to fulfil certain criteria in order to be part in EU Cohesion Policy. The expected result is that the Latvian government was able to implement the strategies and bodies according to the EU legislation on EU Cohesion Policy. As a new Member State, Latvia is going to accomplish the tasks that are directed to them. Additionally, the Structural Funds offer a great chance for the country to step up economically and to be strengthened for the competition with other Member States. The third chapter seeks to answer the following sub-questions:

Which actors are involved?

How are those actors involved in EURP?

How are the different levels interrelated?

What is the position of the sub-state actors?

The European Union offers a wide range of sub-state actors and every Member State has its own conception of the sub-national level. Because of the great variety within the EU, it is necessary to focus on one particular Member State and its sub-national structure. In this thesis the case of Latvia is the object of discussion. Latvia belongs to the newest Member States of the EU which entered the European Union in 2004. As a Member State it is eligible for NUTS 1 and 2. The transition of the CEEC in 1989 showed that the regional disparities in all of these countries grew quickly and significantly. Labour market indicators and the distribution of foreign investment and entrepreneurship demonstrate great disparities between the regions in the CEEC. The most advanced regions seem to urban centres, like Riga, Latvia (Bachtler/Downes, 1999). Riga contains 30% of the whole Latvian population and benefits from one of the best communications infrastructure, skilled labour, business environment and tourist facilities (Bachtler/Downes, 2000: 361). The fourth chapter starts with a detailed report of Latvia, its sub-national level and the current situation. The main question to this section is:

What kind of functions and competences do Latvian sub-national actors have?

Are they able to fulfil these functions with the competences they have?

How are the regions positioned in the MLG context regarding EURP?

The picture of the situation will probably show that the Latvian sub-national actors have to fulfil a certain amount of tasks. There is a difference in the distribution of tasks between Western European Member States and the Member States of *the Eastern part of Europe*. *Taking the historical background into consideration, it is possible that the regional and local entities are not very well equipped with competences. It is important that the introduction does not entail a conclusion. According to that the hypothesis that the competences are rather small; the sentence has to be improved and changed*. It is assumable that there is a gap between the realization of functions and the available competences for the sub-national actors. Additionally, the economic crisis in Latvia might degrade even more the position of the Latvian regional and local level. The following sub-section of the chapter deals with the creation and implementation of Structural programmes. By defining the different stages of the process, the attention will again be on the actors involved. The question arises:

In how far is the Latvian sub-national level involved in the three stages of a project?

How is EUCP implemented in Latvia?

Will Latvia's reform bring the change?

According to the regulations of the EU Commission the sub-national actors are present on different levels and in different stages of implementation. The previous chapters showed that Latvia is willing to execute these tasks. A hypothesis would be that the sub-national actors are especially involved in the phase of "Structural programming". After this general approach, the situation in Latvia will be compiled. To give a broad overview of the situation, the sub-chapter starts with the pre-accession programmes and their administration since those programmes were established for the financial help, of course, but also to give the possible new Member States some practice in the field of funding. The next section deals with the planning period from 2004 – 2006, the first period Latvia was involved as an EU Member State. Since this period is already evaluated, the chapter will describe the implementation of one Operational Program in detail. The detailed delineation will show if the regulations of the EU Cohesion Policy were met and if not what kind of problems occurred. Finally, the current planning period from 2007 – 2013 will be the subject. Therefore the Latvian National Strategic Reference Framework will be analyzed and the different programmes and projects will be exposed. As a preliminary conclusion, one can state that the sub-national level is rather weak and not well-equipped with competences. Seeing that; it is probable that the involvement and participation of Latvian regions and communities only exists in the written legal framework for EU Cohesion Policy in order to tranquilize/immobilize the EU institutions in Brussels but the "real" implementation never happened to the extent it was favoured by the

EU Commission. This presumption leads to the actual field research which consisted of interviews which were done in situ, in Latvia. The interviews try to cover the three different levels of the European Union. In addition, interview partners from different parts of Latvia were visited in order to illustrate the disparities within the country and the polarity between the national and the sub-national level in Latvia.

According to the previous chapters some deficits of EU Regional Policy were discovered. Chapter five seeks to answer the following question with the help of the interviews:

What kind of problems faces the sub-national level in the EUCP?

What is done by the national government to support the sub-national level?

What is the position of the national level and its bodies?

What do the Latvian regions try to improve their situation and solve the problems?

The chapter will start with a summary of the interviews that were taken and major findings will be presented. The main results that are worked with in this thesis deal with the planning period 2004 – 2006. During this phase problems occurred and the general question comes up if Latvia will be a central or a decentralized state. All these findings and results are based on the interviews. Lastly, the new planning period will be discussed and the expectations which are expected by the involved actors.

Ultimately, the final chapter will draw the conclusion. In this chapter the main actors in EU Cohesion Policy will be appointed and the situation and position of the sub-national actors in Latvia will be evaluated. Probably it is also possible to say which of the sub-national actors are more important and involved than others. Furthermore the chapter seeks to prove or not prove the theories mentioned in the first chapter. Another section will deal with the definition of influence which is the major term in this thesis. All in all, the last chapter attempts to demonstrate the apparent and current status quo in Latvia taking into consideration the findings in the previous chapters. An anticipated result would be that the reform on the sub-national level has to be completed and implemented in Latvia. Furthermore the regions and communities need more competences for a successful participation in EU Cohesion Policy. The EU Commission has to insist that the regulations have to be implemented not only on the paper but also in the “real” framework of EU Cohesion Policy. One has to ask for MORE supervision from the EU Commission and from the Latvian national level to give up or delegate competences in order to strengthen the sub-national level and its actors.

2. Theoretical framework

The main topic of this research deals with the shift and division of competences between the different levels of government. The focus of the study are sub-national actors in Latvia and the shift of competence will be illustrated in one policy field, EU Regional Policy/Cohesion Policy. The goal of the research is to examine the possibilities of Latvian sub-state actors to influence EU Cohesion Policy. In order to answer the research question and its sub-questions best, it is necessary to introduce a theoretical background which will explain the concepts that are worked with in this thesis. The three concepts most important for this research are Multi-level governance (MLG), Policy networks/networking and Rationale Choice (dealing with influence).

It has to be kept in mind that the subjects of the research are sub-national actors in Latvia and their decisions and actions will be analysed in one policy field, EU Cohesion Policy. Influence is another important subject for this research since it will show how the actors are going to be part of the whole process.

In the field of International Relations there are several theory which offer different descriptions and explanations about the shift of competences between the different levels of government. In the focus for this Master thesis are the theory of Intergovernmentalism (IG) and the theory of Neo-Functionalism (NF). They both try to explain the rise of the EU. Whereas IG focuses on the Member States as the most important actors for the further integration of the EU and the bargaining between the Member State as the mechanism which helps the further integration; NF instead refers to the power and influence of the supra-national organisations as the main supporter of the integration and “functional spill overs” (Verdun, 2002) as the main mechanism/function of the integration. Both of them consider influence as a zero sum-game and they do not see interdependences and networks between the various.

2.1 Multi-level Governance

Multi-level governance appeared intensely in the 1980s. In 1986 the Single European Act was created and it introduced a couple of changes to the EU, especially substantive economic, political and institutional changes. Two main changes were the introduction of the Qualified Majority Voting and the raise of power of the European Parliament. Furthermore it was implemented that no major policies were implemented without a unanimous vote that gave EU Member States the possibility to veto certain policies. Marks and Hooghe describe Multi-level Governance as the “*dispersion of authoritative decision making across multiple territorial levels.*” Authority/power is shifting upwards from the state level to the EU level and authority is shifting downwards from to the regional level.

The theory of Multi-level governance (MLG) is able to describe and explain the actors and mechanisms of the integration of the EU and the EU development. Multi-level Governance

argues that *“is a polity creating process in which authority and policy-making influence are shared across multiple levels of government – sub-national, national and supranational.”* (Marks, 1996(b): 342). While Intergovernmentalism and Neo-Functionalism only deal very little with the issues of interdependence and networks, MLG puts a greater emphasis on these topics. The theory has also been used to explain the influence of regions in the European integration process (for example by L. Hooghe, 1996). An important feature of MLG is the term “governance”. The significance of governance is easy to explain, setting and implementing policy is not solely in the responsibility of one actor, the government, but several actors and these competences are shared on different levels (Rhodes, 1997). Additionally Rhodes (1996: 666) defines “governance as a self-organizing network” and the role of the state is “the state becomes a collection of inter-organizational networks made up of governmental and societal actors with no sovereign able to steer or regulate.” Applying this concept to the EU, it is clear that the decision-making and implementation process are divided between supranational, national and sub-national actors. Although the theory argues that all actors in a multi-level system have a say in the processes, some scientists admit that the Member States still have the central role in the integration process of the EU which are usually considered as “gatekeepers” (Bache, 1999). The outstanding position of the Member States is one issue that has to be taken into consideration but generally MLG is well-applicable to understand European Union Cohesion Policy.

MLG is understood as “a system of continuous negotiation among nested governments at several territorial tiers – supranational, national, regional and local” (Marks, 1993, p. 392). Hooghe and Marks also identified three features of MLG which are important concerning the EU and its decision-making processes. **Competences of decision-making** are the first characteristics; meaning that the national governments, institutions and other actors share the decision-making and the decision-making process is placed on different levels. Looking at the EU the most significant actors are the Commission, the European Parliament and the European Court of Justice. They influence the policy processes and the outcomes. Secondly, the **collective decision-making** indicates the common decisions made on EU level. These decisions result into a loss of sovereignty and control by the national governments. Finally the **political arenas** offer a spot to use the channels and connections between the supranational, national and sub-national level. Furthermore the political arenas themselves are able to communicate with each other. For the thesis the third feature “political arena” will be interesting because it will assumingly offer the other actors in Cohesion Policy, like the sub-national actors, to use these channels and networks in order to lobby for their ideas. “Networks” is the next topic the thesis is dealing with. Policy networks derive from MLG which seeks to describe and explain the relation between the three different stages of government. The concept will be explained in the following part.

2.1.1 Multi-level governance in Central and Eastern Europe

During the long accession process for the Central and Eastern European countries (CEEC) their scepticisms increased towards the EU. These countries felt neglected and unrecognized in the whole integration process and even now as a full member of the EU, they still have a feeling that they are left out/excluded from the decision-making process of the EU. CEEC were dealt as supplicants not as equals (Ost, 2002: 197). In the early 1990s the EU (leaders) did not guarantee the accession to those countries. They avoided the topic but established some institutions which indicated the possible option to join the EU. On the broad level these institutions were the Association Agreements or Europe Agreements which installed “a standard affiliation offered by the EU to non-Member States and create a general framework for coordination.” (Ost, 2002: 201). On the next level are the aid institutions which are PHARE, the European Bank for Reconstruction and Development and the integration into the ERASMUS program. PHARE provided aid and training; the European Bank for Reconstruction and Development initiated long-term investments in the East and the ERASMUS improved the access to higher education and the exchange between students within the EU. Although these institutions and efforts seem to lead in the right direction, they were under Western dominance and were created by Western believes and ideas. Officials from the CEEC had to fight against things that were irrelevant for the country or things that they already knew. Another problem Central and Eastern European countries had to face was the conditions for trade with the EU. The CEEC had to open up its markets for the Western products and goods but the West did not reply equally. In contrast to the Western countries the CEECs had to lift both, tariff and non-tariff barriers while the Western countries kept up the non-tariff barrier against Eastern European goods (Ost, 2002: 202). Because of this fact it was quite difficult for the CEECs to build up their own economies. The members of the EU tried to protect their economies as good as possible against the disturbing influences of the enlargement (Ost, 2002: 203).

The first task of MLG was to follow the Single Market policies and later on to protect the policies and to follow other integrationist measures in an enlarged EU. The Western part of the EU expected from the MLG concept to solve the democratic deficit of the EU by making the EU institutions more representative and transparent and by expanding the decision-making power of those institutions. For Western European countries democratic legitimacy was related to the link between the EU and its citizens while for CEECs democratic legitimacy was linked to the status of the country within the EU. Since MLG has been studied rarely from the point of view of the new Member States, there can only be some assumptions be made. Reviewing the literature on MLG, it underlines the view that Eastern European countries are seen as “problematic” countries which might interrupt or complicated the further

integration process of the EU. Usually the literature talks about “problems” which have to be faced in the enlargement process. The question which arises is why they EU agreed to the enlargement by knowing that it might have uncomfortable consequences for the rest of the Member States/them. And why did the Western European countries agree to transfer their sovereignty to higher institutions? Though they were aware of the fact that the decisions made on the supra-national level might not be favourable for the national policies.

2.2 Policy networks

The advantage of the policy networks analysis is that the analytical tool/concept is able to explain and analyse the vertical and horizontal development of a political system. Vertical extension deals with the different levels of government and horizontal extension with the different actors that are included in a political system. Interdependencies and connections between the different actors and their interests can be illustrated with the help of policy networks. It is an analytical concept which intends to show the whole spectrum of decision-making processes, planning and implementation processes (Staeck, 1997: 57). Policy network analysis is a useful device to evaluate assumptions made by the research of literature of MLG about the moving authority between the different levels of government (Adshead, 2002: 1). Especially, EU Cohesion Policy is a good example for employing the concept of policy networks because Cohesion Policy in the EU involves a great amount of public and private actors on every governmental stage. A common definition of policy network was written by K. Benson (1982). Although he talks about “policy sector”, it explains well what a policy network is:

“The policy sector is a cluster or complex of organisations connected to each other by resource dependencies and distinguished from other clusters or complexes by breaks in the structure of resource dependencies.”

Rhodes offers a different type of definition but it is aiming in the same direction. He also uses the term cluster and refers to resource dependencies between them. The actors of such a policy network behave as follows:

“[...] each deploys its resources, whether constitutional/legal, organizational, financial political or informational to maximize influence over outcome whilst trying to avoid becoming dependent on the other players.” (Rhodes/Marsh, 1992, p.11)

At the centre of the definition is the idea of interdependence between the actors in a network. These interdependencies develop from the unequal division of resources across this network. The resources can be of all different kinds like: *“constitutional legal, organizational, financial, political, informational [...]”* (Rhodes, 1997: 9). Through bargaining the resources are split between the various actors and the individual strength of the actor indicates how many and what kind of resources are available. For Marsh and Rhodes an ideal policy network has the following characteristics: *a limited number of participants with some groups*

consciously left out; frequent and high quality interaction between all members of the community on all matters of common interest, consistency in values and membership plus policy outcomes that persist; consensus with the ideology, values and broad policy preference shared by all participants; all members of the policy community have resources so the links between them are exchange relationships (Ashead, 2002, p. 17). The last characteristic shows that bargaining between members with resources is very important in a policy network. Generally speaking, resources are the most important features in the concept of policy network and resources are also a major point in the EU Cohesion Policy. Marsh and Rhodes (1992 (a): 251) identify four dimensions of policy networks: membership, integration, resources and power. The first criterion is **membership**. Actors are involved in the network if they are part of the policy the network is concerned with. The need of resources is significant for the membership. The second criterion **integration** depends on the frequency and quality of interactions between the actors within the network. As mentioned above, an actor has to contribute **resources** to the network in order to be part of it. Important resources may be time, money, information and influence. The amount and quality of resources define a hierarchy and this also influences the distribution of resources. Furthermore it is clear that the resource influences the relationships within the networks. Although may be that one group dominates because of its resources, the power, in general, among the actors is balanced. Otherwise the network would not persist since it has to be a positive sum game for all the actors involved. A dominating authority or unequal powers would reflect unequal resources and unequal access and, finally, it will lead to a zero sum game. Differences in the distribution of resources within a network explain why some members are more powerful than others (Bache, Rhodes, George, 1996: 368).

2.3 Principal – Agent Theory

The specific characteristic of this theory is the relationship between the principal, who has a mission to offer (Auftragsgeber) and the agent who receives this mission and has to realise it (Auftragsnehmer). The expectation is that the agent will fulfil this exercise/mission in the interest of the principal. The relationship is based on a contract which gives the agent the right and the obligation to execute these actions instead of the principal (Oppermann, 2008: 77). The reason to delegate tasks from one actor to another is easy to explain. The principal uses the expertise of the agent in order to manage the amount of tasks and missions a principal has to handle. Usually any actor is limited in some capacities/resources like, time, money or information that's why the agent will be employed. Interesting about this theory is that principal and agent will never be in the same position as principal and agent. The roles change and an agent is able to transform in a principle and vice adverse (Oppermann, 2008:78). A slightly different explanation for the Principal-Agent Theory is that *"principals are*

not able to plan for all possible future ambiguities and sources of contention, and so they create agents to ensure compliance to interstate agreements and adapt them to changing circumstances" (Pollack, 1997). The Principal-Agent Theory is also applicable for EU Cohesion Policy. The EU and especially the Commission can be seen as the principals of EU Cohesion Policy on the European level. But the EU has to deal with greater challenges than other principals, namely four different reasons (Oppermann, 2008: 84). The first one is **multiple principals** which means that the EU can not be seen as one solid actor but every Member State has to be seen as a principal and there are 27 of them; each with a veto right on institutional changes. This fact complicates the principal control of the EU. The area or policy field where the Commission or more general the EU has the position as a principal is Cohesion Policy. Especially, after the SEA, EU Cohesion Policy transformed into an *"interventionist instrument of Regional policy"* (Hooghe, 1996c). Another issue making it hard for the EU to become a principal are the **Hurdles to change**. Unanimity is the keyword and it complicates the possibility for an institutional change in the EU. In order to succeed in these cases, the EU needs national governments to block a change, for example. It is also likeable that the Member States have more information and skills to offer than the EU. The Commission has only a fraction of human and financial resources compared to national governments. On the other hand the Commission has a centre position in the European network because it includes all the national governments, sub-national governments and other actors and interest groups and therefore receives an amount of valuable information. With this knowledge the Commission is able to influence policy-making in the EU. The final reason why the EU has hard times being a principal is the **mutual distrust**. The establishment of common rules are of great interest for national governments. A problem which occurs is that the others have to adhere to the regulations, too. Therefore the creation of a court is necessary and a detailed legislation. Both pre-conditions are met by the EU and its EU Regional. Additionally to the Member States, the national and sub-national actors have to follow the regulations set by the EU Commission.

2.4 Rational Choice Theory

The Rational Choice approach is a theory which derives from the field of economy and economic theories. The picture of human beings in the Rational Choice Theory is based on the economic model of the *homo oeconomicus*. The *homo oeconomicus* is seen as a fully informed individual who chooses always the individually most economic and best alternative that is proposed to him (Schmid, 2004: 65). The model of *homo oeconomicus* assumes that there are no transaction costs and that institutional rule does not influence the decisions of an individual. These two deficiencies of the *homo oeconomicus* model have been enhanced (Schmid, 2004: 65). The recent and new model of the *homo oeconomicus* adds two

characteristics to the model. First of all, the individual actor is not isolated from others. Additionally he is predisposed by the preferences of others and the existing institutional rules. He lives in a dynamic environment where he has to interact with others. It is also important to mention that it is impossible for the individual to be fully informed in order to make the right decision. To receive enough and useful information the individual actor needs to gain information which will lead to transaction costs. It is doubtful that the individual actor will ever be fully informed like the model of the *homo oeconomicus* suggests it. Instead of an optimum the individual actor has to deal with compromises (Schmid, 2004: 66). Another point is that the actor has its own preference system which means that actors might choose a myopic aim before accomplishing long-term aims because these aims are not economically relevant. Now institutions and institutional rules have to be taken into consideration. These rules and norms, for example, help to overcome the compromises in the allocation of information by reducing the self-centred and egoistic behaviour of the individual or more specifically the *homo oeconomicus*. A problem which occurs is that the individual has problems to implement and supervise arrangement with other individuals; this makes the establishment of institutions necessary (Schmid, 2004: 66). Institutions are able to set up rules, procedures and arrangements and they are able to control these rules as well as the individuals which are committed to them. The relationship between individual actor and institution can be explained as a symbiosis. Institutions are product of an agreement between individuals. The goal is to maximize the efficiency between individual arrangements. Once established, the rules will help to overcome collective dilemmas. So institutions influence the decision-making strategies of the individual actor without changing aims or preferences of the individual actor. The other way around, the individual actors influence the stability and the change of the institution. According to that the form and content of every institution are also part of the individual decisions. New institutional arrangements will be created and replace old structures. One can say that the Rational Choice Theory has much more to offer than the limited model of the *homo oeconomicus* since non-material interests and the influence of social structures (like networks, institutions and social capital) play an important role in the theory. The goal of the Rational Choice Theory is to explain collective effects taking into considerations the assumptions of individual action and paying attention to the social context. A necessity for the Rational Choice Theory is that individual actors have their own resources (Diekmann/Voss, 2004: 14) which they can use for their goals. Availability of resources means that the individual actor has the possibility to choose at least between two alternatives. The negative opposite of resources is restrictions and limitations of action. The principle of the Rational Choice Theory is that actors who have to take a decision try to realise their preferences under restrictions as good as possible. The Rational Choice Theory has three main pillars (Diekmann/Voss, 2004: 15). The first pillar illustrates the actors which

are the starting point. Secondly, those actors have resources to their availability. Furthermore they have preferences and they have more than two options to select. Finally, the third pillar explains a rule of decision making which shows which action will be chosen by the actor. To describe the term “actor” more detailed; an actor is a natural person but companies, organisations and states also have to be taken into consideration. They can be considered as “corporative” actors. Resources which are important for the second pillar of the Rational Choice Theory can be income, market prices, time, technologies, institutional rules and laws. What an actor considers as resources or restrictions depends on the individual case (Diekmann/Voss, 2004: 15). It has to be taken into consideration that the actors are involved in a social network. Goals and resources of the actor depend on societal indications as well. The whole concept of the European Union is applicable to the Rational Choice Theory since the EU is the institution which was established in order to arrange the various preferences of the *homo oeconomicus*, in this case the individual Member State which is part of the EU. An institution like the EU with its judicial and executive bodies was needed in order to regulate the different goals of the national states. In the case of EURP, the EU Commission is one “corporative” actor of the Rational Choice Theory. The resources the EU Commission has to offer are rules and regulations which are set by the Commission as an agenda-setter. The Commission decides which region belongs to which of the three objectives and according to this decision the eligibility for Structural Funds. Therefore another resource of the EU Commission is the administration of the Structural Funds. The Member States can also be seen as a “corporative” actor since they are able to influence the regulations and also the budget of EURP in the EU Council. The Member States’ most important resource is their willingness to further integration, the EU depends on the initiatives of the Member States in order to govern successfully the European territory. The bargaining processes between the Member States show the ideas of the Rational Choice Theory. On the one hand each Member States wants to achieve the goals which are most important to them. On the other hand, they are not isolated but a part of a greater community that’s why they have to find compromises. Beside the EU Commission and the Member States another “corporative” actor can be named: the regions. But it has to be taken into consideration that the resources of the regions are in the hands of the respective Member State. There are Member States which leave their regions room to seek their own channels of influence and usually they have a strong constitutional position. There are others which did not support or allow the regions to work on EU level. That’s why EU regions are divided into strong and weak regions. All actors of EURP are driven by the idea of the *homo oeconomicus* but there few of them are able to act in the same way.

