ISSN 1822–8402 EUROPEAN INTEGRATION STUDIES. 2012. No 6

ASSESSMENT OF EUROPEAN UNION’S REGIONAL POLICY AT THE LEVEL OF LOCAL MUNICIPALITY: CASE STUDY OF SELECTED NEIGHBOURHOODS IN RIGA

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http://dx.doi.org/10.5755/j01.eis.0.6.1482

Nowadays, growth and development at the local level within European Union (EU, Union) is seen as part of Union’s regional policy aimed at contributing to the umbrella strategy, the Europe 2020 strategy. The purpose of the EU regional policy is to help achieve the overall goals of Europe 2020 strategy. EU regional policy is in point of fact an investment policy meaning that it is largely being implemented through funding provision from the EU budget to the member states (of the EU). Aimed at reducing significant economic, social and territorial disparities between EU regions, the regional policy supports job creation, competitiveness, economic growth, improved quality of life and sustainable development.

Backing the bottom-up approach, we would like to argue that it is essential that the EU policy in order to be effective and successful reach its targets at all levels of economics starting from level of a local municipality and even a neighbourhood of a municipality until the regional, interregional and national level.

The bottom-up approach has been chosen for one particular reason – most of the EU investment provided through funding opportunities, at least speaking about those related to implementation of the regional policy, lands at a specified territory, or to be more precise – at a specified address within a particular territory. Thus to reduce the economic, social and territorial disparities between EU regions, the EU funding must be invested in those territories lagging behind. In other words, the less developed the territory or an area, the larger amount of EU funding should be invested there.

Taking the example of the most strongest region of Latvian economics – the region of Latvian capital city of Riga, which has received the largest amount of EU funding within the research period of the paper (2004 – 2006, two and a half years after Latvia joining the European Union), the authors have analyzed whether the EU funding has been invested in those areas of the city of Riga lagging behind the average level of development and thus attempted to answer the question whether the aims of EU regional policy are met at a level of the local municipality.

Investment in real estate – a truly profit driven instrument has been chosen as an indicator to evaluate whether the territories where the largest amount of EU funding has been invested are those ones that are in real need of involvement of public funds like those of EU. The authors argue that if the territory is economically strong enough to attract private real estate investment, the territory do not needs additional public funds for development; and vice versa. In cases if a particular territory is strong enough to attract real estate investment and EU funds have been invested at the same time as well, the authors have examined whether there is any link between EU investment and real estate investment, i.e., whether the EU investment has been the catalyst for further development of territory and attraction of real estate investment after the EU funding has been placed there.

Empirical analysis shows that the actual performance of the EU funding is in contrary with the EU regional policy and it is not possible to speak about cohesion in the case of the Latvian capital in regard of EU funding invested.

Although many EU funding options are available both for municipalities and companies, the results obtained show that regardless of the clear evidence of the significant increase in the amount of real estate investment in the city of Riga following Latvia’s accession to EU, the spatial distribution of the real estate investment made does not have a clear linkage to EU funds invested in the particular territory (neighbourhood). It is possible however to argue that EU funding invested to some extent (depending on the amount and typology) may multiply the possibility of real estate investment being invested in that particular territory due to the increased competitiveness of the territory.

Keywords: real estate investment, EU regional policy, neighbourhood, spatial development, city of Riga.

Introduction

Priority areas of Europe 2020 strategy are (1) smart growth meaning improvement of Union’s performance in education, research/innovation, and information and communication technologies; (2) sustainable growth meaning building of competitive low-carbon economy, protection of environment, development of green technologies, and improvement of business environment, especially for small and medium enterprises; (3) inclusive growth meaning raising of employment and modernisation of labour market and education opportunities, and improvement of social and territorial cohesion within Union.

Therefore a rhetoric question could be raised: If the Europe 2020 strategy envisages smart, sustainable, and inclusive growth does it mean that cities in Europe by 2020 will be sustainable, smart, and inclusive?
The core aim of the EU’s regional policy is to reduce economic and social disparities between Union’s 27 member states and their 271 regions (at NUTS1 level) since “the economic and social disparities between the regions are great – one region in four has a Gross Domestic Product, GDP per inhabitant under 75% of the average” (Commission, 2011a).