3. Legal background

3.1 The European Union

The European Union (hereafter, the EU) was founded in 1957 and consists currently of 27 Member States. The EU started as the European Steel and Coal Community and went through significant legislative changes in order to develop to the EU of today. The 27 Member States have transferred competences to the EU, especially in the policy field of economy. The EU has a complex governance structure which features intergovernmental and supranational elements. Generally, the EU is located on the supranational level of governance. Latvia joined the EU in 2004 with nine other new Member States. Some of the main tasks the EU feels/is obliged to are defined in Art. 2 of the Maastricht Treaty:

“The Community shall have it as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities referred to in Article 3 and 4 to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, high level of employment and social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising standard of living and quality of life, and economic and social cohesion among Member states.”

In order to achieve these broad goals, the EU developed the “Economic and Social Cohesion Policy” which is based legally on title XVII TEC.

3.1.1 EU Regional Policy

The European Regional Policy has already been developed with the foundation of the European Union or at that time the European Coal and Steel Community. The preamble of the Treaty says that a goal of the Community is “to reduce the differences between single regions and to limit the deficit of less advantaged/benefited regions.” This is once again repeated and expressed in Art. 158 EGV/TEC. It is also possible to find other goals of the EU Regional Policy in the first Treaties of the EU. Art. 2 EGV/EUV, for example, talks about social progress, economic convergence and internal cohesion which are main aspects of Regional Policy. But the journey between the goal setting and the active and successful Regional Policy was long and EU Regional Policy had to be adapted several times over the years, especially after the enlargement in 2004. It started with the implementation of the European Social Fund (ESF) in 1958 which belongs to the Structural Funds. Soon after, the ESF the Agricultural Guidance and Guarantee Fund (EAGGF) was established in the early 1960s. In 1975 the European Regional Development Fund (ERDF) was created and until 1988 no essential changes were made in the EU Structural Funds. A big incision came with

the Single European Act (SEA) and the Commission made some proposals in order to improve the Cohesion Policy. Main points were concentration, the height of financial support for programmes and the change from the quota system to a more program-based system. To increase the financial resources derives from the fear that social and regional tensions might occur during the establishment of a single market (Breuer, 2005: 3). Structural Funds were seen as a good measure to stop these developments. The reform of 1988 changed the EU Regional Policy fundamentally. The budget of funding increased immensely not only in absolute terms also in share with the total budget of the EU. For the current planning period 2007 – 2013 the budget for EU Cohesion policy is 308 billion € which is about 35% of the whole budget (information: website of the Commission). During the last planning period 2000 – 2006 the EU spent 212 billion € on European Regional Policy. The rise of the budget can be explained with the Eastern enlargement which illustrated once again the greater importance of EU Regional Policy for its member states. Furthermore the reform of 1988 moved more influence to the Commission and the regions since the projects are implemented on the regional level and the regions are the main recipients of EU funding. In order to face the challenges of the enlargement of the EU, the “Agenda 2000” was launched in 1997. The Commission formulated an ambitious goal for the coming period. Due to the ambitious goal of the Commission the significance of Structural Policy increased even more, it is already the second biggest part of the EU budget. In order to achieve the demanding goals of the Commission the objectives of Structural Policy (NUTS) are reduced from seven to three major objectives.

- Objective 1: eligibility to those who have less per capita income than 75% of the Community average.
- Objective 2: Regions with major economic and social restructuring needs.
- Objective 3: Regions which are not covered by Objective 1 or 2. The focus is on the modernization of specific policy fields, like education.

Beside the limitation of the objectives, the Commission focused on four governing principles of the Structural Funds: partnership, concentration, additionality and programming. **The principle of partnership** is one of the governing principles. Partnership is defined as “close consultations between the Commission, the member states concerned and the competent authorities designated by the latter at national, regional or local level, with each party acting as a partner in pursuit of a common goal “(CEC, 1988). This principle indicates that the national authorities are given delegated discretion to select appropriate members of partnership (Adshead, 2002, p. 9). The best way to use this principle and to develop further integration is that the force derives from the regions themselves because they know best what their need are and to mobilize the resources. The Commission acts as the partner of the EU and takes care that the resources are spent in accordance with the priorities of the

EU (Adshead, 2002, p.9). But the term “partnership” is often shown asymmetrical in the member states. Usually the central government has high control over the key political and financial resources (Bache, 1998: 141). **The principle of concentration** means that funding should be concentrated on the economically weakest regions but the term of concentration contains more than just this feature. The concentration of funding also includes also financial, geographical and thematic/topical aspects. The re-organization of the objectives weakened the new principles of the Structural Funds because the amount of objective regions even increased. Concerning the principle of partnership the Commission wanted to enlarge the term of partnership. Beside the institutions of local, regional and national level, economic and social partners are supposed to be more involved in Structural Policy. Unfortunately, the Commission missed to define exactly how to involve those actors and to what extend. On the other hand the Commission contributed with the principle of partnership to the creation of administrative institutions on the regional level in some member states. The next principle deals with the **program planning/coordination**. Here the main goal is to reduce the time between the negotiations and decision-making processes in order to pass/adopt the Operational Programs. Nowadays it is possible to hand in a Single Planning Document (Einheitliches Programmplanungsdokument). This document gives the member states the opportunity to bundle all information on Structural Policy. The decision-making process is divided on different levels which offer the possibility for member state and the Commission to negotiate and choose between alternatives that are most suitable for the projects. The principle of concentration and coordination refer to the aspiration of the EU to achieve integrated, long-term and strategic planning (Adshead, 2002: 9). Finally, the **principle of additionality**. Generally, the principle says that European funding should not replace the Structural Funding or expenses aiming in the same direction of the member states (Art.9 I TEC). Funding from the EU Cohesion Policy and Structural Funds are not supposed to replace money from the Member State which is used for the same purpose. National Structural funds have to co-exist with the EU funding. Unfortunately this rule/principle is not taken too seriously, it was not enforced strongly enough and it was weakened by further laws in the 1970s. The most important principle for this thesis is the principle of partnership. This principle explains the involvement of the sub-state actors in a Member State; legally based on Regulation 1083/06, Art. 11 (1):

“The objectives of the Funds shall be pursued in the framework of close cooperation (hereinafter referred to as partnership), between the Commission and each Member State. Each Member State shall organize, where appropriate and in accordance with current national rules and practices, a partnership with authorities and bodies as a) the competent regional, local, urban and other public authorities; (b) the economic and social partners; (c) any other appropriate body representing civil society,

environmental partners, non-governmental organizations, and bodies responsible for promoting equality between men and women.”

Except the principle of partnership another significant issue has to be taking into consideration; the concept of co-financing. In order to receive grants out of the Structural funding, every actor has to apply. The project has to fit in the Community objectives, and then the applicant will receive the grants. The grants that are allowed under EU Cohesion Policy are only 50% of the whole budget of a project. The other 50% for the project have to be paid by the applicant with the support of public or private partners who might be involved in the project. Although the EU tried to face the challenges of the enlargement with the “Agenda 2000” not much has changed in terms of objectives and goals. The most significant change in EU Cohesion Policy is the increased budget for this policy field. Peterson & Bomberg (1999: 149) consider EU Cohesion Policy as a side payment for greater economic integration and support for the single market. According to the Agenda 2000, there is a maximum amount of funding for every new Member State. The Structural Funding is not supposed to exceed 4% of the national GDP. All in all, the Agenda 2000 and its conceptions for a reformed Structural funding, which are able to endure the pressure of ten new Member States, are quite vague and it is questionable if the EU Cohesion Policy will face the new challenges of the enlargement. Following enlargement, the disparities in the EU doubled and the average GDP of the EU decreased by 12.5% (Bache/George, 2006: 481). After the first experiences with an enlarged EU and according to these facts the EU Commission suggested to replace the existing three objectives by three new priorities:

- Convergence (including Cohesion Fund; ERDF; ESF): supporting job creation and growth in the least developed Member State and regions, it would cover regions with a per capita GDP less than 75% of the EU average and is eligible for approximately 78% of the Structural Fund budget;
- Regional competitiveness and employment (including ERDF; ESF): anticipating and promoting change, has two strands: regional rural areas and national programmes to promote full employment, quality and productivity at work and social inclusion;
- European territorial co-operation (including ERDF): promoting the harmonious development of the Union territory, build on experiences with INTERREG, to promote co-operation on issues at cross-border, transnational and interregional level.

According to the last priority, programmes or Community initiatives like INTERREG, Equal, Leader and Urban would no longer exist separately. Furthermore the Commission suggested that EAGGF and FIFG should be incorporated into the mainstream policies for agriculture and fisheries. Also changes in the definition of the four principles were discussed by the EU

Commission but none of these proposals has been realized until today. These suggestions marked once again a serious bargaining process between the Member States which has not been completed yet. The net contributors of the Structural Funds are skeptical about the costs and concerns of the new ideas (Bache/George, 2006: 482).

3.1.2 Definition of region

The term region is not clearly defined in the EU and its Regional Policy. There are several reasons why the EU is not able to find a suitable definition for “region”. The regions in the EU are too heterogenic and they have different competences in every member state. In the European Regional Policy the definition of a region bases on the NUTS-system. Generally the term “region” in the EU is seen as an economic entity which is a level located immediately under the national state. Except the NUTS criteria, the EU does not have universally valid criteria for regions. The dilemma of the NUTS criteria is that the created entities are not equal to the existing regions in the EU. The entities are oriented on the most possible comparability for statistical examinations (Urbanowicz, 2005: 37). But not only the term “region” leaves room for interpretation also the use of the terms “Regional Policy”, “Structural Policy” and “Cohesion Policy” shows that the situation in this policy field is undefined and that there are no strict limitations from one to another. In order to assess the regions in Latvia more closely the thesis will adopt four criteria created by Keating (1998) which will show the sovereignty of regions. As an example the five planning regions in Latvia are chosen. The dimensions Keating set up for his approach deal with: the institutions, policy-making capacity, decision-making power, financial resources and the intergovernmental system, the integration power and relations with the market. According to these criteria the “power” of regions will be tried to evaluate in the following chapter. The approach will not offer a complete picture of the sub-national actors in Latvia but it will indicate the influence Latvian regions might have in the decision- and policy-making processes.

3.2 Institutions in charge

The first criterion which facilitates the definition of “regional power” is the topic of institutions. The role of institutions on the regional level is significant to this thesis but giving a general overview of EU Cohesion Policy all institutions from the EU level to the sub-national level will be taken into consideration. Since EUCP is a complex system with a quantity of interdependences, the main actors on each level have to be reviewed. The regions take a special position in this context. On the one hand they are representing of the regions interests; on the other hand they have to fulfill the tasks and objectives coming from the

national government or the EU. This intermediate position of regions offers advantages and disadvantages for the “power to influence” as this chapter tries to explain it.

On the European level the EU Commission has the leading position concerning Regional Policy and Structural Funds. The Commission is willing to declare the tasks more clearly and the responsibilities of the actors. The Commission uses strictly a new system how to go through the different stages of Structural programming, especially when it comes to the decentralization of the management. Though the principle of partnership notes that the Commission and the Member States and their partners are supposed to work jointly on EU Cohesion Policy, it is in the hands of the Member States which national and sub-national partners are involved in the Cohesion Policy. Therefore it is hard to recognize which actors are integrated by the national authorities. Although the Article clearly states “*in designating the most representative partnership at national, regional, local and other level, the Member State shall create a wide and effective association of all relevant bodies[...]*”. The Member State is not entitled to go the minimalist approach by including as few partners as possible but to ensure that a sufficient representation of all levels is given but the question of its enforcement arises (Bernard, 2002: 106). The involvement and the identity of the partners for the principle of partnership are not the same throughout the different stages.

On the EU level the Commission plays still a crucial role in the preparation of the planning of the EU Cohesion Policy for the next period; most importantly the negotiations between the Member State and the Commission and finally the decision-making process. Under Article 15 EC, it is the responsibility of the Commission to adopt support frameworks, single programming documents, operational programmes and the decision on the division of Structural Funds (Bernard, 2002: 122) but still these decisions are based on the plans and documents the Member States submitted. Compared to its strong position in the decision-making process, at the implementation level the Commission is not the main actor. The responsibility during the implementation process is part of the Member State, its Managing Authority and the Monitoring Committees. The implementation stage is the phase when central government and other national, regional and local partners work in cooperation on the Cohesion Policy. But the Commission is not absent on this stage. It participates in the work of the Monitoring Committees but rather in an advisory manner than as a decision-making capacity. The Managing Authority is obliged to send an annual report of the implementation and a final, evaluated report. This reporting system has two reasons. On the one hand the Commission wants to be informed about the development of Cohesion Policy. On the other hand it is a kind of supervision of the use of Structural Funds (Bernard, 2002: 129). Another issue which concerns the new Member States is that the implementation bodies as it is assumed that these bodies are not equipped well enough for the work they have to deal with. The dilemma is that the implementation bodies are subject to jurisdiction and all the projects

financed by the Funds are compatible with EU law and policies. Due to this fact it would be of advantage to have a good working Managing Authority and other implementation bodies. The price for bringing the different levels together through EU Cohesion Policy makes it and its decision-making structures and processes more complex.

The EU Commission has established binding regulations how the Member States have to create their framework in EUCP. Especially the legal and administrative framework has to pursue the ideas of the Commission. Due to that fact, Latvia established an administrative framework which will be presented more detailed in the coming segment. All information is based on the Latvian Program Complement in 2006. Main actors for the administration of Structural Funds are:

- Managing Authority
- Paying Authority
- Intermediate bodies
- Final beneficiary
- Monitoring Committee
- Steering Committee

The Managing Authority, in accordance to Art. 34 of Council Regulation 1260/1999, "is responsible for the efficiency and the correctness of the management and implementation of Structural Funds" (Latvia Programme Complement, 2006: 11). The Management has to fulfill the tasks which are important for EU Structural Funds designated by the Ministry of finance. During the first planning period 2004 – 2006 the Ministry of Finance was designated for the Single Planning Document. Within the Ministry the Department for European Union Funds was entitled and responsible for the completion of the usual tasks of the Managing Authority for EU Structural Funds in Latvia. The Deputy State Secretary acts as the head of the whole Managing Authority. The Department for European Union Funds as the Managing Authority is structured into the following sections.

- ERDF, EAGFF, FIFG Division
- ESF Division
- Control and planning Division
- Monitoring and evaluation Division
- Information and publicity Division
- EU Cohesion Policy Division

Furthermore the Managing Authority has to deal with a significant number of tasks which cover a wide range of areas:

- Organization and management of the Monitoring Committee,
- Organization and management of the Steering Committee,

- Ensures coordination between measures under the SPD as well as necessary coordination between institutions involved in the implementation of SPD,
- Preparation and submission to the European Commission of annual and final implementation reports,
- Ensuring information and publicity measures,
- Development, maintaining and upgrading of the Management Information System,
- Organization of ex-ante and ongoing evaluation of SPD, as well as cooperates with EC in organization of ex-post evaluation,
- Carries out verification of expenditure declarations before submission to the Paying Authority,
- Ensures establishment and operation of proper management and control systems, as well as existence of adequate audit trail at all administrative levels involved in the management of Structural Funds.

The Paying Authority is according to the Council regulations “responsible for drawing up and submitting payment applications and receiving payments from the Commission, as well as certifying expenditures” (Latvia Programm Complement, 2006: 12). The Latvian Cabinet of Ministers assigned the State Treasury as the Paying Authority for the SPD. It has to be mentioned that the Managing Authority and the Paying Authority are fully independent. The Paying authority has to carry out various tasks in order to sustain the management of Structural Funds. For each of these a department is in charge for the correct implementation of the specific tasks. These are the most important departments and their tasks:

- Forecasting and financial planning department is responsible for preparing forecasts of applications for payment for the current year and for the following year and submitting them to the European Commission by 30th of April each year as well as preparing cash flow forecasts to ensure the financial management;
- Reports department is responsible for elaborating principles and methodology for accounting for received, disbursed, unspent and recovered funds for the institutions and bodies involved in the management of EU Structural Funds;
- Operations department is responsible for reimbursement of expenditures to Financial Beneficiary, accounting of received, disbursed, unspent and recovered EU Structural Funds as well as for transferring unspent or recovered funds to the European Commission as well ensures necessary data in Management Information System;
- Department of European Union affairs is responsible for certification of expenditures reimbursed to the Final Beneficiary and submission to the European Commission of the following reports: declaration of expenditures at least three times per year, certified statements of expenditure actually paid within six months of the deadline for

payment laid down in the Commission's decision granting a contribution from the Structural Funds;

- Internal audit department is responsible for the internal audits of the State Treasury's establishment of a control system and assessment a contribution of its performance;
- Treasury settlement centers will execute payments to the financial beneficiaries
- Other departments will support the Paying Authority.

An additional actor important for the management of the Structural Funds is the intermediate bodies. Intermediate bodies are appointed and are working under the control of the Managing Authority. Intermediate bodies are divided in 1st level and 2nd level bodies and they have tasks which deal on behalf of the Final beneficiaries and bodies and firms carrying out the operations. To the 1st level of intermediate bodies belong Line ministries like Ministry of Regional Development and Local Governments, Ministry of Economics and so on. They were appointed by the Cabinet of Ministers and the main task of these bodies is to "ensure that activities implemented by the Structural Funds will comply with the policy of the respective sector and provisions of the Single Planning Document (SPD)" (Latvia Programm Complement, 2006: 13). In case that the 1st level intermediate body is a Final Beneficiary it will be made sure that these functions are separated. Other than that, the Intermediate bodies of the 1st level/Line Ministries perform a range of tasks under the supervision of the Managing Authority:

- Preparation of the priorities of the respective fund for the SPD;
- Developing National programmes, selecting National programme projects, approval of projects;
- Co-ordination and monitoring of respective priorities to assure that measures are implemented in conformity with the SPD;
- Organizing information and publicity measures on the assistance;
- In consultation with the Managing Authority, Paying Authority and the 2nd level intermediate bodies developing project application forms;
- Developing project selection criteria for project financed under the respective measure;
- Evaluation of project applications and approval of projects (in case of Open Call projects and Aid Schemes)
- Access to financial and physical information for monitoring of implementation of measures to assure that objectives of the priorities are met;
- Reporting to the Managing Authority on progress of implementation of measures and priorities.

The 2nd level Intermediate bodies are also appointed by the Cabinet of Ministers, the following actors are involved:

- Central Finance and Contracting Agency – for the European Regional Development Fund
- State Employment Agency – for the European Social Fund
- Agency for Vocational Education Development Programmes – for the European Social Fund
- Rural Support Service – for the EAGGF and the FIG

The main task is to supervise the implementation of projects financially supported of the respective fund but there are further tasks delegated from the Managing Authority to the 2nd Intermediate bodies:

- Developing project application forms in case of EAGGF and FIG;
- Call for application, receiving project applications, ensuring technical and administrative evaluation of project applications and submitting them for evaluation to the 1st level. For EAGGF and FIG the 2nd level Intermediates bodies ensure evaluation and approval of projects and submit them to the Steering Committee;
- Reporting to the 1st level of Intermediate bodies and the Managing Authority on progress of the implementation of projects;
- Checking request for reimbursement, verifying that share of national co-financing has been effectively paid out, authorizing payments and submitting them to the Paying Authority

These are the major assignments of the 2nd level Intermediate bodies. If one of these bodies is a final beneficiary itself, the same rule as for the 1st Intermediate bodies will come into power. It will be ensured that these functions are separated. This rule shows the next actor in the management of Structural Funds, the final beneficiaries. The final beneficiaries consist of bodies and public and private firms which “are responsible for commissioning operations or bodies designated by the government to act as body granting the aid to the final recipient” (Latvia Programme Complement, 2006: 14). Different types can be identified as final beneficiaries, for example, state institutions, municipalities, state or municipal enterprises and agencies, enterprises and individuals. The ones who have been appointed are:

- Latvian Investment and Development Agency for ERDF and ESF
- Society Integration Foundation for ESF
- Social Assistance Fund for ESF
- State Regional Development Agency for ERDF

Beside their functions as final beneficiaries these bodies are Aid Scheme managers at the same time and they are in charge of the implementation of the Aid Schemes. After a whole range of implementing institutions it is now time to introduce the Monitoring Committee which checks the elaboration and implementation of the SPD. Three months after the

approval of the SPD the Monitoring Committee starts its work consisting of several representatives of the subsequent institutions:

- Managing Authority;
- Paying Authority;
- 1st level Intermediate bodies/Line ministries, 2nd level Intermediate bodies;
- Latvian Free Trade Union, Latvian Employers Confederation;
- NGOs (dealing with environment, equal opportunities, etc.)
- Regional development Councils
- Union of regional and local governments in Latvia

The Monitoring Committee has even more members but these institutions have a consultative function within the Committee.

- Ministry of Foreign Affairs
- European Affairs Bureau
- Commission of the European Affairs of the Parliament of the Republic of Latvia
- European Commission
- International financial institutions

Finally, the last actor important for the Structural Fund management is the Steering Committee. There is one Steering Committee for each fund, ERDF, ESF, EAGGF and FIFG. The reason for the establishment of the Steering Committee is to “ensure the coordinated implementation of the programme in accordance with the specific objectives of the SPD” (Latvia Programme Complement, 2006: 15). The main task is to coordinate the measures as well as make sure that the operations are regularly monitored and evaluated for the respective fund. Furthermore the Steering Committee creates horizontal links among the SPD priorities and measure. A Steering Committee is chaired by a representative of the Managing Authority and the whole Committee has to include representatives of the following institutions:

- Managing Authority
- 1st level Intermediate bodies and 2nd level Intermediate bodies
- Regional representatives of the five planning regions

As advisors the Paying Authority and the Final Beneficiary are part of the Steering Committee. This Latvian system of the management of Structural Funds is identical to the regulations which were set up by the EU Commission. Finally, it is of great interest to illustrate the position of regions in the whole process. One of the actors which belongs to the regional level are the Regional Development Agencies which are seen as the final beneficiaries in the process of Structural Funds. Each planning region in Latvia has one Regional Development Agency which deals with the ERDF in particular. Another regional representation of the regional perspective of Structural Funding is the Union of regional

and local governments in Latvia which is involved in the Monitoring Committee. Furthermore the Ministry of Regional Development and Local governments is one of the Line Ministries or one of the 1st level intermediate bodies. During the year 2005 the MRDLG underwent some changes in its structure. The State Regional Development Agency is a subordinate body to the MRDLG. But there is no direct involvement of the regions and local communities in one of the administrative management bodies. The Regional Development Agencies are the only representation of the sub-national level in the process. The establishment and the role of the Regional Development Agencies will be defined in an extra section of the thesis.

3.3 Policy-making capacities

According to Keating's criteria the "policy-making capacity" is one of them. The policy-making capacity sought to explain to what extent regions are involved in the decision-making process of the national state and in this case also on the European level. A closer look will be taken on the decision-making processes in the field of EU Regional Policy since the regions are supposed to be the greatest beneficiaries of the funding.

The policy-making and decision making capacity of the Latvian regions and local communities in the field of Regional Policy are created and established by the decisions made in the Cabinet of Ministers which implemented the regulation and rules of the EU Commission. After the fall of the iron curtain in Latvia Regional Policy was not one of the central policy fields in the transition phase. With the aspiration to join the EU which occurred in the early 1990s, the Latvian government worked on the improvement of its Regional Policy during the pre-accession stage. Major steps were taken right before the final accession in 2004, for example the creation of the Ministry of Regional Development and Local Government in 2003. The Latvian government had to act in order to be ready to manage the Structural Funds effectively; again the management of Structural Funds was presented and ruled in detail by the EU Commission. Regulation No. 200 "Regulations on the Management of Structural Funds" by the Cabinet of Ministers can be seen as a legislative basis; procedures of the management of Structural Funds and designates the important bodies and their rights and obligations. But a significant number of further regulations exists which try to organize the Structural Funding in Latvia. Furthermore tasks are delegated from one authority to another which makes the whole legislation on Regional Policy even more complex. It is also possible that some issues remain unspecified. The aim of this sub-chapter is to clarify the situation and to give a general overview of the legal capacity of the Latvian government and its regions. A special emphasis will be on the regions and other sub-national actors and their (legal) position in the decision-making processes.

3.3.1 Constitutional arrangements and legislative competences

The constitutional basis for a regional structure and regional and sub-national government level in Latvia is the European Charter of Self-Governments. The Latvian government had to implement 30 paragraphs during the transition phase in the 1990s which re-structured the Latvian sub-national level. Even more interesting for this chapter is the law "On Self-government" which came into power in 1994. This law identifies the position of Latvian regions and the tasks that are submitted to them. Another important change which was inevitable due to the accession to and the Membership of the EU was the alteration/modification of the Latvian constitution. This step was necessary in order to transfer competences of the state to the international level (now Art. 68). According to the legislative background it is possible to conclude what kind of decision-making competences the regions in Latvia have and to what extent they are involved in the EUCP. The first view reveals that the regions and local governments are not involved in the decision-making processes on the national level; they do not have a common national representation, like the Bundesrat in Germany. The most important representation for the regions is the Ministry of Regional Development and Local Governments. Furthermore they are not part of one of the Committees or Authorities which are responsible for the management of Structural Funds. The Regional Development Agency is the regional element which represents the issues of the home region in the process of management of Structural Funds. Agenda setter in the Latvian government is the Cabinet of Ministers which hands in most of the proposals but also other actors are entitled to do so. Beside the Cabinet of Ministers, the President, at least 5 members of the Saeima (Parliament), parliamentary commissions and 10% of the population entitled to vote. The legal proposals have to go through three readings in the Saeima. Before the proposal will be discussed in the Saeima, the Parliamentarians have the opportunity to suggest changes and improvements. After the third reading a simple majority voting takes place.

Right after its establishment in 2003, the Ministry of Regional Development and Local Government set up "Basic Principles" for Regional Development. The Cabinet of Ministers agreed to the "Basic Principles" in 2004. The reason for these principles is the difficult regional situation in Latvia. Latvia wants to abolish the discrepancies and disparities between different parts of the territory which occurred. With the "Basic principles" as a legal framework the MRDLG created secondary legislative acts which clarified and specified the principles. Before entering the EU the MRDGL tried to accelerate the reform on the administrative-territorial division. Beside the "Basic principles" for Regional Policy which "regulate the state's regional policy" (VRAA, 2006), there is another important document for Regional Policy: the Law on Regional Development which came into force in 2002. The Law sets the goals for

regional development; names the institutions involved in Regional Policy as well as their obligations and tasks and, finally, it refers to the sources of funding. The main and over-all goal which is set by the Law is to “foster and ensure balanced and sustainable development of the country [...] by eliminating the unfavorable disparities among them [the regions]” (VRAA, 2006). Including the “Basic Principles” the objectives of regional policy in Latvia are:

- approximation of the development level of Latvia and its regions to the level of the European countries; an increase of competitiveness of Latvia and its regions among other EU regions.
- ensuring equal living, working and environmental conditions for inhabitants of the country as well as creating equal preconditions for business activity in the entire Latvia;
- an increase of the international competitiveness of the capital Riga.

According to the Law on Regional Government Regional Policy is a horizontal field. Furthermore the projects should be implemented in close cooperation with the policy field who elaborated it and the ones who will implement the project on all administrative levels.

In order to ensure a solid management of the Structural Funds the Latvian Cabinet of Ministers has adopted several laws according to this subject. Generally, speaking the legal documents describe a couple of important topics:

- defines the procedure of EU Structural Fund Management;
- designates the Managing Authority, Paying Authority, 1st/2nd Intermediate Bodies, Final Beneficiary, Monitoring Committee and Steering Committee;
- defines the rights and obligations of the Managing Authority, the Paying Authority, 1st and 2nd level of Intermediate bodies, Steering Committee, Monitoring Committee and Final Beneficiary;
- defines three types of projects to be implemented – national projects, aid schemes and open call for projects;
- defines the general procedures for the Structural Funds financial control and audit, monitoring and evaluation (Latvia Programm Complement, 2006: 10).

The most important result from the chapter is that the Regional policy and regional development are part of the national level. The legislation of this policy field is decided by the central state and the sub-national actors are solely involved in the execution of the laws and tasks.

3.4 Resources

The independence of sub-national actors depends on a certain degree on the resources they have, financially and politically. Especially financial resources are able to empower or to restrain activities on the sub-state level. Latvian regions and sub-state actors have only few

possibilities to create their own budget, they are mostly dependent on the national government which allocates the money from the national and the EU level. How much money a Latvian region receives has to do with the size, population and the development deficit. The criteria for the EU budget/Structural Funds are slightly different and the allocation of money from the Structural Fund also depends on the region itself since they have to apply for certain programmes and projects. Generally, it is advisable to differentiate the term “resources”. On the one hand there is institutional capacity which illustrates the capacity an institution has in order to fulfill its task or in this case the management of Structural Funds. Under this capacity various items, basically material things, can be listed, e.g. buildings and rooms, paper, desks and chairs etc. (Evans, 1999: 153) On the other hand there is institutional capability which indicates the expertise of the staff which is needed in order to succeed in the management and implementation of Structural Funds (Evans, 1999: 154). Having a sufficient institutional capacity and a sophisticated institutional capability is the optimum and it would ensure an effective administration or management. In case that only one of the two institutional requirements is met, makes it difficult to reach a good result.

3.4.1 Latvia's budget

For the planning period 2004 – 2006 Latvia received 195 million € and 183 million € were spent on Structural Funds. For the planning period 2007 – 2013 Latvia is going to receive 4.6 billion € in total. The funding is divided into three different categories. 1.5 billion € belong to the Cohesion Fund, 2.9 billion € for the Convergence objective and 90 million € for the Territorial Cooperation Objective. On the regional level the picture of the financial resources changes. Latvian sub-national governments contribute only 25% to their own budget which mostly comes from the municipal taxes they are allowed to rise. For the rest of their budget the regions and local communities are dependent on the central government/state. Due to this situation the central government is able to put the regional and local governments under high pressure since they decide on the allocation of money and it brings the Latvian regions in an awkward situation since they have to ask constantly for money. The missing federal structure in Latvia makes it difficult to receive the EU Structural Funding which is needed and desired. To achieve a better position in the negotiations on the Structural Funds it is essential to improve the structure of the sub-state level.

3.4.2 The impact of the Structural Funds

Although the funding of the EU is often seen as an additional plus to the budget of Latvia's sub-national level, it is hard to assess. It has only a limited impact on the budget of Latvia's regions. The allocations from the EU are not solely reserved for the regions and local

authorities, other policy fields like transport or education also benefit from the funding. It has to be kept in mind that the regions and communities are supposed to execute the projects launched on the national level. Since the income of the regions in Latvia is already low, they are dependent on allocations from the national level as well as from the EU level. In both cases the sub-national level has to be the petitioner who asks the national government for financial help and in both cases the national government has the privileged position to decide on the allocation of the national and European funding. But Structural Funds can also be a financial burden for the regions and local communities since the projects are financed to a limit of 50%. The other half has to be afforded by the authority and its remaining public or private funds. Due to the fact that the budget of Latvia's regions is insufficient, as mentioned above, the co-financing signifies a financial extra-load to the sub-national bodies (Keating, 2005: 193). The consequences coming from this arrangement will be illustrated in the Field research. Though EUCP should not be considered as an additional source (Principle of additionality) for the Latvian budget, it is possible that projects can no longer exist without the contributions of EUCP.

The allocation of the EU Cohesion Policy determines a big plus to the Latvian Regional Policy budget.

3.5 Relations

As described in the introduction for this chapter the legal capacity of Latvian actors. Therefore the relation between the Latvian government or national level and the regions was chosen since the various connections and tiers a government has to have an impact in the sovereignty to the regions (Keating, 1998: 28). The relation between the Latvian government and its regions is rather weak. Although the Latvian government has a central role in the processes, the relationship between the two levels is not really deep. But it might be an advantage to enhance the relation to the government due to its central role it is in charge for the major actions and decisions. This chapter focuses on the legal background of EUCP and therefore this sub-section will focus on the legal possibilities for the regions to interact with the national and European level. The transformation and transition phase did not bring the turn to the Latvian Regional Policy. Instead of decentralization, the central state persisted until now. A great number of subjects with direct consequences for the sub-national level are decided by the central government without or little participation of sub-national actors. The section 3.5.1 will identify the relation between the national and regional level. In section 3.5.2 the relations between the Latvian sub-national actors and the European Union will be the subject. Since the Latvian regions and local communities are interested in EUCP, it would of great interest for the sub-national actors to increase their influence in Brussels. It has to be kept in mind that the negotiations and discussion with the EU are an exclusive right for the

Member States, especially when it comes to legislation. That's why the relation to the EU level is sub-divided in the direct and indirect relation of the sub-national actors. They might be able to create a relationship to the EU directly or they try to build up a relation with the help of the Member State.

3.5.1 Relation between Latvia and its regions

Latvia's regions do not have a direct representation on the national level. There is no second chamber (like in other EU Member States) beside the Parliament which represents the regional and local sphere of the Member State. The main representation for the sub-state level in Latvia is the MRDLG. The Ministry is the only connection to the national level. The Ministry has to represent the region's interests and it is the only actor involved that is able to influence the decision-making process. The minister of MRDLG is part of the Cabinet of Ministers and therefore s/he is able to use the voice for or against certain decisions. Though the regions and local communities established a council to represent the numerous communities, amalgamated communities and regions, they do not participate in the national affairs. The MRDLG supervises the municipal and regional activities according to its lawfulness. After the election of the sub-national level in 2005, the MRDLG tried to increase the quality of the performance of the municipalities and regions. Therefore the Ministry established training sessions for the new mayors and Council members and other municipal officials in all regions in Latvia. Moreover a hotline was created to set up a direct link between the regions and municipalities and the Ministry staff in order to provide consultation and advice to the newly elected officials and politicians. But also to provide information about legal issues, detailed information and specifics about municipal activities. The MRDLG also provides sample decisions and research projects which are interesting for their territory. (MRDLG, 2005: Annual report). With the accession to the EU, the five planning regions and their Regional Development Agency came into the focus. But the tasks of the RDA are rather limited to the field of Structural Funds. However, they could use their position in order to improve the allocation and management of Structural Funds on the regional and local level. There are few possibilities for the regions to influence the decision-making processes and it probably also depends on the commitment of single regions or communities. An option to influence the national decision-making would be, as mentioned above, through the Ministry of Regional Development and Local Government since they are part of the Cabinet of Ministers which is the most important executive body in the implementation of new policies. The second option is to influence members of the Latvian Parliament because the Parliament has to approve the legislation. Other than that the options to influence Regional Policy or EU Cohesion Policy for the Latvian sub-national level are rare.

3.5.2 Relation between Latvia and the EU

As mentioned in the introduction for this chapter, there are two different ways to influence the processes on the EU level; the direct and the indirect way. The indirect way leads to the national government and the attempt to influence EU policies via the national government. This approach will be discussed in the first part of the section. The other option shows the possibility to influence the EU and its policies directly. The regions and local communities have to initiate the lobbying on their own.

(1) Influencing EU through the national government

The Latvian legislation does not grant any competences to the sub-national level. The relations to the EU are definitely a part of the Foreign Policy and therefore exclusively reserved for the national authorities. Since the policy fields of Regional Development and Agriculture are partly in the competence of the EU, the sub-national actors look for a way to influence the EU policy-making process. But the previous chapter showed that the possibilities for regions and local communities are limited since they are not able to reach the national government for their purposes. So the only body which is capable to influence the national government and their decisions on the European policy-making is the MRDLG.

Generally, it is possible that the regions and local communities of the new Member States and especially the CEEC have the problem that "incentives for collective actions clash with decades of communist atomization and mistrust" (Borragán, 2002: 164). Although the countries try to articulate their interests on the different levels, the passivity deriving from the communist legacy remains (Borragán, 2002:164). According to the author Borragán "there is a lack of understanding about what lobbying is and the possibilities it offers". But bypassing the national executives becomes more and more attractive to sub-national actors in the CEEC (Borragán, 2002:170).

(2) Influencing the EU directly

It is a common picture in Brussels that European regions have a representation in the capital of the EU. Latvia or Latvia's regions are solely represented by one office. The Latvian Association of Local and Regional governments is the only representation office that deals with the issues of the sub-national level. The assignments which the office in Brussels fulfills are comparable to those of any other Regional Office:

- to inform their members about EU legislation, funding opportunities and relevant developments in EU Member States;
- to represent their members in large European associations;
- to provide members with specific services on request;
- to raise their members' profile at the European level

- to design training seminars for their members in order to create awareness of the enlargement process and the work of the EU (Borragán, 2002: 173)

To work effectively on the European level it is necessary for the representation/regional offices to have certain knowledge on EU decision-making procedures etc. and an understanding of the lobbying scene in Brussels. Usually the offices from CEEC do not have the expertise and so they do not know when to lobby or how to pursue the decision-making processes and to become more active to influence the legislative policy-making processes (Borragán, 2002: 165). To what extent the office of the Association of Local and Regional governments is able to cover the tasks can not be analyzed in this section. The Field Research and the results of the interview with the Association will give an insight of the lobbying activities in Brussels.

There are more alternatives to influence the EU policy-making directly on the EU level. First of all, to influence through the Members of the European Parliament (MEP). Latvia has 9 seats in the European Parliament after the election in 2009. Although it is impossible to influence EU policy-making significantly through one or more MEPs, but it is possible that they raise awareness for the problems and build up a coalition for or against a decision in the European Parliament. Although it is not the assignment of Latvian MEPs to represent the Latvian sub-national actors and level, the MEPs have important sources of information and they themselves are a source of information for the regions. Moreover the MEPs are usually members of at least one consultative committee of the European Union. The most interesting committee for the sub-national actors is the Committee of the Regions (CoR). Latvia has five representatives in the CoR, two of them were interviewed for the thesis and they will give further information on the work of the CoR. The CoR is an official body of the EU and it has the right to give advice to the EU Commission, European Parliament and Council of Ministers on issues concerning Regional Policy. To ensure an equal representational at the CoR, the five members present the five different planning regions. The representatives have an elected office in Latvia on regional OR local level. Who and the reason why these representatives were chosen is unclear.

Additionally to the CoR membership, Latvian sub-national actors are part of other consultative bodies such as Congress of Regional and Local Authorities of the Council of Europe. Latvia has three representatives in the Congress. The Council of Europe is not an EU institution but it helps to get into contact with other representatives and opens channels for information gathering and lobbying. Although these bodies are not part of the legislative decision-making processes, they are important providers of information and facilitate the networking on the EU level.