Regional policy in its essence is investment policy meaning that it is realized through investment (funding possibilities) provided by the Union to achieve the core aim. The planning period of 2000 to 2006 had 3 main objectives: (1) to support development of less prosperous regions. (2) revitalization of all areas within Union facing structural difficulties, and (3) to support the adaptation and modernisation of education, training and employment policies and systems in regions not eligible under Objective 1, as well as 3 additional actions with each of them having a different accent. 213 billion EUR plus additional 21.74 billion EUR for new member states were available.

*Does the regional policy actually help the regions, cities and rural areas become smarter, more sustainable, and more inclusive?*

The problem is both scientific and practical and may have very strong impact on the development of particular areas within and outside the cities.

The issues related to European Union are relatively novel for Baltic scholars and therefore there have not been many attempts on evaluating the EU regional policy neither at regional, nor local (municipality) level. This paper therefore is going to contribute to the literature on evaluating the EU regional policy and EU funding distribution at national level with a focus on local (municipality) level.

The purpose of the paper is to evaluate the impact of European Union’s regional policy on a local level and to look for relations between Union’s regional policy and spatial distribution of real estate investment reflecting the well-being of the territory on a local municipality level. Riga, the capital city of Latvia, the largest city within Baltic States and one of the largest in the Baltic Sea Region (BSR) has been chosen for the case study reflecting the tendencies of a city of the block of former planned economies around Central and Eastern Europe (CEE).

The paper is based on an empirical analysis based on data about actual EU investment and real estate investment in City of Riga obtained from Ministry of Finances and Riga City Construction Board, as well as Riga City Development Department. Data are structured and presented using mapping techniques including those of GIS cartography. It is preceded by an overview and critical analysis of EU funding implementation policy in Latvia through the evaluation of existing planning documentation for the period.

The methods applied allow drawing conclusions on the actual performance and role of EU funding in the process of cohesion and further development of the territory. The conclusions might be of interest both for academics, as well as practitioners of regional policy.

**Evaluating the EU regional policy**

European Commission’s DG for Regional Policy, the unit behind the elaboration and implementation of EU regional policy in its annual report states that “macroeconomic model simulations indicate that Cohesion Policy had the net effect of raising the level of GDP in the EU as a whole” (Commission, 2010). Nevertheless, it is admitted by the Commission that “there is a room for improvement” (Commission, 2010) speaking about provision of grants to enterprises, admitting that there has been an over-reliance of them.

Up to now, there haven’t been many attempts by researchers to critically evaluate the European Union’s regional policy at a local level of one administrative municipality (city, town, or county, province, parish or any other similar unit of territory), and almost no attempts on evaluating the impact of the EU’s regional policy on an even smaller unit of territory like the neighbourhood of a city or a rural village. Most of the researchers have focused their attention on larger territorial units like regions, countries or even cross-border areas.

Although there is no single mutual standpoint, most of the researchers conclude that the Union’s regional policy aimed at reducing the regional disparities could be much more effective than it actually is. In his price winning research paper Martin (1999) argues that “it is scarcely a caricature of the Commission’s position to portray this [conceptual framework of the regional policy] as a belief that transfers to the poorest European regions are beneficial to them”. He even concludes that “moreover, the recent models of geographic economics show that regional integration, by reducing transaction costs between the regions, may lead to self-sustaining inequality” (cit. above) and “it is therefore illogical to claim that the diminution of regional inequalities supposedly facilitated by regional policies will generate efficiency gains at pan-European level” (cit. above).

Even more unpleasant conclusion is made by Neven and Gauymet (1995): even if there is a slow long-run convergence at a European level observed, it may mask a process of regional divergence within countries. The unpleasant conclusion is backed by Quah (1996) speaking about the situation in Spain and Portugal at the time those countries were Cohesion group countries (like all three Baltic States at present), Duro (2004) showing the decrease of inequalities between countries and increase of inequalities within countries, and more recently by Jankova (2011) speaking about situation in Latvia after year 2004. De la Fuente and Vives (1995), and Esteban (1994) suggest that around half of the existing inequalities between NUTS level regions of EU are accounted by inequalities between regions within countries.

Puga (2002) has shown that despite large [EU] regional policy expenditures, regional inequalities have not narrowed substantially over the last two decades, and by some measures have even widened. This thrilling conclusion comes in the time when the regional policy expenditures are the second largest position (accounting for almost 1/3 of total EU budget of EUR 125.3 billion (Commission, 2012) for year 2012) after the agricultural policy budget.