3.6 Preliminary conclusion

After assessing Keating's criteria to Latvia's sub-national system, an interesting picture arises. The institutions that are part of the management of the Structural Funds are implemented and fulfill the tasks. It is noticeable that the regional and local level is hardly present in these bodies. Regions and local governments are represented by the Regional Development Agency (RDA) as a final beneficiary. In the section of Intermediate bodies of the 1st and 2nd level the regions are represented by the MRDLG and the Union of Latvian regions and local governments. Although the regions have formed councils on its level, these councils consisting of the mayors of the local communities are not involved in the national decision-making processes on Regional Policy and EU Structural Funding. These findings already describe the situation of the "policy-making capacities". The regions do not present themselves on the national or European level. They are not involved in the decision-making processes of the national level; they execute the regulations of the national government. Regions and local communities are indirectly represented by the MRDGL and the Union of regions and local communities. Another weakening point for the Latvian regions and local communities is the small budget they have. In this case (again) the regions are dependent on the national government which is able to lead and control the money and the purpose it is meant for exactly. The intergovernmental relations between Latvia and Latvia's regions to the EU are also rarely to notice. The Latvian regions try to influence the national state before the negotiations in Brussels start. On the European level the Latvian regions are almost non-existing; the only connection to Brussels is the office of the Latvian Association which has a representation in Brussels. All in all, compared with Keating's criteria seem to be in a very difficult position. They need a structural reform in Latvia in order to gain more influence on the national level and at the same time in EUCP. Although the national government stuck to the regulations of the EU concerning the management of the Structural Funds, the representation of the regions (principle of partnerships) is missed this makes it possible to conclude that the principle of partnership is defined differently on the Latvian national level.

4. EU Regional Policy in Latvia – a practical approach

4.1 Latvia

It is advisable to start with the most important actor in this research; the local and regional governments in Latvia. Latvia's political system was shaped by two major events in the past: the identity of the first Latvian Republic which existed between 1918 and 1940 and legacy of the Soviet occupation. Latvia and its population were controlled by foreign regimes (German,

Swedish, Polish and Russian) over centuries (Schmitz, 2004, p.111). Other than expected, Latvia possesses a long history in the sub-national level. Even before the 13th century sub-national/regional governments existed in Latvia. In 1918 the local governments were formed on the basis of the Russian Empire Legislation. This development was stopped by the Soviet period during the 1st and 2nd World War when local or regional governments did not exist. There was no democratic election but the communist leadership “nominated” the candidates. The local and regional governments had neither competences nor authority during this period. The first democratic elections after the Soviet regime took place in December 1989. The elected deputies of the local and regional governments were in office for 5 years. Each territory had a different number of deputies which was based on the number of residents. The first laws dealing with the local and regional governments were passed in 1990; three separate laws were adopted on district, town and rural self government. These laws were related to those of the first Republic of Latvia.

(1) Legislation in Latvia

After the end of the Soviet occupation the transformation of the political institutions went on slowly. The institutions established by the Soviets lost their legitimacy that's why the new Latvian state decided to re-install the old legislation of 1922, the so called *Satversme*. The question was which amendments are needed for the old legislation. The *Satversme* did not have a part about basic rights and it also misses a part about the organization of the judicative. After the election of the first parliament, *Saeima*, in 1993 the legislation was fully empowered (again). The Latvian legislation sees the Parliament, *Saeima*, as the centre of the government and it consists of 100 members. Although the Latvian legislation fulfils every feature of a democratic one, it is important to notice that the reality makes a difference between citizens and non-citizens which refers to the minority problem Latvia has to deal with. Non-citizens are not allowed to vote or to set up a political party nor being a member of a political party. Non-citizens are also economically disadvantaged. They are not allowed to buy real estate and/or stocks. In 2002 after intense international pressure the Latvian Parliament changed the right to vote. It was not necessary to prove Latvian language skills in order to candidate for the Parliament or a sub-national institution. The President of Latvia has little say in the executive decision-making process but he has important initiative rights. For example, he announces a member of the parliament to build a government.

The current legislative base of regional and local governments has changed, especially due to the European Union regulations for the accession and he is commander in chief of the Latvian Army.

4.2 Sub-national level in Latvia

The principles of Latvian sub-national governments are based on the demands of the European Charter of Self-governments, ratifying 26 of the 30 paragraphs in 1996. But the key element in Latvia's legislation for the legal framework for the local and regional governments is the law "On Self-governments" which was passed in 1994. This law contains the five important topics for local and regional governments: the competencies, functions, structure and the general finance.

Latvia's sub-national level consists of regional and local governments; in total Latvia has 536 local units. On the **local** level Latvia divides the governments into 63 *pilseta* which consists of 56 towns and 7 major cities, including Riga, Jurmala, Ventspils, Liepaja, Jelgava, Daugavpils and Rezekne; 453 *pagasts* which mean rural municipalities and 20 *novads* which are amalgamated/merged towns and rural municipalities. They were established as a result of the territorial reform starting in 1998. On the **regional** level Latvia is divided into 26 *rajons* (districts) and again the seven major cities in Latvia. As one can see the major cities are present on both stages of the sub-national level.

A local government is "an administrative body of representatives elected by citizens which fulfils the functions delegated to it by law and also the tasks delegated by the Cabinet of Ministers according to the law "On Self-Governments", as well as the fulfillment of the tasks initiated by the local government itself, ensuring that the interests of the state and inhabitants of the relevant administrative area are met." (ULRLG, p.9)

A regional government "is the administrative body of a district which fulfils the functions delegated to it by legislation and also the tasks delegated to it by the local governments with the help of the representatives elected by the local governments. Ensuring that the interests of the state and the inhabitants of the relevant administrative territory are met." These district councils consist of all mayors from the local governments within the region, the councils are indirectly elected.

The finances for the districts contain general grants which are 100% financed and money from the Financial Equalization Fund. Because of the fact that the districts have a status as independent governments, they are in control of their own budgets. After describing the basic aspects of Latvia's local and regional governments, a closer look will be taken at the functions and competences of the sub-national level. Furthermore it is necessary to integrate the progresses made on the basis of the "Administrative -Territorial Reform".

First of all, it is important to analyze the kind of state Latvia actually is. Latvia is a unitary state, parliamentary and republic. A basic principle for the partition of functions Art. 15 of the Law on Administrative-Territorial Reform, created in 1998, is the subsidiarity principle:

"When determining division of functions between the state administration institutions, regional governments and local governments, the subsidiarity principle is to be observed which determines that the institutions of a higher

level have to perform only those functions which are not possible to give to, or which cannot be effectively performed by the institutions of a lower level.”

The subsidiarity principle was part of the European Charter which insisted on the subsidiarity principle. This means for the local governments as the lowest governmental level that they should fulfill as many tasks as possible. The current law (“On Self-Governments”) specifies 17 permanent functions for rural and amalgamated municipalities and 4 permanent functions for districts. Major cities which are seen as local AND regional governments have to execute 21 permanent functions. Beside the permanent tasks municipalities and regions have to deal with voluntary tasks. It is probable that local and regional governments select voluntarily their own functions they would like to perform but only in case that these functions do not belong to other local or regional governments or to state institutions, for instance, tourism development initiatives. The permanent functions of local and regional governments vary from basic services, like water supply, over encouraging business activities to reduce unemployment to the protection of children rights. The permanent functions which have to be performed by the regional governments are: the participation in civil defense, organizing public transport services, ensuring their representation in the regional Sickness Insurance Fund and organizing further education for pedagogical staff and methodical educational work. According to a survey made by the Union of Local and Regional Governments of Latvia (ULRGL) all functions (permanent, temporary and voluntary) executed by the local and regional governments are in total 100 tasks. Unfortunately, these tasks are not clearly assigned to a specific level of government. The law only says that “self-governments are responsible for the implementation of certain tasks”. It is imprecise who should perform these tasks, local or regional governments. In most cases the distribution of the tasks goes along with two important aspects. On the one hand, it depends on the abilities of the local and regional government; on the other hand it depends on personal initiatives from politicians and administrative employees. Although the number of permanent functions for regional governments seems to be quite low, the districts take over a significant number of voluntary tasks and they sustain weaker local governments with the realization of their tasks. A disadvantage the Latvian local governments have to deal with is the fact that the legislative status of this level is not integrated in the constitution, *Satversme*, but solely in the legislation or by law. To show the willingness to push forward the decentralization process the Latvian national government has adopted the European Charter of Local Self governments during the accession period. The Latvian government adopted 29 of the 30 paragraphs and the one that is missing plays a crucial role for the local/sub-national governments. The missing paragraph enables the local governments to access the national capital market in order to take loans to finance capital investments. Once again the local governments have no option to expand their financial resources. The budget of Latvian regional and local bodies consists

basically of real estate taxes, the only tax the community is allowed to rise. Currently in Latvian legislation no taxes are declared as “local” taxes. The reform on self-governments introduces the possibility that local and regional governments may impose local taxes and determine their size is rather imprecise and partially fulfilled by the reform.

Another interesting point for the analysis of the status quo of local and regional governments is the political structure of those. Again the law “On self-governments” shows common principles for the political and administrative structure. Finally, each local and regional government lays down its own institutional structure and administrative procedures. The main actor in the political structure is the Council. The number of counselors differs from municipality to municipality. Local government councils are elected by local citizens in equal, direct, secret and proportional vote. Regional councils (or district councils) are indirectly elected; they are formed by the chairpersons of local governments (according to the law “On Self-Governments”). The ballot vote for the Councils takes place every four years. The most important competences of the councils are the approbation of statutes, budget, and the approbation of plans and perspective programmes on economic and social developments; in total the council has to deal with 27 competences.

An additional aspect is the negotiations between the Councils and the central government, the Cabinet of Ministers. Topics are the “Self-Governments” itself, the budget and the management of budget and finances, also the regulations of internal order of the Cabinet of Ministers. There two different forms of negotiations. The first option is that one part, the Council or the Cabinet of Ministers, shows the initiative to talk about a certain topic, mostly new legislation. The other form of negotiation is related to the annual budget process.

4.2.1 Reform of the sub-national level

The local government reform is one of the biggest issues in Latvia’s Regional Policy. It was accepted by the Cabinet of Ministers in 1993. The main goals of this reform are the democratization and decentralization of state power and administration, increasing accountability of local governments in achieving the tasks delegated to them, improvement of the quality of public services and increasing participation in the processes of administration. The local governments should become more autonomous from the central government. To realize these goals some initiatives have to be taken. There has to be a new law in local government council elections; a new law on local and regional governments; improvement of the local budget system, construction of territorial information systems, establishment of training institution for deputies and staff of local governments and the development of a system for negotiations and communication between the Cabinet of Ministers and local governments. The start was made in 1997 when the central government proposed to eliminate district (regional) governments and replace them by territorial state offices. This

concept was stopped by the Members of Parliament and non-governmental organizations which stand for the interests of the sub-national level. As a consequence of this incident one can say that it is important to have a regional level in order to promote the interests of the region.

The 2nd attempt to modify the sub-national structure in Latvia was started in 1998; the Saeima (Latvian Parliament) passed the law "On Administrative Territorial Reform". The main ambition of this reform is to "create administrative territories run by local and regional governments capable of economic development that will provide quality services to their inhabitants." The whole plan or reform was supposed to be realized by the 30th November 2004. The reform had/had two stages the first stage was supposed to be completed by 31st December 2004 and the second stage was supposed to run from the 1st January 2004 to the 30th November 2004. Until now the reform is not implemented, it is still in progress. Two main points in the reform are hardly discussed by the local governments, the preparation of cooperation projects among local governments and the implementation of cooperation projects among local governments. Local governments fear to lose their sovereignty and independence because they will be merged with other local governments. In general, local governments support the reform but they want to be sure that two conditions are set. The "amalgamation will be voluntary until the end of the reform and the reform will be supported by substantial state investment programme for local infrastructure". The reform is supposed to be completed in the year 2009 right before the new municipal elections. The European Charter of Local Self-governments illustrates some deficiencies which still remain after the reform. First of all, the financial resources of the sub-national level has to be improved because the Charter claims that the financial means should be comparable to the responsibilities or duties, prescribed by law, a local government has to fulfill. Another financial aspect is that the national government is not allowed to direct targeted subsidies to the sub-national level. The subsidies have to be general and the purpose for the subsidies has to be decided by the local/regional government itself. Due to this practice of the national government, the independence of the sub-national bodies is limited and controlled. Additionally sub-national institutions are supposed to be involved in the area of responsibility of a national institution. Both requirements are a paragraph in the European Charter but they will not be implemented even with the coming reform on self-governments. The financial resources and the participation of regional and local institutions or bodies in the institution on the national level is also not an element of the reform concept. According to these insights of the Latvian reform process, it is supposable that the reform on self-governments will only bring little change to the current situation of the Latvian sub-national level. The national government is reluctant to give up its dominant position within the state. The effects of the implemented reform will be probably not accomplishing the expectations of the sub-national

level. It is assumable that the reform is not supposed to improve the situation of the sub-national institutions significantly but to reduce the number of local governments, regions and towns in order to make the governing easier. The topic of financial resources is the most important one for the sub-national level. As long as the sub-national bodies are not able to take decisions over their own budgets, the national government is still in control. Considering the reform and its changes the situation of the financial resources for sub-national actors, the national state is not willing to offer the local level greater independence.

4.2.2 The current economic situation in Latvia

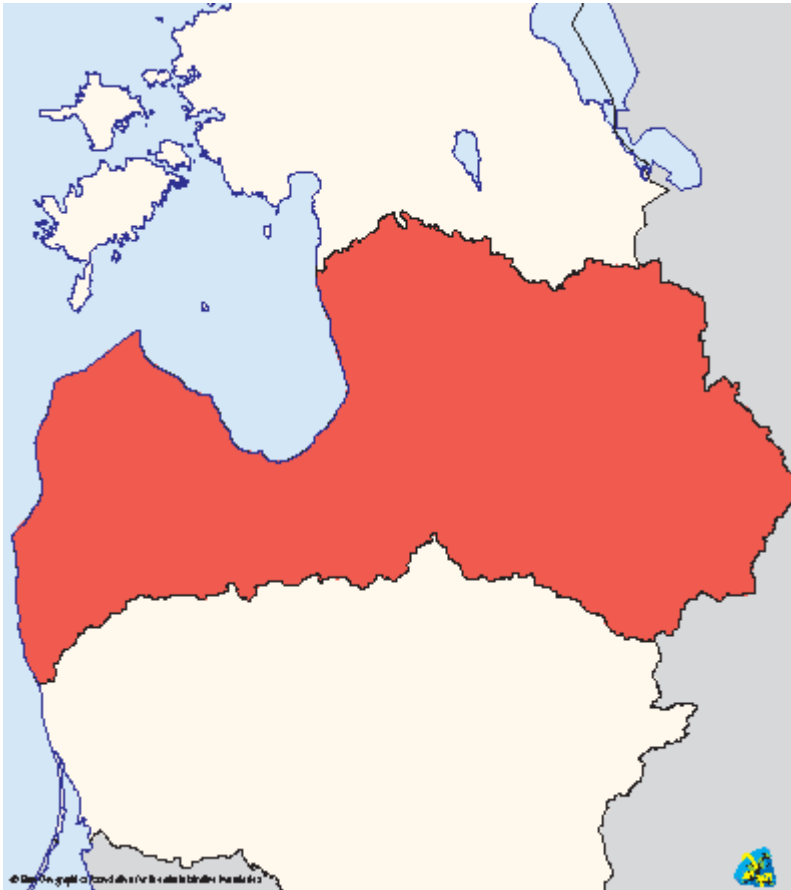
The worldwide economic crisis which started with the collapse of the Lehmann Brothers Bank in September 2008, also reached Latvia in the beginning of 2009. Latvia was hit hard by the economic problems which could ultimately lead to the fact that the Latvian state will be bankrupt, although Latvia and the other "Baltic tigers" had the highest growth figures in the past years. According to Morten Hansen, economist at the University of Riga, there are five reasons why the Latvian economy collapsed. Firstly, the strong economic growth (12.2% in 2006 and 10.3% in 2007) was financed on credits. No other country in Europe had a bigger growth of credits annually than Latvia. The second problem is that the "boom of credits" enforced the real estate market and prices for houses and apartments raised about 60% in one year. Thirdly, the salaries were increased during the strong economic growth to 35% per year but the productivity not necessarily increased, too. Furthermore the inflation is on the top of Europe with 18% which is the forth reason why the Latvian economy failed. Although the inflation was already on a high level (about 10%) in 2006 and 2007, neither the Ministry of Finance nor the government paid too much attention to this issue. Finally, Latvia holds the record in another discipline. In 2007 Latvia had the worst current account deficit or trade deficit in Europe. This deficit is a measurement for the malfunctioning economy and the economic exchange with the economies abroad. By the end of 2009, it is assumed that Latvia's economy will shrink by 12% - 15%. Another problem which has not been mentioned yet is that the national currency, the Lat, is pegged to the Euro. Almost all of the credits that were given; were given in Euro or other foreign currencies. The banking sector is dominated by foreign banks to 80% - 90% in the Baltic States. A devaluation of the Lat would increase Latvia's external debts immensely and monetary policy is not a tool due to fixed exchange rates (Roubini, 2009). In the end, the collapse of the Latvia "Parex Banka" ruined the state budget. Because of the economic crisis in Latvia and after massive and violent protests in the capital, Riga, the centre-right government under Prime Minister Ivars Godmanis resigned their work in February 2009. The new Prime Minister Valdis Dombrovskis has to follow strict regulations and conditions created by the International Monetary Fund (IMF) and the EU. In January 2009 the IMF and the EU admitted a 7.5 billion € credit but the second payment of

200 million € was held back by the IMF because the Latvian government did not stick to the regulations that were part of the deal with the IMF which is basically to save money. The Latvian government had time until June 2009 to improve their concept and to show their willingness to not go further into debt. The reform was agreed on by the government and parliament in the beginning of June but the losses and cuts for the population are significant. Those who still have a job have to face shortages of their salaries up to 20%; the unemployment rate in Latvia is about 17%. Especially, employees in the public sector are concerned. Pensions are reduced by 10%. Furthermore, the government tries to cut spending in the policy fields of health and education. Schools with less than 100 students will be closed and local communities have to deal reduced budgets of about 40%. Additionally the government will raise the value - added tax (VAT) and tax allowances are halved. All in all, the Latvian government wants to save 750 million Euro with these spending cuts. A New York Times article stated a reason why Latvia finds itself in such a difficult situation: *"To a degree, Latvia's overheated economy was a product of its accession to the European Union. Membership lowered the country's perceived risk factor, which in turn helped drive up the credit market. At the same time, the government pursued a policy of pegging the national currency, the lat, to the Euro, in the hopes of accelerating its admission to the Euro zone. This resulted in driving up the lat and fueling inflation."* Though it seems that the problems are self-made by Latvia, other external developments intensify the situation. Foreign banks from Western Europe also have to deal with the decreasing economy and the decline of the CEEC Western European countries miss one of their main and successful markets for their exports. Another problem in the banking sector is that the Eastern European banks work with foreign parent banks. Due to the global economic crisis it is possible that the parent bank will not transfer any money to their "daughter" in the East because they do not have money either. In case of Greece, the government forced their banks and credit institutes not to shift money to their Eastern partners. The banking sector illustrates that the economic situation in Latvia is not a national issue; it has to be solved on the European level. Because of the intense interdependences of Member States and their policies, a solution on the European level has to be found. Until now most of the Member States tried to work out their problems by themselves; for some Member States protectionism seemed to be the right answer to their crisis. But this attitude is conflicting with the ideas of the EU that's why a European answer has to be formulated. The Member States have to support their weaker neighbors in the East but not only with bilateral financial help. There is no lack of ideas on the European level to sustain the weak CEEC; unfortunately, these ideas are not equally appreciated by every other Member State. What all Member States have to keep in mind is that without a European solution for this crisis, the EU will experience a significant fall of its credibility and questions the existence of the EU in general. The crisis shows once again how under

equipped the EU's institutions are to deal with the situation. *The European Bank for Investment and Development* has solely a 25 billion emergency stabilization fund and a bigger amount was already spent on Hungary and Latvia. Further European integration is not achievable in case the EU will fail to work jointly on this crisis. Taking into consideration the main topic of this research, the situation in Latvia and the spending cuts in the local communities up to 40% will exacerbate to realize projects for the new planning period. An example gives the mayor of the town Cesis in an interview with the Latvian newspaper "Diena": "In order to solve a couple of problems, we have built a new kindergarten. Money for furniture and other things are needed but the assessed budget is already exceeded. For this EU project no further means are permitted and now we would like to take a credit because we [the town] do not have money to finish the project. But the bank would not give us a credit. What are we supposed to do now?" Since the regions and local communities usually have to co-finance EU projects the spending cuts will not enhance the work in EU Cohesion Policy and probably the aims for the period 2007 – 2013 will not be achieved.

4.2.3 EU Regional Policy in Latvia

Latvia benefits from EU Cohesion Policy since its accession to the EU in 2004. Before the accession Latvia dealt with other projects (like PHARE) installed by the EU in order to guarantee a smooth transition from a former Soviet country to a democratic and economically strong country. But these programmes are of a minor interest for this study. The first programmes which started in 2005 focused on the infrastructure which was supported mainly by the European Regional Development Fund (ERDF). The main issues in the area of infrastructure are water management, modernization and renovation of national roads and the development and improvement of the emergency care in Latvia. Despite of the ERDF, projects were implemented with the help of the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG). From the beginning of Latvia's membership in the EU, Latvia was rated as an "object 1" and "object 2" area. For the first programming period 2004 – 2006 Latvia received around 651 million € from the Structural Funds and the approved projects covered 74% of this budget (483 million €) according to the evaluation in 2006. For the programming period 2007 – 2013 Latvia is still defined as an "object 1 AND 2" area and it is eligible 4.6 billion €.



Latvia as Objective 1 area.

(1) Regional Development Agencies

This segment will focus on the Regional Development Agencies (hereafter RDA) in Latvia. Every planning regions has an RDA, the five planning regions in Latvia are: Kurzeme (including Liepaja and Ventspils), Latgale, Riga, Vidzeme and Zemgale. The “planning regions” were established in the pre-accession phase in order to “initiate planning and improve co-operation with neighboring units for local governments” (Karnite, 2000: 140). These activities resulted in this “informal amalgamation of local governments working together on regional development projects” (Karnite, 2000: 140). Already then the entities were seen as a basis for the future implementation of EU Regional Policy measure. All of these planning regions are supposed to have a RDA which supports the region in the administration of the Structural Funds. Furthermore the RDAs are an important connection to the national level since they are the only body present in the national management of EU Regional Policy and Structural Funds. But the tasks and position of the RDA differ from one planning region to the other. Kurzeme established a Council of regional and local authorities in 2003, a year before accession to the EU and the RDA was founded in 1999. Specific tasks of the Kurzeme RDA or the Council are not mentioned. The region of Kurzeme contains two of the major cities in Latvia (Liepaja and Ventspils) which causes problems for the rest of the region as the following chapters of the thesis will show. Latgale planning region reorganized

its council in 2002, now it is called "Planning region development Council and consists of 15 representatives of the local level. Latgale RDA was established in 1999 with the initiative of local governments. The main objective of the RDA is "to endure implementation and supervision of region's development plans"(VRAA, 2006: 16). In 2004 the legal status of the RDA changed from a "limited liability non-profit organization to a society" (VRAA, 2006: 16). Vidzeme planning region founded its Council in 1999 consisting of 18 deputies. The RDA of Vidzeme exists since 2000 and the chairperson of the Council is also the chairman of the RDA. Every six month the chairperson rotates in the Council and in the RDA. Zemgale founded its Region development Council in 1997 but in 1999 it turned into the Zemgale RDA. Nowadays the Council has two more districts to present, in 2001 Aizkraukle and Jekabpils district joined the planning region. Finally, the Riga planning region will be focal point of the segment which established its Region development Council in 2003. The Council comprises 18 members and one third of the members are representing the cities of Riga and Jurmala, each city has three representatives. Riga RDA was founded later in 2003. The two main assignments the RDA Riga has are:

- Implementing decisions of the Riga planning region development Council
- Carrying out the function of the planning region executive institution (VRAA, 2006: 18).

The State Regional Development Agency was founded in 2004 and it is subordinated to the MRDLG. The RDA was reorganized from the non-profit state limited liability company "Regional Development" BO VSIA to the State RDA. It manages the Regional Fund; implements national and international regional development programmes and conducts research, methodological and informational activities in the field of regional development. The State RDA "promotes and endures balanced and sustainable development by implementing support measures in the field of regional development" (MRDLG, Annual report, 2005: 11)

Taking the five planning regions into consideration, the RDAs have in every region a different conception. Two of the five regions designate specific tasks to its RDA, in other cases the RDA derives from a former body of local and regional authorities. It catches the eye that, especially in the planning regions Kurzeme and Riga, the major cities are not proportionally represented in the development Councils. It is assumable that the RDA developed solely under the pressure of the EU in order to ensure an effective management and administration of the Structural Funds.

4.3 Policy networks in EU Regional Policy

Marks (1996) has divided EUCP into 3 different phases which will be explained in detail in the following section: (1) creating a budgetary envelope, (2) creation of an institutional and

(3) structural programming. The different phases of EUCP show and explain the different memberships to the policy network of EUCP. Within the policy network the diverse influence of sub-national actors. By being member of the policy network enables the actor to take part in the three phases of EUCP. The goal of this chapter is to analyze the structure of EUCP and to get an overview of the practical side of EUCP where Latvian sub-national actors are active in and how they influence EUCP. The first part of the chapter will explain the general structure of EUCP and the role of Latvian sub-national actors from a theoretical point of view, the “policy networks”. A special emphasis is on the phase of structural programming which will be dealt separately since this is the phase in which the sub-state actors are involved the most. Usually EUCP is divided in planning periods for six years, now the EU is in its fourth phase from 2007 – 2013. The three phases introduced by Marks are all interconnected which means that the decisions made on/in one phase will influence the discussions and decisions in the next phase. Negotiations start already before the official Cohesion program begins. Latvia was an equal and fully accepted part of the discussions for the first time in 2006 for the new/actual planning period. For the planning period 2000 to 2006 Latvia was solely involved for two years and not from the beginning on. Nevertheless, Latvia was able to gain experiences in this procedure and also from the pre-accession programmes.

4.3.1 Phase 1: creating a budgetary envelope

The first phase is the creation of a budget. The decision on the budget sets the amount of money available for EUCP and the Member States and the eligible regions. The budget for the planning period 2007 – 2013 was confirmed in December 2005. The decision-making process before the confirmation of the budget can be described as a “bargaining event” between the 27 Member States. The EU Commission and the sub-state actors are not directly involved but they were able to make their position clear in advance and they are involved in an earlier and later stage of the process. This thesis will deal with the question to what extent or degree the sub-national actors are involved in these processes and how they influence them. In this phase of the policy process it is without a doubt that the Member States and their representatives have the exclusive part to be in the most powerful position. However, it is assumable that the sub-national actors have already influenced the Member States through different channels. Latvia is eligible as an objective 1 and objective 2 areas.

4.3.2 Phase 2: creation of an institutional context

In this phase framework regulations are adopted. The results of this phase will implement the EUCP programmes and the use of the EU budget. According to these regulations national and regional programmes have to be created. Compared to the first phase the membership and the structure of the policy network changed significantly. Instead of the Member States

the EU Commission has the leading role in this phase. The regional actors are once again not in a demanding position; the options to influence are considerably limited. But it depends on the ability of each region to create coalitions which represent their interests. Compared to other Member States Latvia does not have much experience in the lobbying process. The Latvian regions solely have one representation in Brussels which is able to influence directly the EU Cohesion Policy. Since the Community initiatives developed by the Commission have to be implemented by the sub-national actors in each country, the Commission is especially open to comments of the regional and local level. Latvia is involved in this process since its accession in 2004. The planning period 1999 to 2006 was already characterized by the future accession of the new Member States. Two main points in the discussion of this period were the concentration of the funds and the improved efficiency of the funds. Compared to the first planning periods the Commission when the Commission was in control over the whole policy process; this time the Commission did not have the same amount of initiatives it used to have before which makes it hardly impossible to by-pass the Member States. The current planning period 2007 – 2013 is marked by the reduction of the financial resources of Cohesion Policy. Before the Structural Funds consisted of four different funds and the Cohesion fund, nowadays the support of rural and fishery areas is part of the Common Agriculture Policy (EAGGF and FIFG). Due to the membership of 12 new members, all of them structurally weak, an argument during the negotiations between the traditional (Spain, Ireland, Portugal) net receivers and the net contributors arose. Since the expansion of the EU to the East will shift the majority of the financial resources to the eligible regions in those countries.

4.3.3 Phase 3: structural programming

The final phase “structural programming” reflects the decision which projects will be funded in these given limitations. The budgetary means and the regulations have already been established in Phase 1 and 2 of the process. Taking these regulations and budgetary means into consideration national and regional programmes have to be created. Like in Phase 2 the membership and the structure of the network will change once again since sub-national actors are responsible for the development of programmes and the implementation of projects. The final phase is the most competitive phase because all actors are involved, Member States, the Commission and the sub-national actors. According to the third phase Marks (1996) has developed four steps that have to be taken in order to create a programming documents. Although the exact process differentiates over time and with the choice of the objectives, the following chapter will give a general overview on how to develop programming documents. The four main steps are: drafting of programmes, negotiations, implementation of Operational Programmes and, finally, the overall implementation.

First of all, the central government establishes a national plan which introduces the general goals and objectives of the Member State. The main task is to coordinate the ideas of the Member State with the goals and regulations set up by the Commission (Phase 2). To what extent the sub-national actors are involved in this part depends on the legislative arrangements that define the role of the sub-national actors. Other reasons why sub-national actors might be interesting for the national government are the question whether they have important information or needed expertise which can contribute to the national plan. This national plan is presented to the Commission and the Commission has a certain period of time to propose enhancements or changes and to ask for further information if necessary. The second step is the negotiation between the Commission and Member States officials which usually take place behind closed doors. During this phase binding contracts for both sides are created. Thirdly, regional programming documents/Operational programmes (OPs) classify the objectives and structure for each region and programme. Now the sub-national actors have the biggest influence in the whole process because they are actually the ones who have to deal with them. Often the sub-national actors are asked to create “real” programmes with the background of the national and the Community planning documents that's why they gain greater influence in this policy process. In order to participate in this process it is necessary that the region and its representatives know about the weaknesses of their region and that they have expertise and knowledge in that special region. This information is necessary to create programming documents which are suitable for the region and which try to diminish the weaknesses by introducing appropriate and specific development priorities. The regional programming documents will be approved after the negotiations between Commission and Member State. How sub-national actors are able to lobby for their own interests depends on their legal status and autonomy within the Member State. Because of the lack of autonomous regional level of government (Marks, 1996: 398 – 406) the involvement of regional and local actors is lacking.

Over the last 15 years some changes have been made in order to accelerate the programming process. Member States managed to increase their influence and the policy process was shortened from a three-step process to a two-step process. Instead of developing the framework in three steps, it will be developed in two steps which is called the Single Programming Document (SPD). It also contains the objectives and the eligible regions; basically it contains the information like before. This means for the sub-national actors that they have to influence already the national plan which is created in the first step. The sub-national actors and regions are asked to establish regional development programmes which will be incorporated in the national plan. The national plan will be the issue of negotiations between the Member States and the Commission. This change of procedure and the broadened term of the “principle of partnership” exacerbate the work of

the regional bodies. These bodies are still required under the “principle of partnership” but it is no longer guaranteed since the Member State selects the partners. Another disadvantage for the regional level is that the competition among the regions increases because they want to attract as many projects as possible to their region. Especially, for the period 2007 – 2013 this new development of a speeded up process was obvious. The National Strategic Reference Framework (NSRF) comprises national and regional plans. The Commission which still is the most important player on the EU level in EU Cohesion Policy had to face some changes, too. The possibility to request information and negotiate changes is limited. The selection of eligible areas is not an exclusive task of the Commission anymore since the Member State are able to create national eligibility criteria. But the Member States had to face new challenges, for the current period they had to adopt their programmes in line with the Lisbon Agenda. When the Commission and the Member State agree on a national framework the implementation of the projects in EU Cohesion Policy are allowed to start.

4.3.4 Implementation

The issue of implementation will be dealt with in separate chapter since it is the final and most interesting and important part of the whole process. How this final step takes place is arranged by the regulations ruling the Structural Funds (Marks, 1996: 405-406). The subsidiarity principle set up in the Maastricht Treaty and the commitment of the Commission to decentralize the implementation of the Cohesion Policy are basic priorities of this policy (process). Practically, the central government of a Member State forwards the operational programmes to the Managing Authority. The Managing Authority has to build up the whole structure which is needed for a successful implementation of the projects including the establishment of a committee structure. These committees have to deal with the evaluation of applications, transfer of funds, review of projects, etc. Usually these committees are represented by various persons and groups, representatives of sub-national actors, the central government and the EU Commission. According to the “principle of partnership” the Managing Authority decides who is entitled to be part of the committees. Membership is of great importance for all participants because decisions are made over the on the budget of projects and these committees are also used as an information channel with the Commission that's why it is important for the sub-national actors to have seat which is usually the case.

4.4 Structural programming in Latvia

One of the questions that the thesis wants to answer in the following part is to what extent sub-national actors have to be involved in the policy process in order to influence the processes it is important for them to participate. As described in the previous chapter the three phases of are divided in (1) creation of a budgetary envelope, (2) creation of an institutional framework and (3) the Structural programming. The last phase offers the

Member State some discretion and this of importance for the Latvian sub-national actors since this is the phase which determines how the funds get spent. Usually the sub-national actors start earlier in the process with their lobbying so that they benefit from this in the final phase of EU Cohesion Policy. Since the implementation phase is the most decisive one in the process, it is the most interesting phase to all actors involved from the Commission officials to small local NGOs which hope to receive a little funding.

4.4.1 The pre-accession process of Latvia and its programmes

In 1995 Latvia handed in the paper for the accession to the EU but the relation to the EU has already started in 1992 with a Trade and Cooperation Agreement between Latvia and the European Community. Under the slogan “Back to Europe” all CEECs showed their willingness to join the EU in the beginning of the 1990s before any of the states had handed in their accession paper. The European Council decided in Copenhagen in 1993 to welcome the CEECs in the European Community under three preconditions:

- As a political criterion: democracy and the adoption of the rule of law.
- As an economic criterion: a good working free market economy system and the ability for economic competition
- As a legal criterion: the adoption of the *aquis communautaire* and further EU legislation and the implementation/efficient use of the common law

In December 1997 negotiations with five CEECs, including Latvia, were confirmed at the European Council's meeting. Although Estonia had the leading position of the three Baltic states, the EU, especially the Commission, obviously hoped for a “spill over” effect. Latvia and Lithuania both argued to be in the first round of the accession in 2004 and this wish was supported by other Member States. Generally, the pre-accession negotiations can be divided in three different steps (Merli, 2003: 15). The first stage is called “screening”. During this phase the EU Commission discusses with representatives of the candidate state the relevant *aquis* which is parted into 31 chapters. This procedure is necessary in order to get information of the current situation in the new Member State and in order to focus on problems that might occur. In the second phase the candidate states and the EU Member States present their position in the negotiation. On the EU level the EU Commission proposes a common position which has to be accepted by the EU Council. The negotiations on EU level are often complex and time-consuming because of the heterogenic attitudes of the Member States. Finally, in the third step, the negotiations start. These negotiations will take place separately. It is a conference between the Member States and each candidate country. All chapters have to be closed before the candidate countries are allowed to join the EU. Before the EU created the Agenda 2000 a couple of aid programmes started which

were the key elements for the integration of the CEECs into the EU: The Europe Agreements, the single market White Paper and the PHARE program. The PHARE program was originally initiated for Poland and Hungary (Poland and Hungary Action for the Restructuring of the Economy) to support their reform process. But the PHARE program developed to one of the most important financial instruments in the whole Central and Eastern European area. There were some other programmes which are listed in the following but generally one can say that these programmes were supposed to facilitate a smooth transition and that the future Member States gain experiences in program planning and funding. The PHARE program pursues two different goals for the candidate countries with the help of these programmes which were set up by the European Council in 1997 (Pirhofer, 2004:109). The first goal is to strengthen the capacity of the judicial power and its democratic institutions and of the public administration. 70% of the whole PHARE budget was spent on the realization of investments concerning the improvement of infrastructure and the enforcement of the economy. It has to be taken into consideration that the aid programmes like PHARE were not supposed to be instruments for the preparation of the accession to the EU (Merli, 2003: 20). This development helped to integrate the candidate countries earlier than expected into the economy of the EU and its Member States.

Main pre-accession programmes:

STRUDER: program for structural development in selected regions which were chosen on the basis that they would be severely affected by the economic restructuring, as well as for economically fragile rural areas.

RAPID: Initiative for infrastructure development in rural regions.

PHARE: in the early years PHARE focused on the support of democratic reforms and the economic transition process in the CEEC. Due to the future accession of the countries the focus of the PHARE program widened its field to sustainable economic development and investments and the program included more countries than Hungary and Poland. Approximately, 210 million € of the PHARE budget were allocated to Latvia between 1990 and 1997. It was also applied to cross-border regional cooperation agreements. Then it sustained the accession candidates and the main issue was the development of a private sector, the enforcement of democracy and the creation of a state of law or constitutional state.

ISPA (created in 2000): The largest of the new initiatives and it was allocated a budget of 1,058 billion € which is devoted to projects with a minimum size of 5 million €; oriented towards the future accession of the ten CEE applicant states; targeted at environmental improvements and the upgrading of transport infrastructures with reference to the extension of the Trans European Networks (TEN). The goal of ISPA is to contribute to “the objectives laid down in the Accession Partnership” and to “corresponding national programmes for the

improvement of the environment and of transport infrastructure networks.” (EU Commission, 1998, Art. 1). ISPA works on the basis of projects instead of Structural Funds which are programme-based. The program ends with the accession to the EU.

SAPARD: SAPARD was created in the year 2000. The second new initiative, directed to CEE applicant states, is the Special Pre-Accession Program for Agricultural and Rural development which has allocated a budget of 529 million € and is managed by the applicants themselves, following acceptance of their overall strategies by the Commission. The program ends with the accession to the EU.

The official negotiations for the accession of Latvia started in 2000. The negotiations with the candidates of the “second row” (Latvia was one of them) led to a discussion about the financing of the EU budget. The accession of ten new member states might cause an overexpansion for the EU budget since almost the whole territory of the new member states will be an objective 1 area. Furthermore the Structural Funding will probably demand too much from the administrations and the national economy of the candidate countries. Especially the public administration of Latvia was several times in the focus of the EU Commission before and during the accession period. The transformation of the public administration started in 1992 and in 1993 the Ministry of State Reforms (which existed from 1993 – 1995) was founded in order to design and implement governmental policy in the area of public administration (Reinholde, 2004: 164). The reform of public administration was pushed and led by the Latvian government until 1995. In 1995 Latvia had to deal with the banking crisis and economic issues were of greater concern than the reform of public administration. Furthermore the Latvian government realized that the internal and international partners accepted the existing system that’s why no further changes were brought on the way. But with the future accession to the EU Latvia has to start over with their reforms in 1997. With the accession to the EU Latvia needed to have a good-working public administration system in order to handle the EU requirements and to ensure that Latvia’s national interests are successfully represented on the EU level (Reinholde, 2004: 165). The Agenda 2000 revealed that the Latvian public administration needed a new start. Therefore the Bureau of Public Administration was established and the post of a minister responsible for public administration reform. These two events can be linked to the critics and comments by the Commission. Now the public administration reform was an important part of Latvia’s pre-accession strategy and at that time the EU integration had probably a big impact on the reform. An important issue of the reform was the decentralization of the public administration system. To meet the challenges of the new and more complex public administration after the accession of the EU, Latvia founded a School of Public Administration. Interesting for this thesis is the sub-national level and its development during the reform. Unfortunately, the changes did not go far enough. Due to the lack of unified principles in the territorial location

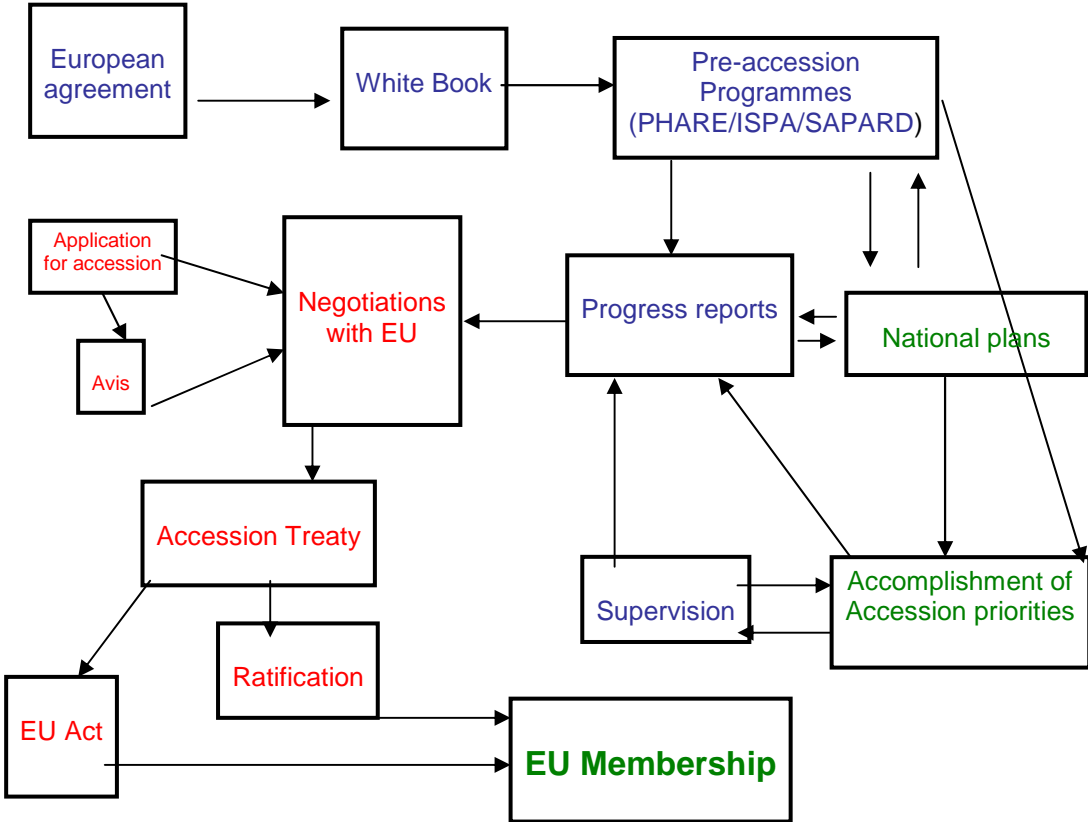
of public administration institutions developed a complex system which still is time consuming and irrational (Reinholde, 2004: 169). The main targets of the reform are the *“rational division of competences between the central government and sub-national authorities, definition of responsibilities, an accountability mechanism, effective vertical and horizontal coordination, professional civil service, good-working public finance management system and a predictable performance of public institutions”* (Reinholde, 2004: 169). The Agenda 2000 pointed out once again that it is necessary to promote structural reforms. The Latvian government decided to accelerate the process and designed a new strategy for the years 2001 – 2006 (Public Administration Reform Strategy). The strategy demonstrates five medium-term reform objectives:

- to ensure single, stable and future oriented public administration
- to ensure effective management of public finances
- to ensure public participation in the administration
- to provide qualitative public service delivery
- to ensure professional and ethical civil service.