At the same time Barro and Sala-i-Martin (1990, 1991) based on economical analysis of U.S. states and regions of Western Europe starting from 1950s do not argue whether the convergence [between regions] is taking place or not; they demonstrate that the convergence is present, however the process is very slow, the rate of convergence being about 2 percent a year and can be computed by the neoclassical growth model for closed economies (developed by Solow, 1956; Cass, 1965; Koopmans, 1965), modified to suit open
economies. However, the model proposed by Barro and Sala-i-Martín does not take into account any kind of state’s financial aid, and is solely based on economic theory on free movement of capital and labour, which actually is the strategic aim behind the regional policy within EU.

Yet another finding not in favour of Union’s regional policy is that of Duranton and Monastiriotis (2002). They provided an example from United Kingdom (UK) based on analysis of earnings for people of similar characteristics across UK regions showing that two from three objectives [objective 1 and objective 2] of Union’s regional policy are actually controversial to each other.

The criticism on EU’s regional policy is continued by Rodriguez – Pose and Fratesi (2003). Based on cross-sectional and panel data analysis they conclude that Union’s regional policy has so far failed to fulfil their objective to deliver greater social and economic cohesion of the EU regions. They have found that, despite the concentration of development funds on infrastructure and to a lesser extent on business support, the returns to commitments on these axes are not significant. Support to agriculture has short-term positive effects on growth, but these wane quickly, and only investment in education and human capital – which only represents about one eight of the total commitments – has medium-term positive and significant returns.

One of the reasons behind the poor performance of the Union’s regional policy and failure to reach the targets set might be the distribution mechanism of EU’s regional policy funds: the lack of regional development priorities at state level and the fact that the distribution of structural funds at state level are managed by the states themselves. Jankova (2011) analyzing the case of Latvian [NUTS 3] regions, especially the Zemgale region, has found out that there is no regional development programme to be found existing in Latvia since 2004 which were in tune with the industry strategic policy documents, and that the planning of EU funds at national not regional level do not link them to regional development programmes which in result leads to the increased disparity between Latvian regions.

**EU funded activities within the city of Riga**

2004 – 2006

Latvia together with Estonia, Lithuania and seven other countries joined the European Union on 1st of May 2004 in the second half of ongoing programming period 2000 to 2006 (because of the fact that the policies in the European Union are adopted for a period of seven consecutive years). Becoming a member state of European Union, according to the regulations of EU, Latvia was able to receive funding from Structural funds instead of those from pre-accession funds as before. Both funding possibilities differ in the purpose of the funding, however to a much larger extent – Structural funds, in the amount and variety of the funding, provides for much larger and wider funding opportunities.

For the period 2004 – 2006, according to the information obtained from Ministry of Finances, the authors have identified 101 projects related to regional policy part-financed by EU funding, i.e., financed either from European Regional Development Fund, ERDF (98 projects, 85% of total EU investment in Riga for the period) or Cohesion Fund, CF (3 projects, 15% of total EU investment) within the priority actions of Commission’s regional policy in total of Ls 106.2 million (EUR 151.1 million).

Additionally, City of Riga administration itself or any other institution located in the Latvian capital acted as a project partner in 67 cross-border, transnational, or interregional cooperation projects during the period 2000-2006. However none of the projects brought at least one Latvian lat (LVL) in hard investment to the city.

Although mentioned in the Latvian Development plan (2003), some projects in Riga planned to be realized within the 2004 – 2006 period, have not yet even started. For example, the planned Cohesion fund investment for construction of road E22 into Riga has been postponed for planning period 2020-2027 according to information from state JSC “Latvian State Roads” (LSR, 2012). The situation with additional crossing of Daugava River – the Northern Crossing is about the same; the realization of the project has been postponed to an indefinite period of time (yet officially it is postponed until 2015; according to the project web page1) regardless of the fact that some EU funding has already been invested in the pre-construction phase of the project.

The particularity of the EU funded projects is that regardless of the approval of the project and start of provision of EU funding, they may end at a later date than the actual EU planning period. Figure 1, which shows the actual end date of the projects part-financed by the EU within the planning period 2004 – 2006, clearly depicts that only half of the projects had been completed within the same planning period. The figure clearly shows the linkage between the completion date of the project (implementation of EU investment) and the amount of investment per project: the larger the amount to be invested, the longer the implementation of the project and thus the later the completion dates of the project. This should be taken into account in the further research, analyzing the relation between the accumulated EU investment within a particular location (area) and real estate investment in that territory.

![Figure 1. (Calculations by authors on the basis of data obtained from Ministry of Finance)](http://www.ziemelukoridors.lv/Projekts/tabid/59/Default.aspx)

The largest amount of EU funding for the planning period 2004 – 2006 in the city of Riga has been invested in projects related to engineering infrastructure (57% of total EU investment for the period), in particular, in projects aimed at expanding water and sewerage network; 15% - in projects aimed at developing transport infrastructure including roads, 1http://www.ziemelukoridors.lv/Projekts/tabid/59/Default.aspx
One can see from the Table 1, that the EU funding has not been invested in all of the 58 neighbourhoods of Riga but only in 41 of them. The amount and the structure differ from neighbourhood to neighbourhood. Considerably larger amount than in rest of the neighbourhoods has been invested in projects in neighbourhoods of Ėmīļi (8.1%), Dārziņi (7.8%), and Teika (6.9%). High amount of EU funding has been invested in projects in the neighbourhoods of Jugla (5.8%), Čiekurkalns (5.6%), Šķirotava (5.4%), Pleskodāle (5.4%), and Mežaparks (4.9%).

Reproduced on a map (see Figure 2), one can see that there are spatial clusters, groups of closely located neighbourhood, where the largest amount of the EU funding has been invested.

Spatial Distribution of EU Investment in Riga 2004–2006

Three clusters can be earmarked: cluster 1 in the south-west of the city consisting of neighbourhoods of Ėmīļi, Zolitūde, Pleskodāle, Mārupe, and Āgenskalns, where one fifth (20.1%) of the total EU funding was invested, Cluster 2 in the south-east of the city consisting of neighbourhoods of Šķirotava, Dārziņi, Maskas foršate, and Ķengarags, where in total almost one fifth (19.7%) of total EU funding for the period was invested, and Cluster 3 in the north-east of the city consisting of neighbourhoods of Jugla, Teika, and Čiekurkalns with 18.3%. Together these clusters make almost ¾ of the total EU investment for the period.

Largest shares of EU funding related to engineering infrastructure (57% of total) has been invested in neighbourhoods of Ėmīļi, and Dārziņi (14% in each), and Čiekurkalns, and Teika (9% in each), while the largest amount of EU funding aimed at developing transport infrastructure (15% of total) in neighbourhoods of Zolitūde (22%), Mežaparks (17%), and Dreiliņi (10%). At the same time one third (30%) of the total EU funding aimed at modernizing production process and infrastructure in private enterprises (12% of total) has been invested in one particular neighbourhood, namely Šķirotava, while the rest being distributed through several of the neighbourhoods with

Table 1. Distribution of EU Investment 2004 – 2006 in Riga per Neighbourhood, LVL

<table>
<thead>
<tr>
<th>Neighbourhood</th>
<th>Total EU Investment, LVL</th>
<th>Real Estate Investment</th>
<th>Engineering Infrastructure</th>
<th>Transport Infrastructure</th>
<th>Social Infrastructure</th>
<th>Research and Education</th>
<th>Production</th>
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<td>6%</td>
<td>4%</td>
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Calculations by authors on the basis of data obtained from Ministry of Finances
the largest amount in neighbourhoods of Ilūciems, Imanta, Sarkandaugava, and Skanste (Ganības).

EU funding aimed at modernizing research and education infrastructure in state universities and research institutes (10% of total) has been invested largely in neighbourhoods of Āgenskalns (18%), Teika (17%), Centrs/Centre, Kengarags (16% in each), and Kleisti (14%). EU funding related to investment in real estate (3% of total) has been invested just in 8 of the neighbourhoods, the largest amount being invested in neighbourhoods of Katlakalns (43%), Sarkandaugava (22%), and Vecriga/Old Town (16%).