Additionally to the regulations and to the Commission’s opinion another issue has to be taken into consideration. With the accession to the EU the level of qualification and of knowledge of civil servants had to rise in order to prepare them to deal with EU issues. The School of Public Administration offers a specialized EU training, especially in the fields of Regional Policy, (Pre-) Structural Funds and budgeting and finances. These training centers are also located in the rural areas outside Riga.

The old criteria of NUTS and objectives of the Structural Funding can not adjust to the challenges of the accession of ten new member states. That’s why the criteria have to be adapted to the new situation in the EU. One of the main issues of the reform was to change the Structural Policy from a “top down” process into a “bottom up” process. A problem which occurred in the CEE countries was the centralized and unitary national structure. Before expanding to the Eastern part of Europe, it was important to look for possibilities to decentralize the national structure in the former communist countries. Past experiences showed that the accession of economically weaker states resulted into a centralization in the field of Structural Policy (Klemmer, 1998: 474). This realization leads to the hypothesis that heterogenic and under-developed regions or sub-national units are more willing to strengthen the national level of the country, especially when it is connected to financial improvements (Eckstein, 2001: 209). If this assumption is also applicable for Latvia will be discussed in the following parts. The candidate countries had to put a lot of effort into the decentralization of the national structure. But as mentioned above Latvia is still fighting for the reform of the sub-national level and the sub-national level is still marked as a weak and fragmented level of the state. Before the accession of the ten new member states the adaptation of the NUTS-

system was not fully clarified. The proper classification of sub-national units in the new member states to the different levels of the programming is difficult to establish. Another problem is the missing statistical data concerning the regional/sub-national level in the new member states. In the following model the accession to the EU is illustrated, including the pre-accession programmes. The boxes which are marked blue signify the EU aid and control during pre-accession. The green boxes stand for the national measurements of the CEEC or Latvia and, finally, the red boxes show the process of the accession negotiations with the final goal: Membership to the EU.



4.4.2 Planning period 2004 – 2006

“The EU pretends to be ready to admit them, and they [the new Member States] pretend to be ready to join.” (Lejins, 2002: 271)

For the period 2004 – 2006 Latvia, more exactly the Ministry of Regional Development and Local Governments participated in the development of a Single Programming Document (SPD). In total the European Union calculated/spent 195 million € for the planning period 2000 – 2006, the major part of 183 million € was allocated to the Structural Funds. Major responsibility for the implementation of the Structural Funds has the Managing Authority as a part of the Ministry of Finance. The Structural Funds are divided into three different frameworks: legislative, institutional and budgetary. The legislative framework selects criteria

for priority zones and combines this framework with the Community legislation and policies. The institutional framework deals with the identification of responsible authorities.

4.4.3 Planning period 2007 – 2013

For the planning period 2007 – 2013 Latvia has been allocated 4.6 billion € in total, 1.5 billion € under the Cohesion Fund, 2.9 billion under the convergence objective and 90 million € for the Territorial Cooperation objective. The whole Latvian population is considered to be living in Convergence regions. In Latvia's National Strategic Reference Framework three strategic objectives are pointed out for this period:

- Development and efficient use of human resources;
- Strengthened competitiveness and progress towards a knowledge-based economy;
- Improved public services and infrastructure as a precondition for balanced national and territorial development.

To these over-all strategic objectives Latvia added six horizontal objectives of importance:

- Balanced territorial development;
- International competitiveness of the city of Riga;
- Macroeconomic stability;
- Equal opportunities;
- Sustainable development;
- Information society.

Beside the objectives the programme also mentions that the ERDF will support 17 other cities in Latvia except Riga and it is mentioned that the public administration has to be improved in order to ensure an efficient management of EU funds. To achieve the three main strategic objectives mentioned above, Latvia initiated three programmes. Latvia established target indicators which should help to measure the impact of the investments/projects. The EU funding is meant to realize specific targets like:

- Retaining an annual GDP growth rate of 6% - 8%; the baseline was the GDP growth rate in 2006 11.9%
- Increasing the employment rate to 70%; the employment rate for women to 66% and for older people to 55%; the baseline was the data of 2006: employment rate 66.3%, employment rate for women 62.3% and the employment rate for older people 53.3%.

The broad priorities or objectives in the NSRF were translated into three Operational Programmes (OPs). Two of the three Operational programmes are covered by the ERDF and the Cohesion Fund and one program is solely financed by the ESF. The program of the ESF deals with the topic of human resources and employment and the programmes under the ERDF and the Cohesion Fund cope with infrastructure and services and entrepreneurship and innovation. The majority of the funding is allocated to the Operational

program of infrastructure and services. It is interesting that the contact point in Latvia for the Cohesion Policy is the Ministry of Transport, not as assumed the MRDLG or the Ministry of Finance.

The MRDLG had ambitious goals for the coming period 2007 – 2013. It wants to “enhance the role of the regions in planning and implementing support instruments of regional development” (MRDLG, 2005: Annual report). The Ministry refers to the framework for the management of Structural Funds saying that “a range of partnership conditions obliging public administration bodies to involve social partners (including planning regions, NGOs) in planning, implementing and monitoring Structural Funds” (MRDLG, 2005: Annual report).

4.5 Preliminary conclusion

The sub-national level in Latvia is rather weak; especially the financial assets of the regions and local communities are insufficient to manage the range of tasks they are supposed to fulfill. Comparing the theoretical basics how to successfully create an efficient EU Cohesion Policy, to reality shows a particular picture of the Latvian sub-national system. Though the sub-national actors generally have the opportunity to take part in Phase 2 and 3, it has to be taken a closer look on the situation in Latvia. Taking into consideration the findings in chapter 3, the possibility to influence and shape EUCP is not given for Latvian sub-national actors. Mainly because of the weak constitutional and legislative position of the sub-national level in Latvia, the regions and local communities are disadvantaged when it comes to the negotiations. The Latvian government theoretically established the institutions and legislation for a successful EUCP but due to the economically and legally weak regions, those are not able to take part in these processes. The question arises if Latvian regions are even able to influence EUCP on the European level or if it is a domain of the national level and its institutions. In case the Latvian regions found a way to participate in EUCP the question is how (and who). To answer these questions the next chapter will deal with the conducted interviews which give a realistic view on the situation of regions and local communities. The apparent situation was described in the previous chapters and showed that Latvia's sub-national level has few say in EUCP though the European regulations on EUCP have been implemented. The status quo of the regional level will be illustrated with the help of the interviews performed with various actors of the European, national and sub-national level.

5. Field research

After the extensive desk research the main research questions of the thesis are not ready to be answered yet. The thesis would be incomplete without further analysis and findings of the field research. On the one hand the field research is needed in order to confirm the results

and hypothesis of the desk research and to get more information that were left unclear in the desk research. On the other hand the desk research is based on literature study. Unfortunately, the available literature left some issues untouched or unresolved. These questions could not be answered during the desk research. There was little attention paid to the implementation stage and if sub-national actors are able to influence at this final point of the Structural programming. Another disadvantage of the desk research is that it does not provide the most recent information that are needed since they are not yet available in the academic literature. The field research tries to cover these two lacks of information. The desk research discussed the theory and the large number of decisions and regulations initiated by the EU and the national level. The field research in this chapter will deal with the actual process of EUCP in Latvia and the decision that are taken, especially how the decisions were made. The chapter is about to show which actor has the better arguments and what, in the end, influences the decision.

This chapter is divided into three parts; the first part gives a short description of the interviews that were held and the interviewees. The second section takes a closer look on the first planning period 2004 – 2006. Centre of attention will be the implementation of programmes and the importance of the individual actor in the whole process of EU Cohesion Policy. Other than that, two other issues are taken into consideration. The question if Latvia will develop its sub-national level to a state-centric model or to a more decentralized model. Moreover problems will be identified that the sub-national actor had to face during the first phase which lowers the effectiveness of EUCP in Latvia. The last part will take a look at the planning and outline for the new period 2007 - 2013. Both parts tempt to answer some of the sub-questions which were presented in the first chapter. Both sub-chapters will start with a presentation of the findings from the desk research and then will state the research question the sub-chapter seeks to answer.

5.1 Interviews

The foundation of the field research were the interviews which were held with Latvian actors involved in EUCP. The overview of the methodology behind the interviews which was used is explained in the first chapter. This segment will give a brief summary of the interviews and will introduce the interview partners.

The interviews, 10 in total, were held in summer 2007. After a selection process the actors were asked for an interview. Main criteria for the selection of an actor were, firstly, the fact that they are involved in EUCP and, secondly, that the actors are part of the different levels which exist in EUCP in order to give a general overview of the situation. So a list can be created with the actors that fulfill the mentioned criteria. The fact that the actors are involved in EUCP, gives them the possibility to influence the process. Since each of the actors has a

different point of view, goals and tasks will never be the same. But this matter of fact is interesting for the field research because it shows the conflicting interests and mistakes that were made in the previous planning period. It is possible to analyze decisions which were taken and to explain the reason why. With the help of the interviews the thesis will win a greater insight of the processes of EUCP in Latvia.

One of the main criteria to interview an actor was that it has to belong to one of the three stages of EUCP; European, national and sub-national level. According to this division the interview partners were chosen. On the European level the interview was held with Anton Schrag who is Latvian and works at the DG Regio. His main focus is on the Baltic States, especially Latvia, and the management of EUCP. He is informed about the developments of EUCP in Latvia. Since it is part of the Commission, he is involved in the review of Operational Programmes and National Strategic Frameworks and gives advice to Latvia to improve the work of the Cohesion Policy.

On the national level there are two actors which were interviewed. First of all, the Managing Authority, the interview was given by Sanda Rieksta, and the State Regional Development Agency, the interview partner was Liga Sondore. Both of them were kind enough to talk about their work experiences with the Structural Funds as well as the decision-making processes on the national level.

On the third or sub-national level four interviews were held. One interview was done with Mareks Zeltins who works for the Riga City Council in the Department of City Development. Riga was chosen because of its unique position in the sub-national level. As the capital of Latvia, it is the most important centre, economically and politically. As the opposite the chairman of the amalgamated municipality council, Edvins Bartkevics, of the city Ogre was interviewed. Because of the vicinity to Riga and that Ogre belongs to the Riga district, the Ogre municipality council does not benefit from the Structural programmes as the amalgamated municipality would like to. Furthermore an interview was conducted with the Municipality of Malpils and its chairman, Aleksandrs Lielmezs who is also a representative in the CoR and the project coordinator Ieva Viluma. With the help of this interview, the sub-national level and its processes can be understood. Additionally, the project coordinator offers an insight how Structural funding works on the level it is supposed to. The fourth interview was held in the region of Kuldiga with the chairman of the Kuldiga district council and member of the CoR, Edgars Zalans. Nowadays he is the minister of Regional Development and Local Government. Within the planning region of Kurzeme two major cities in Latvia, Ventspils and Liepaja are situated in the same area which makes it difficult for the rest of the region to be part of the allocated funding. All in all, the thesis offers two interviews from the regional level, Riga and Kuldiga, and two interviews from the local level which would be Ogre and Malpils.

Additionally to the actors of the three different levels, two different stakeholders were interviewed. The Latvian Association of Local and Regional governments which represents the union of actors of the sub-national level and which also functions a representation in Brussels. The Investment and Development Agency of Latvia supervises enterprises which receive Structural Funds. The agency is part of the Ministry of Economics. As one can see there is great variation between the actors and in the tasks and goals they try to fulfill. Bollen, Hartwig and Nicolaidis (2001: 213) identify several issues which are essential for the new Member States in order to persist and succeed in the EU Structural and Cohesion Fund:

Existence of an appropriate legal framework:

- *with well defined objectives and tasks;*
- *with effective means and instruments;*
- *where decision-making takes place at the right level (closest to the area covered by the decisions in question);*
- *with the possibility of sanctions against those who break the rules.*

Existence of an efficient organizational framework:

- *with adequate resources;*
- *with a sufficient number of staff;*
- *with properly trained staff;*
- *with appropriate conditions of work*
- *with an appropriate system of incentives.*

Existence of functioning coordinating mechanisms:

- *with effective and rapid coordination between the various levels of government and agencies*
- *with open procedures for engaging private sector participants.*

Existence of the means to identify and assess results:

- *with instruments that can measure performance*
- *with statistics on conditions in an area/sector.*

With the help of these criteria the evaluation of the interviews will be facilitated and they help to identify the problems which still exist on the national and sub-national level in Latvia. Two topics are of great significance for this Master thesis, the appropriate legal framework and the efficient organizational framework. These criteria are the basis for the sequent sub-chapter.

5.2 1st experiences with Structural Funds 2004 – 2006

The preliminary conclusion in chapter four stated that the influence of sub-national actors does basically not exist. Although the regulations of the EU and the EU Commission have been achieved, the participation on the decision-making processes within the EU and on the

national level is low. The most important and most active actors are the different “agencies” which were established in accordance with the EU legislation on EURP. These agencies seem to be the beneficiaries of EU Cohesion Policy. On the implementation stage the regional and local actors are involved since the projects will be realized in their area. But it is also possible to assume that the projects implemented on the sub-national level create solely the image that the actors of this level are equally participating in the process. Due to restrictions and regulations set up earlier in the process do not allow the sub-national actors to get involved in the implementation process. On the other hand, it is likely that this hypothesis is not correct and the sub-national actors are able to influence the implementation process and the actual destination of the funds. Concerning the division of influence the survey offers a clear picture of the three different levels of EURP. On the supra-national/EU-level the Commission and especially the DG REGIO are the most important actors; almost unanimously this question was answered by the interview partners. On the national level the views vary. Central to EURP are the ministries in charge, the Ministry of Finance and the Ministry of Economics. Surprisingly, the MRDLG was named only once as the most influential and important actor on the national level.

A question that derives from the preliminary conclusions and from the degree of involvement of the sub-national actors is in which direction the Latvian state model will go. The basic question is if Latvia prefers a central and state-centric model in EU Regional Policy or if Latvia tries to decentralize the state. Both options are probable since the Communist legacy on the one hand and the transformations with the EU accession on the other hand illustrate the two alternatives.

5.2.1 Central vs. decentralized

A question which came up during the desk research is if Latvia transforms into a central state or into a decentralized state which implies that the reform on the self-government is successfully achieved. Although this question was not part of the research outline, the theoretical desk research showed that the involvement of the sub-national level in the different processes of EUCP is rather low. Especially the legislative background gives some hints on the apparent situation in Latvia. The Latvian government has established the required bodies for the management of Structural Funds. The sub-national level and its actors are solely engaged in the 1st or 2nd Intermediate Body and their participation in these bodies is highly doubtful. Usually the positions and participants of the Intermediate bodies are taken by various representatives of the ministries. This hypothesis that the sub-national actors are not involved in the management of Structural Funds will be strengthened by the interviews with the different actors of the sub-national level.

“The main control has the agency in Riga which works for the Ministry of Finance and Economics. All the administration is done in Riga. The 5 regional offices in the planning regions send applications for projects from the municipality to the agency. We applied 5 times and we were successful twice. There is an open competition for projects and in the future it is planned that the new Regional Councils in the 5 planning regions will allocate the projects. A problem in the agency in Riga is that there are a lot of young people working who don't have experience with the European Union and the Structural Funds. They have to work a lot and the salary is low. There should be given more control to the municipality itself.”
(Ieva Viluma, project, coordinator, Community of Malpils)

The five interviews which were done with sub-national actors underline the thesis. All of them agree that the connection from the sub-national level to the national level is the Planning region itself and the Regional Development Agencies. Furthermore the regions or municipalities delegate all their issues and problems to the central body or bodies in Riga. Especially, the municipalities wish to have more competences and influence in financial decisions. Financially, regions and municipalities are dependent on the central state once again. All the regions and municipalities support the idea to reform the sub-national level but they doubt that it will change the position and influence of the actors. They are of the opinion/skeptical that the reform will surely reduce the number of regions and municipalities but it will not change their legal situation or give them more competences. The regions and communities are more interested in the establishment of the principle of subsidiarity rather than the implementation of the territorial reform. According to the principle of subsidiarity functions and competences would automatically be passed from the national level to the sub-national level. This is the hope of the representatives of the communities and amalgamated cities. According to the interviews and the apparent situation they are reflecting, the research question can be answered. The Latvian system is currently a central one. The concept of a central state can also be found in the interviews with regions and municipalities, the interview partners all agree that the Latvian national state plays an exceptional role in the processes of EURP. It is also doubtful that the reform on self-governments will bring the change. This idea responds also the sub research question “Will the reform on self-governments bring the change?” According to the interviewees the reform will not improve the legal status of the regions and municipalities. The important policy fields will be still decided on and within the national level. The only difference that will appear with the reform is the reduction of municipalities and amalgamated cities. It is likeable that the new territories have a greater scope of functions but it is doubtful that they will have greater influence in national or European matters. Moreover the municipalities and cities need to extend their staff and to train the staff even better in order to accomplish the tasks. Another trend which underlines centralization in Latvia is the establishment of the “agencies”. As mentioned already in

chapter three the Regional Development Agencies seem to play a significant role in the management and administration of EU Regional Policy and its Structural Funds. They were initiated by the Commission during the period 1999 - 2001 because the Commission was afraid of a lack of public capacity in the new Member States, especially in the CEEC. Therefore the Commission decided to create the agencies which are autonomous and independent. The aim of the agencies was to be a body of expertise for the aid programmes and later on for the Structural Funds. The agencies are rather technocratic and run by experts. This structure already existed during the pre-accession phase and gave the members of the agencies the possibility to test and experience the work with international and European programmes. Usually the Regional Development Agencies have a contract with the "legislative" body of the region, e.g. the Council that they fulfill the management of the Structural Funds on the sub-national level. Nowadays the agencies which were founded around the year 2000 still exist but under a different name according to the EU regulations but their scope of functions basically remain the same. The interviews also emphasize this impression since regions and municipalities and other actors refer to the planning regions and their Regional Development Agencies as the most important/influential actor of the sub-state level. It is also significant that the individual municipality or region does not always ask the Regional Development Agency for help with problems with Structural Funds. Instead of contacting the agency the municipalities direct their questions and problems directly to the State Regional Development Agency or other bodies on the national level which are involved in EUCP. The fact that municipalities forward their issues and problems directly to the national bodies illustrates once again that the Latvian state model is central and do not seem to decentralize in the near future. A problem which arises with the dominant position of the agencies is that these bodies are not directly elected. They are directly involved in the decision-making processes but they are not legitimized democratically. The establishment of the RDA was a top-down process initiated by the EU. As mentioned above the EU feared that Latvia and its regions would not be able to manage the Structural Funds. On the other hand this development can be seen as a bottom-up process, not as intensely as the top-down process but it is still likeable that the regions and municipalities also agreed on the creation of RDA. Since most of the sub-national actors are overstrained with the situation, the RDAs are an enormous help to attract funding.

5.2.2 Major problems

One of the problems which occurred several times in the interviews with different partners is the lack of expertise on sub-national and also national level. The staff of regions, municipalities and also national ministries is neither trained in the administration of funds nor familiar with EU matters in general. Especially, the sub-national level suffers under these

circumstances. Although the Latvian government tried to handle this problem during the pre-accession period with the establishment of a School of Public Administration (as seen in the previous chapter), reality shows that these efforts were not sufficient. An important differentiation has to be made between the development of institutional capacity and institutional capability (Evans, 1999: 153). Institutional capacity refers to number of offices, number of staff or buildings. Institutional capability signifies the ability of the institutions and staff to carry out the functions assigned to them (Evans, 1999: 154). Taking this difference into consideration, it is obvious that Latvia has the institutional capacity to manage EUCP and its Structural Funds but the institutional capability lacks. As mentioned before the quality of the staff on the different levels is not sufficient to guarantee a smooth administration of the Funds. Due to this circumstance the sub-national and national bodies are not able to carry out the “functions assigned” to them appropriately.