It is possible to observe that the largest amount of total EU funding implemented in planning period 2004 – 2006 in the Latvian capital went to (1) neighbourhoods partly lacking engineering infrastructure (water and sewerage, in particular) like those of Šampēteris, and Dārziems, (2) typical industrial neighbourhoods like Šķirotava, (3) neighbourhoods where state research institutes are located like Teika, and (4) neighbourhoods having important transport arteries crossing them like those of Teika, Jugla, Zolitūde, and Pleskodāle. Only a small part of the EU funding has been invested in neighbourhoods in transformation, e.g., from brownfields/ greenfields to business or living areas like those of Dreilīni and Skanste (Ganības), and no EU funding has been invested in neighbourhoods lagging behind, where almost no development has been observed like those of Dārziņi, Rumbula, Jaunciems, Suži etc., almost all located in the outskirts of the city. A small amount or no investment at all from EU funding has been invested in former industrial neighbourhoods like Ilūciems, Voleri, Teika, and Imanta, although from the perspective of overall cohesion of the city development, such investments would be more than desirable. However there are some good examples as well like those of Mangāšala and Vēcmilgrāvis, where the city’s fishing industry is located.

Real Estate Investment in Riga 2004 – 2007

In this chapter investment in real estate made by private persons and enterprises, state as well as municipal companies are being analyzed. The investment analyzed in this chapter does not include any kind of investment supported by EU funding.

According to North American school, the attractiveness and the market potential of a territory are the most important reasons for the investment in real estate in that particular territory. According to Wiedemar et.al. (2011) the attractiveness or the value of land for surface development depends on its ability to attract people and it is determined by three factors named in order of importance: (1) availability of jobs in the area, (2) availability of infrastructure, and (3) availability of inhabitants in the area.

In case of former planned economies across CEE the boom initiated by EU, expansion of foreign banks and influx of foreign capital, easy access to mortgage loans, prosperity of inhabitants prior 2004 and other factors should be named as those sub-factors influencing the increase of real estate investment.

Figure 3. (Calculations by authors on the basis of data obtained from Municipality of Riga)

Figure 3 shows clear evidence that the amount of real estate investment in Latvian capital increased significantly after the country’s accession to EU due to the sub-factors named above.

In the period between 2004 and 2007, the total amount of real estate investment (REI) reached Ls 1.3 billion (EUR 1.85 billion) in the Latvian capital, according to the information obtained from Riga City Construction Board and Riga City Development Department. Previous researches (see Strautmanis, 2010) show that the composition of REI in Riga for the respective period of time was as follows: 33% of the total REI was invested in trade and services real estate sector, 22% in housing sector, 19% in development of engineering infrastructure, including transport infrastructure, 17% in office and hotel buildings, and only 3% of the investment was invested in industrial sector.

According to calculations by authors, 12.6% of the total real estate investment for the period was invested in Centrs/Centre neighbourhood, 8.4% in the neighbourhood of Purvciems, and 7.2% of the investment in the neighbourhood of Vecriga/Old Town. Central business district, CBD, comprising of Centrs/Centre and Vecriga/Old Town attracted one fifth (19.8%) of total REI for the period.

Spatial distribution of REI in Riga 2004–2007

Figure 4. (prepared by authors on the basis of data obtained from Riga City Development Department)
It is possible to observe from Figure 4 that in the case of distribution of real estate investment as well spatial clusters or groups of neighbourhoods can be formed. Besides central business district it is possible to identify at least three such clusters: cluster 1 (similar to that of cluster 3 in case of EU investment) in the north-east of the city comprising of neighbourhoods of Dreiliņi, Purvciems, Teika, Ķīpsala, and Jugla where the largest part of total REI was invested, making 27% of the total, cluster 2 (similar to that of cluster 1 in case of EU investment) in western part of the city consisting of neighbourhoods of Imanta, Zolitūde, Pleskodāle, and Āgenskalns with 15% of the total investment. These two clusters have common characteristics: about the same distance from the CBD and with minor exceptions all neighbourhoods of these two clusters are high-rise living areas where in some cases industry is present like Ķīpsala, Jugla, and Imanta neighbourhoods.

The group of neighbourhoods surrounding the central business district could be identified as cluster 3 (in part cluster 2 in case of EU investment). Neighbourhoods of Ziepniekkalns, Tomākalns, Kāpina, Skanse (Ganības/Pastureland), Maskavas forstate/Moscow suburb, Dārzciems, and Šķirotava have attracted 17% of the total real estate investment for the period.

Taking as examples three neighbourhoods (Dārzciems, Šāmpeteris, and Teika) where the largest amount of EU funding has been invested during the research period in Latvian capital, and analyzing the investment structure of both EU funded activities (projects) and real estate investment, it is possible to see that there is no clear linkage between both types of investment. In some cases the actual completion date of the (engineering infrastructure) projects even is far behind the research period (being identical to EU planning period 2004 – 2006) of this paper and thus it is not possible to make any kind of analysis due to the lack of data. However further research would be desirable. The EU investment structure of all three neighbourhoods is similar: largest part has been invested in engineering infrastructure projects (however, the actual completion date is out of the scope of research period); rest has been invested in modernization of production processes and infrastructure and development of research and education infrastructure. At the same time largest amount of real estate investment in these three neighbourhoods has been invested in trade and services real estate, construction of new housing estates, and office buildings.

**Case Study: Teika Neighbourhood**

The neighbourhood of Teika, located in the north-east part of the city in Vidzemes administrative district, is one of the historical neighbourhoods of Riga city with an area of 46.8 km² and with very good transportation options to the centre of the city and other areas within city. The centre of Teika is located some 6 kms from downtown and it is possible to reach it in 10 minutes by car or 20 minutes by public transport (bus). Spatially, the neighbourhood of Teika could be divided into three parts: historical district of Teika (functional centre of the neighbourhood), Teika – VEF district, and district above main city artery, Brīvības /Freedom Street until the railway line. The historical district of Teika, developed in 1930s with mostly detached housing is perceived by Riga city residents as one of the most prestigious residential areas in the city. A “City of Science”, developed in the 1970s and 1980s, where most of the state institutes of Latvia are located, is part of the historical district of Teika. Teika – VEF district has evidenced the most dramatic change since the beginning of 1990s. Home to the former Latvian flagship company “Valsts Elektrotehniskā Fabrika, VEF” (State Electrotechnics Factory), established in 1919 and reorganized in 1999, the whole district changed its image from industrial to one of the trade, services and office districts in the city, leaving part of the territory abandoned due to complicated land ownership. Some high-rise housing estates are located in this part of Teika as well. The third part of Teika neighbourhood (Upper Teika) is a mix of industrial territories in one side of the district, offices in the middle of the district, and low-rise housing estates in other side of the district.

32 626 inhabitants lived (20 913 in working age) and 21 691 persons worked in the neighbourhood of Teika in year 2004 and three years later, in 2007, the number of inhabitants constituted of 32 509 (21 505 in working age) while the number of persons working in the neighbourhood increased to 22 425.

As shown in Table 1, 73% of EU funding invested in Teika neighbourhood was invested in the development of engineering infrastructure, in development of water and sewage system, in particular. However, the project was only finished in 2010. 24% of the EU funding was invested in development of research infrastructure. At the same time, the real estate investment for period 2006 – 2007 (i.e., after the actual completion dates of the EU funded projects) was largely invested in office buildings (44%), including hotels, and trade and service (41%). The total amount of real estate investment in the neighbourhood according to calculations by authors is estimated at Ls 16.5 million (EUR 23.5 million).

The spatial distribution of EU funding and real estate investment in Teika neighbourhood is shown in figures 5 and 6.

**Spatial Distribution of Investment in Historical Teika District for 2005 - 2007**

One can see from figure 5, that both EU funding and private investment were made in the historical Teika district, however there are neither any spatial relations of EU funding and real estate investment, nor structural relations of the both types of investment. EU funding has been invested in development of research infrastructure in state research institutes and university’s institutes, while real estate investment in private enterprise’s production facilities, office buildings, and infrastructure (gasification). The only potential relation, the real estate investment in production, and the EU funding invested in development of research infrastructure, is excluded due to divergence in operations of the respective production enterprises.

In case of Teika – VEF district shown in figure 5 it is possible to see, that mostly private real estate investment has been made in the area, except one funded from EU in production. As mentioned before, Teika – VEF district witnessed the most dramatic change in recent history, and was transformed from completely industrial territory till end of 1990s to the trade,
office and services area with a large shopping mall occupying two of the former factory’s buildings. The transformation is obviously reflected in numbers of real estate investment in the territory.

Figures 5 and 6, as well as the structure of investment analyzed before, demonstrate that there are no relations between the EU funding invested in the territory and real estate investment. The only case observed within Teika neighbourhood that there might be any relation, is not shown in the figures; in the year 2006 Ls 4.5 million (EUR 6.4 million) in real estate investment was made in the reconstruction of Riga Railcar Factory located in the Upper Teika district, and a year later – Ls 130 thousand (EUR 185 thousand) investment from EU funding was invested there. In this case the relation between both types of investment is contrary to that suggested by the authors, and might be the case when the owners of the factory saw a possibility to apply for EU funding to partly (a small part, anyway) fund the necessary works.