Another issue which impedes the work of the sub-national level is their dependence on the central state. The state stays the “gatekeeper” (as described by Bache) and so remains in control of the sub-national actors. Although these actors are able to participate, they do not have a significant influence in the policy processes. In all interviews the sub-national actors complained about the dominant position of the central state. They wanted to work more independently and do not want to be financially dependent on the national level. A topic in the interviews was also the unique situation of the seven major cities in Latvia which are treated as single-level local governments. Especially, the community in Ogre and also the city of Kuldiga felt disadvantaged and threatened by the short distance to the major cities, Riga, Ventspils and Liepaja.

“We developed proposals for 84 projects but only 30 projects were allowed. Ogre’s disadvantage is its short distance to Riga. An advantage to be an eligible area is the fact that the human and financial capacity is stronger.” (Edvins Bartkevics, Chairman of the Ogre Amalgamated City Council)

“Kuldiga has its agency office in Riga because of the two bigger cities Ventspils and Liepaja [in this planning region] which want to work for their own and directly. But not only the bigger cities need money also the rest of the district that’s why we decided to move to Riga; to be closer to the important actors.” (Edgars Zalans, Chairman of the Kuldiga District Council)

Both representatives of the cities complained that the major cities try to focus the Structural Funding to their areas, leaving aside the rest of the territory. The competition among the major cities seem to be high but also the other cities in the area of the region try to get their part of the EU funding and projects. The head of the Council of Kuldiga affirmed that the region has created an office in Riga in order to be closer at the centre of decision-making. The two other big cities of the planning region, Ventspils and Liepaja, also focus on the

capital. Ogre suffers under the outstanding role of Riga city. Since Ogre is still a part of Riga district, the smaller towns in this area have few possibilities to attract projects or businesses because most of it is carried out in Riga. On the other hand, the bodies/agencies situated in Riga city have a totally different opinion on this topic. They admit that Riga has an exceptional part in the whole EUCP but they believe that the positive development of the capital will cause “spill over effects” to the less developed and less attractive regions. The interviewee, Mareks Zeltins, Head of the International project division for the City Development Department in the Riga City Council, was convinced that only Riga offers attractive conditions for businesses, for example. Less economically attractive regions should not protest against this fact because they will also benefit in the long run from the developments and improvements in the major cities.

“Politically, the government wants an equalization of all regions. Economically, [this] means that the government knows that Riga is the most successful region and, of course, that has to be supported. With the financial support of Riga and its successful economy it will be possible to spread the money in all parts of the country. It would make more sense to invest even more in Riga region than in smaller and economically less attractive regions.”

Edgars Zalans from the Kuldiga District Council has a contrary opinion to the outstanding position of Riga. He does not see the spill over effects; Zeltins is talking about/wants to believe in.

“Riga as the biggest city in Latvia is the pioneer on the field of Regional Policy. In Riga the outputs of the Funds are better seen than in any other region. Riga has the expertise and enough civil servants to receive a lot of Funding. Riga and its staff get money for consultation of other regions and municipalities. Unfortunately, the knowledge which is built up in the capital does not spread out to other areas of the country. But not also the knowledge should be spread [...] also the competences.”

It is a matter of fact that the reform “On self-governments” has to be implemented as well. The reform was initiated in 1999, ten years ago, and has not yet passed the legislative obstacle of the Parliament and the Cabinet of Ministers. It is claimed by the sub-national actors that they want the reform in order to improve their political and economic situation. On the other hand some municipalities are reluctant/not willing to give up their own sovereignty and join the amalgamated municipalities. The amount of districts, municipalities and towns which exceeds the number of 500 sub-national bodies is too big for a rather small country like Latvia.

A problem the Latvian regions had to face during the implementation of the projects is the “co-financing” method established by the EU. Nowadays the economic crisis in Latvia makes it almost impossible to finish the projects due to the “co- financing” practice. The towns and municipalities are not able to pay the part by themselves because they do not have savings

that's why they need to ask for credits but the Latvian banks are not able and willing to provide the money either. Even under normal circumstance (in 2007) the municipalities were not capable to afford the money for the co-financing without a loan. The economic crisis in Latvia makes the situation of the "co-financing" approach even worse since the central state is bankrupt and has to follow strict regulations considering its "belt-tightening" austerity policy. Since the sub-national level is dependent on the national level financially, the regions and municipalities have a hard time to complete or even start their projects. A point of critique is also the time management of the various bodies and decision-making instances. Due to the long winter period some projects (e.g. heating pipelines) have to be terminated in time, otherwise the work will not proceed until the coming spring/summer. The reasons why the implementation of projects takes quite some time are: on the one hand the national and sub-national bodies do not have sufficient staff to work on all the issues and problems with the same amount of people continuously. On the other hand the staff on the national level that is working on EURP and its Funds are insufficiently trained in order to solve the problems correct and effectively. Moreover they are not able to give a professional advice to the sub-national bodies in difficult situations. In central states, like France or the UK, the EU has already contributed with the establishment and modernization of the Structural Funds to the reorganization of the sub-national level in those centralized member states. These instruments encourage new constellations of sub-national bodies and authorities (Smith, 1998: 59). The UK as an example for a central state shows that centralization has serious limits. Due to EU initiatives in Regional Policy helped the local communities to receive greater autonomy but within specific actor networks and has led to a destabilization of the local-national relationship on the financial, institutional and conceptual level. Since Latvia can be also categorized as a central state like the UK or France, it is assumable that Latvia and Latvia's sub-national level will develop in the same direction. The reform of 1988 strengthened the horizontal logic of action. It has to be mentioned that the Structural Funds do not necessarily increase the power of regional/local authorities, but it is a bottom-up approach. Latvia is also a member of several EU initiatives, one of them is the Baltic Free Trade area.

The Baltic Free Trade area was established quite late compared to other regional co – operations in the new Member States. There are historic and economic reasons for the delay. All the Baltic States signify an enormous drive to independence which automatically provokes a rejection of regional co-operation. The first step to regional co-operation, especially in terms of economy, was made with the creation of a Free Trade Agreement. A problem which occurred during the 1990s was the different speed of integration which influenced the co-operation within the Free Trade area. Whereas Estonia was the leader of the Baltic States until 1994, the Copenhagen criteria changed the situation and gave the

other two states the opportunity to join the EU. Now the regional co-operation was necessary in order to meet the challenges of the EU accession. The first attempt of a Baltic State Free Trade Area, called CBSS (Cooperation between the Baltic Sea States), was and still is not institutionalized, its significance for the economy is weak, and a lot of exceptions were made. But a first step was made and the cooperation between the Baltic States still continues. The CEFTA agreement is a product of the Visegrád cooperation. The Visegrád cooperation consists of three Eastern European countries, Poland, Czech Republic and Hungary (and later Slovenia), and supports the regional cooperation between the states. Especially Hungary was interested to enforce the economic cooperation and the idea of a Free Trade Area became an important aim of the Visegrád cooperation. Due to the possible accession to the EU, it was interesting for all CEECs to join an economic instrument since they were no longer part of the USSR and so they did not receive any financial support as they did when they still were “satellite states” of the USSR. The accession of the EU is a reason why the interregional co-operations were neglected because new issues and problems came up in the Member States. It is advisable to set new goals to the CEFTA and Visegrád cooperation on order to meet the challenges of the new position as a Member State of the EU. The CEEC Member States have to realize that interregional cooperation will help their economy and will support the progress of the country.

5.2.3 Adaptation of the theories in Latvia’s state model

With the idea that the “Regional Development Agencies” are the only connection of the sub-national actors to the national level, MLG as it is currently defined would not exist. The development in Latvia leads to the assumption that MLG in the case of Latvia’s Regional policy has to consist of four different levels. The three existing level, supra-national, national and sub-national, and as the fourth level the Regional Development Agencies are forming the Latvian idea of MLG. The fourth level would be named “agency or technocratic” level. But the new fourth level is not understood as the lowest level, this level is situated between the sub-national and national level, as a mediator. Furthermore, Bache’s idea of the central state as a “gatekeeper” has to be implemented in the model of MLG suitable for Latvia. Bache defines the gatekeeper as a special feature of the MLG approach. MLG usually starts with the idea that the power comes from the supra-national level and that the supra-national bodies, like the EU Commission, are the most powerful and influential actors in MLG. Bache “gatekeeper” can be seen as an exception to the rule. Although it is without a doubt that the EU Commission is an important and independent actor in the EU and the MLG concept but in the end the Member States perceive their dominant position within the EU and also within MLG. The Member States create the institutional context within the Commission and the sub-national or regional governments act (Bache, 1998: 145). Latvia is a small Member State but

it has the same opportunities to veto a decision on EU level like any other Member State but still the power to influence the EU level is adequate. The Latvian state has more influence in the creation of rules and regulations of its own sub-national level. Conclusively, the MLG theory is applicable to the Latvian state but with two exceptions. The Latvian MLG model comprises four different levels instead of three. The additional level is the level of the “agencies” which were established by the EU in order to facilitate the management of Structural Funds. Secondly, the Latvian central state has the opportunity to work as a “gatekeeper”. An empirical study of five accession states suggested that national governments in new Member States of the EU “gatekeepers” remained “firmly in control” of domestic sub-national actors (Bachtler/Downes, 2000: 245) who were able to participate in but not significantly influence the policy process. During the accession of the new Member States it is noted that the Commission had been the “dominant player” in the use of these funds, “dictating the terms of institutional changes required, the size of territorial units, the institutional capabilities needed and so on to candidate countries’ national governments which are eager to comply with the new rules of the game” (Bachtler/Downes, 2000: 247) Especially on the national level the state has the possibility to create and influence the sub-national level. The dissimilarity and interdependencies between the different actors can also be explained in a policy network analysis. One of the major features of this analysis is fulfilled since it has already been discussed that the resources within the Latvian model of MLG are not equally distributed. In Latvia the central state accumulates the most resources while the sub-national level is not well equipped with resources of any kind. Because of this lack of resources it makes it really difficult for the sub-national actors to become an active part of the bargaining process which is a significant characteristic of the Policy network analysis. Due to the lack of resources the sub-national actors are rarely involved in the bargaining processes but there are other characteristics which also have to be taken into consideration for a successful Policy network analysis. Despite the attribute of resources the other criteria are: membership, integration and power. It can be said that the Latvian sub-national actors are definitely a member of Regional Policy. Although the theory says that it is essential to have resources in order to become a member of the policy network, this is not quite true for the EURP in Latvia. Sub-national actors are involved in EURP though they do not possess the same resources.

The resources, especially the financial resources are in control of the central state. The phenomenon of the “agencies” is a really good example that Latvia operates according to the Principal – Agent Theory. The agent in Latvia’s case is the Regional Development Agencies which are in charge of the implementation; planning and the administration are in the hands of these agencies, especially on the sub-national level. The national level has the capacities to deal with the new challenges of EUCP and therefore they permitted the agencies to act as

the agents on the sub-national level, whereas the central state including the bodies of the management of Structural Funds acts as the principals. The principal – agent theory gets also a little twist in the case of Latvia. Dealing with the national/sub-national level the constellation of principal and agent always remain the same. The national government or the Member State plays the role of the principal and the sub-national bodies are the agents. According to the Principal-Agent Theory the constellation of principal and agent is changeable but this is not the case in the example of Latvia. The Member State and its national government keep the role of the principal as well as the sub-national actors keep their role of the agent. It is also seen from the point of view of the Principal-Agent Theory a top-down process. So far this constellation is not different to any other Member State since it is the principle of subsidiarity which is supposed to be considered in EUCP. The national government delegates the tasks which need to be fulfilled on the sub-national level and the designated region or community. As mentioned in the theory chapter the combination of principal and agent is fluent. But in the case of Latvia the combination of principal and agent are determined. Although the Latvian sub-national actors are able to direct questions to and ask for help at the national level but the sub-national level is never in the position of the principal and remains as the agent. The same picture can be found on the EU – national level. A problem which occurs in this relation is that the EU as the principal delegates assignments to the agent, the Member State, but the theory says that the principal is able to demand its assignments to be completed by the agent. In case of EURP the EU is not able to force the Member State to establish certain regulations. Usually the principal is capable to discipline/restrain the agent for the failure in the realization of its tasks. The EU does not have this option; it has to trust the Member State to implement the regulations correctly. It is proved by the case of Latvia that the characteristics of the EU concerning the principal – agent theory are correct. Multiple principals/agents, hurdles to change and mutual distrust can also be seen in the example of Latvia. Additionally, in the case of Latvia the roles of principal and agent are firm and it is not assumable that this is going to be modified in the near future. Concerning the principal-agent theory the essence of the theory can not be found in the Latvian political system. The member state stays principle and the sub-national actors will be the agents. The Principle-agent theory says, though, that the relation between principal and agent is not permanent and the roles can be changed. In the case of Latvia, both actors are not going to change the roles as described by the theory. The findings of the thesis show that the constellation of principal and agent will rather stay the same. It is like in MLG a constant top-down process.

A main aspect of the Rational – Choice Theory is resources. Possessing resources is an advantage; the case of Latvia demonstrates this hypothesis. The actors/institutions with the most resources are able to influence their interests. The EU Commission and the Member

State are the two significant “resource manager”. For the sub-national level the Rational-Choice Theory is not an option since it does not provide any resources of any kind or the resources are too insignificant to play a role in the processes. That’s why the sub-national bodies are excluded from the decision-making and policy-making process. Furthermore the resources give the institution/body the possibility to choose between alternatives and to pick the one which is most convenient. The Latvian sub-national bodies do not have the resources and they have to take whatever they receive from the superior level. The regions and communities have the chance to apply for projects or to hand in their project proposal but the decision on whether the project will be financed is in charge of the national or supra-national institutions. The Latvian sub-national actors have to accept the decisions and projects from the national bodies.

5.2.4 The definition of Influence

The term “influence” is significant to this Master thesis. The main research question is build around the term. It is really hard to define the abstract term of influence since there is no option to measure the quantity or intensity of influence. In order to make “influence” more applicable to this thesis, some criteria have been chosen to illustrate the situation in Latvia. In this thesis Keating’s five criteria on influence have already been used in the third chapter. With the desk research and field research as a background, these criteria can be applied to Latvia in more detail and more specifically. Though Keating refers to actually seven criteria, in this thesis the two criteria (integration power and relations with the market) will not be considered. The criteria which are used for the definition of influence are: institutions, policy-making capacities, decision-making power, financial resources and the intergovernmental system. It is also likeable that new criteria will be added which are able to explain the situation in Latvia even more specifically. Main objects of examination are the Latvian sub-national actors. Latvian sub-national actors are organized in various institutions. On the one hand there are the public institutions, like regions, communities or amalgamated cities and on the other hand, there are private or non-governmental actors operating on the sub-national level, like the Latvian Association of Local and Regional governments. Although the Latvian sub-national level is institutionalized, they have little influence on the national level. Additionally the institutionalization does not increase the decision-making power and policy-making capacity which are also two important indicators of influence. The policy-making capacity of the sub-national actors in Latvia is quasi non-existent. They are neither involved in national policy-making processes nor in the policy-making process on the European level. The fact that the sub-national actors are not part of the policy-making of the European level is not correct since the EU Commission emphasizes the participation of those actors but the decision whether the sub-national actors are involved is in the hands of the Member State

and its national government. The sub-national actors are also limited in their decision-making power, no decisions are made on the sub-national level and, as mentioned above, the sub-national actors are not present on the national level and its decision-making bodies. The financial resources are small since the sub-national actors are dependent on the allocations of the national government. An additional feature which illustrates and defines influence is the representation of the sub-national actors outside Latvia. Do sub-national actors have a representation in Brussels? And if yes, how do they use this channel? Another feature beside the representation in Brussels would be the direct involvement of the sub-national actors in European policies. Instead of taking the correct way over the Member State, it might be also possible to look for a direct connection to Brussels and the EU. Indeed the Latvian regions and local governments have a representation in Brussels which is run by the LALRG. As known from the interview the office in Brussels has one permanent employee and the interviewee herself travels to Brussels on a regular basis. The office is shared with others, it is impossible for the organization to finance an own/single office. A further disadvantage of the representation of the LALRG is that the association/organization has to stand for the interests of all different kind of sub-national institution. As seen in the previous chapter, the interests and preferences of regions and municipalities diverge vastly from one another. The LALRG has to find a compromise with its members on which topics they are supposed to lobby for in Brussels. Probably the chosen topics and issues are rather vague and the possibility to lobby is limited. Beside the fact that the interests of the association members vary, the Association has little staff and expertise in this field. It is assumable that the Association will only provide a couple of tasks of a Regional Office; one of the most easiest and important one is information gathering and selection. The single (planning) regions or municipalities do not have a Regional Office or representation in Brussels so far. According to Keating's criteria the sub-national actors in Latvia have no influence in EURP. The additional criterion of "presence in Brussels or outside Latvia" came to the result that sub-national actors are not influential. As a second proof of this hypothesis, the previous chapters and their findings can be named. The sub-national actors have a legally very weak position, their functions and competences are determined by the national government. The sub-national level itself is not able to initiate changes in the structure of the nation state. Also the EU has no opportunity to intervene and force the Latvian government to re-structure its regional level. Even though, the EU or the membership of Latvia to the EU made the creation of a Ministry of Regional Development possible. Without the accession in 2004 Latvia would never have established such a ministry and would not be forced to allocate money to other regions than the Riga region.

6. Conclusion

This thesis was set out to answer the main research question *To what extent do Latvian sub-national actors influence EU Cohesion/Regional Policy?* Answering this question the desk research and the field research have been successfully completed. A single, all-including answer can not be given. It is necessary to adapt the research findings to the main research question. The conclusion itself will be separated into three parts. The first segment will introduce the major findings of the desk research and the second segment will present the results of the field research. With this knowledge at hand the sub-research question and the main research question will be answered. Lastly, proposals for future research will be made. To formulate an answer to the research question, this section of the conclusion is going to reply to the research sub-questions. The sub-questions are supposed to a greater understanding in order to respond properly to the main research question. Not every single sub-research question will be answered here since some of the questions have already been answered by the desk research, e.g. which actors are involved in EURP.

Divergence between desk and field research

The desk research built up the basic knowledge for the analytical framework. The analysis showed that EU Regional Policy or Cohesion Policy is a challenging process with different levels and various phases. The problem which arises through this multi-layered system is that one phase creates constraints for the next level. The same is valid for the amount of actors which are involved in every decision-making process. The analytical framework was supported by the analysis of the decision-making processes in EU Regional Policy and also an analysis of the networks within this policy field. But still there was a need for further research in order to understand the dynamics of this policy. The field research helped to gain further and additional information about the processes within the Member State. The field research revealed that the analytical framework was well researched since the different levels and actors which occurred in the theoretical background were also mentioned by the interview partners. But other than expected the sub-national level is hardly involved in the different phases and decision-making processes. The sub-national level is used as the implementation stage without involving the sub-national actors in one of the other phases. The differentiation of phases within EU Cohesion Policy seems common and helpful. For the theoretical background the Policy Network Analysis was hard to apply because of the dominant position of the Member State. The national government is in control of all the resources and the work in networks is only formally existent. Giving answers to the sub-questions of the thesis is supposed to give a broad picture of the situation of EURP in Latvia and to answer the question on the influence of the sub-national level.

Answering the research questions

This sub-chapter is going to start with the answers to the research sub-question in order to give a great overview of the situation of EURP in Latvia and formulate an accurate answer to the main research question.

(1st research sub-question) Which actors are involved?

The question was answered in the second chapter of this thesis. The desk research shows that every possible actor is involved in EUCP. On the EU level the most significant actor is the EU Commission and including the DG REGIO. On the national level the national government and its bodies have been introduced. A special position in the field of the actors is the Regional Development Agency that's why it is described separately and more detailed than the other bodies. The Regional Development Agencies have the institutional capacity to deal with the complicated management of Structural Funds. The sub-national actors are divided into regions, local communities or municipalities and amalgamated cities. Legally they are not very different from one another. Both regions and communities form councils which are led by a chairman. Most of the functions are delegated to the community level; regions are solely involved in bigger projects. The main pressure for the implementation of projects lies on the municipalities which have to execute the ideas of the national level. The field research illustrated that the actors on the national and supra-national level are equivalent to the findings of the desk research but the sub-national level differs from the anticipated structure. The field research revealed that the sub-national bodies, like the regions and communities, have to deal with a considerable amount of tasks. The accession to the EU increased the work of the sub-national bodies but they are not involved in the decision-making processes concerning EUCP on the national or the European level. The tasks the sub-national level has to fulfil are too high and they are not able to offer a good result. It is even worse to realize that the sub-national actors are not involved and not able to present their problems on national or European level. As a preliminary finding one can say that the important actors for the EUCP are involved reality shows that the participation is only formal and not actively proceeded. The supra-national and national level are structured as expected but the sub-national level vary from the apparent situation.