Spatial Distribution of Investment in Teika – VEF district for 2005 - 2007

[Light coloured are investments from EU funding, dark ones – real estate investment]

Figure 5 (Drawing by authors based on data obtained from Ministry of Finances and Riga City Development Department)
However it may be, as once again clearly demonstrated by both figures, that investment, be it from EU funding or real estate investment made by private or state, or municipal enterprises tends to cluster spatially.

Conclusions

Speaking about investment, be it European Union funding or real estate investment, it is obvious that it tends to cluster, as observed in both cases in the Latvian capital. Either the investment itself is a factor for further investment, which would be valuable to examine further, or it is the case of overall development as shown in this research and supported by other researchers.

The analysis shows that all those neighbourhoods where the largest amount of EU funding has been invested are among those ones, where the largest amount of real estate investment has been placed. This observation gives us the ground that the EU funding has been invested in those neighbourhoods that actually are competitive and attractive enough to attract real estate investment as well.

It is just the opposite with regards to those neighbourhoods where no EU funding has been invested or EU investment was among the smallest: there has been no or very small amount of real estate investment invested in the research period although these exactly are the neighbourhoods lagging behind in terms of cohesion.

Summarizing it all up, it is possible to conclude on the basis of the empirical research that most of the EU funding is invested in the territories with good economic conditions like the neighbourhoods mentioned before and thus we can agree to Jankova (2011), Duro (2004), Puga (2002), and others concluding that EU cohesion policy actually does work in the opposite direction as envisaged, and the cohesion of the territories, seen at local municipality level, is not met.

The problems behind such situation are not hard to find: (1) the process of distribution of EU funding envisages that the person must prepare the application itself and submit it before receiving the funding, and unfortunately it is resource consuming, and therefore not affordable for everybody; (2) if we speak about former industrial territories, the land ownership issue plays a role, and there could be cases where after the transition from planned to market economies, land of one former factory may be divided between many (private) owners failing to reach consensus omnium; (3) if we speak about those remote neighbourhoods located in the outskirts of the city, the number of inhabitants and businesses especially are far too small there and therefore there is no one to prepare the application and submit it to the EU. A lot of criticism in this case should be addressed to the city administration, actually not having realistic development plans if we speak about attraction and implementation of EU funding as it was illustrated in previous chapters. Those cases in Riga, where the EU funding was attracted to the projects in the planning period analyzed, are exceptions. Although it could be an (4) issue of deficit of complex cohesion mechanisms from the Commission since there were no funding available for the period aimed at territorial cohesion (including economic and infrastructure development) itself.

City administration should elaborate realistic development plans envisaging sustainable development of neighbourhoods, territorial cohesion and distinct schemes of attraction and implementation of EU funding at city level not only at level of one municipal institution or one department of city administration.

Will Europe be smart, sustainable, and inclusive by 2020? It depends on the national development plans describing national priorities of EU regional policy. Although a large part of the EU funding implemented within the period 2004-2006 was attributed to improvement of research and education infrastructure and thus could be named as smart, and an even larger part of the EU funding implemented in Riga was in the improvement of transport and engineering infrastructure and thus could be called inclusive, it is not yet possible to speak about sustainability since none of the EU funding invested could be attributed to that. However the most important issue, to stress it once again, is that the EU funding actually is invested in the territories with good economic condition and the investment is not crucial in terms of territorial cohesion. This definitely should be taken into consideration by practitioners at EU policy planning level responsible for overall distribution of the EU funding and the regional policy as such.

Yet another critical conclusion should be addressed to distribution process of EU funding nationally. The necessary planning documents are chaotic and formal, and the application and distribution process of EU funding is completely not aimed at territorial cohesion rather on formal (mechanical) distribution of the funding available since anyone fitting the formal requirements may apply and receive the funding. For the following planning periods, the distribution process must be improved substantially to make it possible to invest EU funding in those territories lagging behind and thus contribute to reaching the aims of European regional policy.

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The article has been reviewed.

Received in April, 2012; accepted in June, 2012.