(2nd research sub-question) How are those actors involved in EURP?

The desk research exemplifies the structure of the actors in EURP. According to the regulations of the EU Commission or the DG REGIO the Latvian national government has established a range of Committees which represent national and sub-national bodies. The sub-national actors are involved in the first and second Intermediate Bodies. In the other Committees one can find representations of the national or the EU level. The system of Committees is part of various stages of the EURP. The creation of the Operational Programmes and other planning documents is one of the main assignments of the Committees. Therefore it is important that every actor is involved in EURP and especially the

sub-national actors because they are the actual beneficiaries of the Funding. The desk research already revealed that the sub-national actors are solely participating in two Committees and that sub-national actors do not have sufficient power to influence EURP on the national level. The results of the field research underline this impression. Every representative of the sub-national level indicated the national level/actors as the most important and influential bodies in EURP. On the sub-national level the actors do not see themselves in the leading position but once again the Regional Development Agencies. Although the desk research showed that the actors are correctly involved in the EURP, in reality and the field research illustrated that the national government does not manage to (or does not want to) fulfil the criteria and regulations of the EU Commission in order to share the decision-making process between all parties.

(3rd research sub-question) *How are the different levels interrelated?*

The different levels are interrelated by strict rules and regulation on the national level as well as on the European level. The national level controls the sub-national level and passes competences and functions to the lower level. The desk research explained that the Latvian national government delegates task to the sub-national level. These task deal with the supply of infrastructure in the regions and communities (like heating, water supply, etc.). The relation between national and sub-national level is basically the transferring of tasks from one level to another. But the sub-national level is not able to decide which tasks they want to execute and which not. The sub-national level has no representation on the national level and so no influence on the tasks and the delegation of tasks. The field research supports the findings of the desk research. The sub-national actors complain that they are not involved in the decision-making process and they also complain about the little scope of competences. The sub-national actors claim that the results of EURP and its funding would improve if the sub-national actors will have more competences and power. As stated above, the sub-national level has only a few competences and functions within the scope of their territory. The relation between the national and the EU-level is dominated by the regulations and laws of the European Commission concerning EURP. In contrast to other Member State Latvia seems to be passive and the field research showed that representatives of the state ask for a stricter position against the EU.

(4th research sub-question) *What is the position of the sub-state actors?*

The position of the sub-state actors in Latvia can generally be named as the third level of the EURP. After the EU and the national level, the sub-state actors illustrate the third level of the EURP model. Latvia has different kinds of sub-state actors. There are regions, local communities/municipalities and amalgamated cities. These types are all named in the Latvian legislation. The scope of their functions and competences is almost equal for each body. On the sub-national level the regions and municipalities are represented and organised

in councils. These councils are neither present on the national level nor any other kind of representation on the national level. The membership of the EU offered the sub-national actors the possibility to work in the committees of EURP. But according to the field research this possibilities is not an option since the sub-national actors are not actively involved in these committees. The representatives of the sub-national level do not feel involved in EURP or on the national level.

(5th research sub-question) Are they able to fulfil these functions with the competences they have?

The sub-national bodies are able to fulfil the functions passed to them but under great pressure. The sub-national bodies are financially very weak equipped that's why they have a hard time to perform the tasks. These were the results of the desk research. The field research shows that with the introduction of EURP the situation of the sub-national bodies/actors changed; it became worse. The sub-national bodies were not prepared for this new challenge, they did not and still do not have the capacities to fulfil the functions properly. The expertise and a lack of staff are the reasons why the sub-national actors are not able to work efficiently and to achieve good results in the implementation. The sub-national level is very dependent on the national level and their provisions of financial assets. All sub-national actors mentioned especially the lack of staff and expertise as the major problem in their work for EURP.

(6th research sub-question) How are the regions positioned in the MLG context regarding EURP?

The desk research showed the general picture of MLG in Latvia. Latvia has a three-level system which is interconnected. The regions, municipalities or more generally the sub-national bodies are the third level according to MLG. Completing the picture of MLG the national level and the EU-level as the supra-national level exist in Latvia. But the field research showed a different picture of MLG in Latvia. The position of the regions and the other sub-state actors is different to the "classic" concept of MLG. Latvia is not providing a three-level MLG approach. As mentioned above the Latvian system consists of four levels due to the dominant position of the Regional Development Agencies. The sub-national actors are located on the fourth level as the executing level; whereas the RDA is focused on the work with EURP and the funding. The RDA is the link between the national government and the sub-national level, the RDA performs a great amount of exercises concerning EURP which are usually part of the sub-national bodies' agenda.

(7th research sub-question) In how far is the Latvian sub-national level involved in the three stages of a project?

The findings of the desk research demonstrate that sub-national actors are involved in different stages of a project. Especially in the planning period the sub-national actors have a

say in the creation of programmes and projects. But reality shows that the sub-national level is hardly involved in any of the stages. On the European level the sub-national actors or their representations are not existent and also on the national level the sub-national actors do not have the possibility to get involved in the different stages of the project. The only stage the sub-national level is involved in is the implementation level. Important decisions on the project were made by that time without the participation of the sub-national actors.

(8th research sub-question) How is EUCP implemented in Latvia?

According to the desk research EUCP in Latvia is implemented considering the regulations of the EU or the EU Commission. The principle of partnership is regarded as well as the other principles. The Latvian government established several committees (principle of partnership) in order to involve as many actors as possible in EUCP. Although the desk research illustrates an ideal implementation of EUCP in Latvia, the field research shows a different picture. Most of the sub-national actors criticize that they are not involved in these committees since the national government decides who is going to be member of a committee. Therefore it is possible to say that EUCP is implemented by the Latvian national government. This behaviour/issue is a feature/aspect of MLG. The national government acts as a gatekeeper and dominates the conception of EURP. The national government negotiates with the EU about the EUCP programmes but the work or implementation on the national level, like the preparation of projects for the national and sub-national level, the sub-national actors are excluded. Though they are member of a couple committees, it is the national government who decides whether they will be involved or not. Obviously the national government accepts and implements the regulations and conditions which are set up by the EU but it is hard to say if the government sticks to that rules during the implementation in the own country. The National Strategic Frameworks and Single Planning documents are not created with the support of the sub-national actors, although they might be able to point out important issues and problems needed to be solved.

(9th research sub-question) Will Latvia's reform bring the change?

The territorial reform in Latvia is an ambitious project which has been launched in 1999 in order to prepare the country for the accession to the EU. Latvia is compared to other EU Member States a rather small country but its sub-national level consists of almost 600 entities. Due to this status quo the situation is quite complicated and the reform's intention is to make the sub-national level less complicated. Until now the reform has not been finished an according to the desk and the field research the territorial reform will probably not bring the change. According to the findings, the reform will not contribute to the independence/situation of the sub-national bodies. The reform emphasizes a re-structure of the local/regional level but the competences and functions will not be changed. There is no (re-) organization of the sub-national level. The functions and competences will stay the

same and this does not improve the circumstances of the sub-national actors or give them more say in EURP. Although representatives of the sub-national sector are generally not against the reform, they have the fear to lose even more functions and competences due to the amalgamation of the smaller communities. But they believe that this procedure is necessary in order to improve the work on EURP and other EU policies.

(10th research sub-question) What kind of problems faces the sub-national level in the EUCP?

The problem sub-national actors have in EURP is that they are not involved in all processes of this policy, beginning with the program planning period. The only chances to be a part of the process are the implementation of a single project in its area or as an applicant for a certain project. In case of a territorial reform the Latvian communities have to face a loss of their "sovereignty". It is probable with the implementation of the territorial reform that the national government will reduce the number of staff in the amalgamated communities and cities. But this is surely not the right decision in order to improve the management of Structural Funds on the sub-national level. Nowadays the regions and communities are already complaining about the lack of staff and expertise with the reduction and amalgamation the situation will not get better. The national government should hire more staff than before since the amalgamated areas have a bigger administrative territory of which they are in charge. But not only is the quantity of staff a solution for the problems in EUCP. It is essential that well-educated staff is sent to the rural and less attractive areas in the country in order to share their knowledge and experiences with EUCP and Structural Funds with the local civil servants. This exchange should help to improve the work on EUCP on the sub-national level.

(11th research sub-question) What is done by the national government to support the sub-national level?

The national government has initiated the territorial reform in order to improve the situation of the sub-national actors as well as the work on EUCP. The desk research showed that the idea is to reduce the number of sub-national entities which is supposed to bring the improvement. Although the national government has initiated a territorial reform of the Latvian regions and communities its support and willingness to put the reform into force is rather weak. The actual reform has not been implemented in the Latvian legislation yet. Financially and politically the national government stays in the leading position as the decision-maker in the EUCP processes. The sub-national bodies will not receive more competences on the national level, like a committee or representation of the regions on the national level; this is not part of the discussion for the territorial reform. No serious steps are taken by the government in order to strengthen the position of the sub-national level.

(12th research sub-question) What is the position of the national level and its bodies?

The national level and the national bodies are the mediators or connection between the supra-national and the sub-national level. The national level represents Latvia on the EU-level and is involved in general the decision-making processes on EURP. According to the desk research the national level is in charge to implement EURP and its regulations on the national and sub-national level. Furthermore the national Ministry of Finance administrates the funding. According to EU regulations on EURP the national government decides on the participation in the different committees. These findings lead to the assumption that the national level and its bodies have a powerful position in the system of MLG. As mentioned above, the national level and its institutions act as a “gatekeeper” for EURP. Important decisions in this policy field are made by the national bodies or government. Although the EU has clear regulations on the involvement of sub-national actors, the Member State finally decides who is going to join the Committees and so be part of the decision-making process.

(13th research sub-question) What do the Latvian regions try to improve their situation and solve the problems?

The Latvian regions are limited with its resources and therefore they are not able to improve their situation. It is positive that the sub-national level tries to organize itself by the foundation of the Latvian Association of Regions and Communities. A sign that the Latvian sub-national level wants to be more involved in EUCP is that the sub-national bodies do not rely on the RDA as their single connection to the national government; they try to lobby directly for EURP and the included funding (example: Kuldīga). The Latvian regions and communities will not be able to solve their problems on their own; they have to have the support of the EU. For the EU the problem is unsolvable, it has only little power and possibilities to implement stronger regulations on EUCP, but it is able to call to order and to discipline the Member State in case of “misuse” of EURP and its funding. Last year the EU Commission stopped payments of the Funds to Romania because of the fact that the Member State did not administrate the EU funding properly and did not follow the principles and regulations for EURP. On the other hand it can be said that with the accession to the EU, the situation in Latvia has already changed since the territorial reform has been (at least) initiated as well as the establishment of the Ministry of Regions and Local Governments. Without the EU membership these improvements probably never happened and the involvement of the sub-national level will not be a subject of the current Regional Policy in Latvia. The field research confirms that the sub-national level and its actors became more active in the past years. Furthermore the regions and municipalities are interested in the new possibilities and options they have with EURP.

(b) Summary

The responses of the sub-questions offer a wide picture of EURP in Latvia which helps to answer the main research question. Summing up the results of the sub-questions some aspects have to be highlighted since they are very important to the thesis. An important finding which has been made; deals with the theory of MLG. Latvia's concept of MLG differs from the original one since Latvia can be seen as a four-layered system in EURP. Because of the exceptional position and power of the Regional Development Agencies, a new level is introduced to the theory of MLG. Furthermore another aspect of the MLG theory is applicable to the situation of Latvia. Latvia and its national level are a good example for the "gatekeeper" aspect of MLG since they supervise the implementation of EURP. These two new insights on the MLG theory already helps to answer the main research question. Taking the other results into consideration, the main research question how influential sub-state actors are in Latvia can be answered with "weak". Latvian sub-state actors have very few options to influence EURP or the decisions made in this policy field. The sub-state actors are weakly involved in EURP though they are the final beneficiaries of the funding. The Latvian sub-state actors do not have financial resources which would make them more independent from the national government. Additionally, the sub-state actors are not represented on the national level which makes it hard to join the policy-making and decision-making processes actively. Another aspect which worsens the position of the sub-state actors is the quality of staff. Beside the lacking financial assets the know-how or expertise of the staff in the regions and municipalities is not sufficient to lobby successfully for EU projects and funding. The current situation in Latvia does not improve the situation since the national state as the biggest and most important contributor is bankrupt and the austerity policy starts on the sub-national level. Although the situation for sub-state actors in Latvia is not very promising, the field research showed that sub-state actors became more active in the last five years according to the interview partners which is a positive effect of the new membership to the EU. As mentioned before the EU and the EU Commission do not have many possibilities to sanction "misbehavior" in EURP but the EU Commission is able to restrict the payment flow in case the regulations and principles have not been taken into consideration in the Member State and its state structure or the implementation of EURP in the Member State. A new method of the DG REGIO is to pass only a little amount of money to the specific project and to verify, firstly, if the criteria of the EU Commission and the Structural Funds have been met. In case that the criteria are not fulfilled the Member State will not receive money from the Funds; in case that every criterion is met the EU Commission will transfer the money to the Member State and the other bodies of the project. The case of Romania showed that the EU Commission does not hesitate to stop payments to a non-working system. What are the options for the EU Commission to improve EUCP and the Structural Funds? Will institutional or legal changes or improve the goals and principles of the Structural Funds? Institutionally,

the EU Commission might develop a strategy which is able to strengthen the power and influence of the sub-national actors in the Member States. Legally, the EU Commission is capable to initiate new laws and regulations for EUCP. The most important strategy in the case of Latvia would be the training of the employees. In the field research the lack of staff and the not existing knowledge about EUCP were always a point of complains on every level, but especially on the sub-national level. Is the Open-Method of Coordination an alternative to improve the conditions in Latvia? Interregional networks might help to overcome difficulties. It might be helpful to organize in networks of Member States in order to find "best practices" in different policies but Latvia is solely weakly involved in interregional networks. Furthermore the OMC is only an advice and does not have to be implemented by the Member State. Another possibility to improve the situation in Latvia (and other new Member States) is to train the employees of the sub-national bodies of a Member State on the European level rather than on the national level, especially in case of new and inexperienced Member States. The accession to the EU has already improved the situation of the sub-state actors in Latvia because the membership asked for certain arrangements on the sub-national level. But the inexperience and legacy of CEECs has not been overcome and there is still a lot to do in order to strengthen the influence of sub-state actors in European Regional Policy.

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Appendix A: Interview scheme

The interview scheme, created by Chris Breuer, is divided in four parts. The first part is rather general. It is supposed to give a first impression of the actor or the respondent. The first questions aim to get to know better the institution and the respondent. Concerning the institution important questions are raised like resources, staff and the institutional structure. The second section deals with the question which institution is the most influential on the different levels; the personal opinion of the respondent is required. Additionally the second section wants to find out which actors are involved in EU Regional Policy and on which level. The interviewee is asked to recall the most important actors and whether they stay in direct contact to this institution. The third part wants to test the knowledge of the respondent on significant theories and subjects of EU Regional Policy. Furthermore the respondent is asked more specifically about the institutions and persons he is in contact with and also how many times the respondent inquires help and support in EU Regional Policy issues. Finally, in the last section of the questionnaire, the questions deal with the different steps of implementation of EU Regional Policy in the Member State. On which stages of implementation are the interviewee involved and what the exact task is it has to fulfill. At the end of the interview there is the possibility to ask more focused questions on more specific issues that might not have been touched during the interview.

University of Twente, Interviewnr. ____
Date: _____ Name respondent: _____ Name interviewer: _____

Before the interview starts (for the interviewer):

- Did the introduction letter arrive and are the contents known.
- Introduce yourself and the project.
- Do the personal details of the respondent match with known information of the interviewer.
- Ask whether it is ok that the interview will be taped.
- Ask whether the interviewee has any questions or remarks at this stage.
- Stick to the questions, read core questions from the page.
- Feel free to follow-up on question were possible.

Agenda:

Section 1a: The sub-state actor
Section 1b: The respondent
Section 2: Policy field EU Regional Policy
Section 3: Actors involved in EU Regional Policy
Section 4: The actor and its involvement in EU Regional Policy

Concluding remarks

Section 1a: The sub-state actor

- 1.1 When was the institution founded?
- 1.2 What were the reasons for the establishment of this institution?
- 1.3 How is the institution being funded?
- 1.4 How big is the funding?
- 1.5 How big is the staff (in fte)?
- 1.6 What is the educational background of staff members?
- 1.7 Who has decision-making power?
- 1.8 Who is responsible for the annual report?

Section 1b: The respondent

- 1.9 In what year did you start working here?
- 1.10 Did you have experience in the same field when entering this institution?
- 1.11 What is your educational background?
- 1.12 What is your age?
- 1.13 What was your motivation for entering this institution?

Section 2: the policy field European Regional Policy

- 2.1 How well are you informed about the following contents of the legal framework of EU Regional Policy:
 - 2.1.1 the selection of eligible regions?
 - 2.1.2 the selection of projects?
 - 2.1.3 the application procedure?
 - 2.1.4 the involvement of a wide variety of actors (principle of partnership)?
 - 2.1.5 the committee system (Comitology)?
 - 2.1.6 the subsidiarity-principle?
- 2.2 Which institution or persons do you contact in order to receive information?
- 2.3 How often are you contacting the above mentioned institutions or persons in order to receive information?

Section 3: the actors involved in EU Regional Policy

- 3.1 Which institutions and persons at EU level influence EURP according to you?
 - 3.1.1 What is the influence of the mentioned actors?
 - 3.1.2 With which actors do you have contacts, and how often?
- 3.2 Which institutions and persons at the national level influence EURP according to you?
 - 3.2.1 What is the influence of the mentioned actors?
 - 3.2.2 With which actors do you have contacts, and how often?
- 3.3 Which institutions and persons at the sub-state level influence EURP according to you?
 - 3.3.1 What is the influence of the mentioned actors?
 - 3.3.2 With which actors do you have contacts, and how often?
- 3.4 Do you observe a shift of influence between the European, the national and the sub-state level over the last 2 years?
 - 3.4.1 If yes, in which direction?

Section 4: the institution and the involvement in EU Regional Policy

Are you involved in the following stages of EU Regional Policy:

4.1 Selecting of eligible areas

- 4.1.1 If yes, in what way are you involved?
- 4.1.2 What are the bottlenecks with respect to work at this stage?
- 4.1.3 What are the disadvantages of your work at this stage?
- 4.1.4 What are the advantages of your work at this stage?

4.2 Writing project proposals

- 4.2.1 If yes, in what way are you involved?
- 4.2.2 What are the bottlenecks with respect to work at this stage?
- 4.2.3 What are the disadvantages of your work at this stage?
- 4.2.4 What are the advantages of your work at this stage?

4.3 Selecting project proposals

- 4.3.1 If yes, in what way are you involved?
- 4.3.2 What are the bottlenecks with respect to work at this stage?
- 4.3.3 What are the disadvantages of your work at this stage?
- 4.3.4 What are the advantages of your work at this stage?

4.4 (Co-)Funding of projects

- 4.4.1 If yes, in what way are you involved?
- 4.4.2 What are the bottlenecks with respect to work at this stage?
- 4.4.3 What are the disadvantages of your work at this stage?
- 4.4.4 What are the advantages of your work at this stage?

4.5 Implementation of projects

- 4.5.1 If yes, in what way are you involved?
- 4.5.2 What are the bottlenecks with respect to work at this stage?
- 4.5.3 What are the disadvantages of your work at this stage?
- 4.5.4 What are the advantages of your work at this stage?

4.6 Coordination of projects

- 4.6.1 If yes, in what way are you involved?
- 4.6.2 What are the bottlenecks with respect to work at this stage?
- 4.6.3 What are the disadvantages of your work at this stage?
- 4.6.4 What are the advantages of your work at this stage?

4.7 Evaluation of projects

- 4.7.1 If yes, in what way are you involved?
- 4.7.2 What are the bottlenecks with respect to work at this stage?
- 4.7.3 What are the disadvantages of your work at this stage?
- 4.7.4 What are the advantages of your work at this stage?

4.8 Control of projects

- 4.8.1 If yes, in what way are you involved?
- 4.8.2 What are the bottlenecks with respect to work at this stage?
- 4.8.3 What are the disadvantages of your work at this stage?
- 4.8.4 What are the advantages of your work at this stage?

4.9 Others,

- 4.9.1 If yes, in what way are you involved?
- 4.9.2 What are the bottlenecks with respect to work at this stage?
- 4.9.3 What are the disadvantages of your work at this stage?
- 4.9.4 What are the advantages of your work at this stage?

Concluding remarks

Do you have further remarks concerning EU Regional Policy in Latvia?

Can we contact you for further information?

Thank you for this interview!