

## ACQUISITION OF EU STRUCTURAL FUNDS IN IRELAND AND LATVIA

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### Abstract

Since formation of European Union (EU) it has had great changes and developed both by expanding and creating close mutual cooperation among the involved countries. New member states have joined the first six founder states, and now EU unifies 27 states. Greater changes have affected the set objectives and activity spheres: from the war industry – coal and steel sector – over-national control institutions the aim of which is to ensure stable peace in Europe, nowadays EU has become a union that comprise more than twenty common policy and activity spheres. The integration process of Europe has been continued by setting new objectives, meeting new challenges and looking for better solutions.

EU budgetary funds provide support for wide scope of activities. This support regarding its scope may be changeable – starting from the whole covering of expanses and finishing with financial support of only some percents. The range of potential recipients of financial aid is also wide. Not only member states but also candidate states, separate municipalities, public organizations, private enterprises, universities and even separate individuals can be among them.

In many with structural funds related documents it is highlighted, that the aim of EU structural funds is to eliminate the regional and social inequalities among EU member states and to improve economical and social cohesion throughout all Europe. Certainly these funds is a great benefit for EU peripheral countries like Ireland, Baltic states, and they can substantially promote development of these countries. Though one has to remember that a substantial financing also creates a risk and that inadequate use of these funds can stimulate regional inequality, social outcast, environmental degradation and corruption.

Ireland is one of economically most developed, industrial, trade – oriented states, that until now has managed to use means of EU structural funds most successfully. The received finances from EU support funds have considerably favoured state's economical growth.

During last five years Latvia as an EU member state had available remarkable means of European Union policies financial instruments, which still in the hard times of national economy keep stimulating the growth and development of the state. Also in the period from 2009 till 2015 there is planned a substantial support of European Union budget for Latvia, which in the further years will proceed to come into state's economy. The ability of Latvia to acquire and to forward these finances for development of the most important sectors in regions is a cornerstone of a successful development of the state.

Considering the experience of EU peripheral state – Ireland, Latvia has the opportunity to compare its situation and governmental decisions in state development area, in this way evaluating main core reasons of development and analyzing mistakes of a similar country. Development model of state of Ireland gives state of Latvia the opportunity to create to the utmost effective directions, core statements and plans of further development of state economy, which would facilitate sustainable increase of state's development. If to compare Latvia's experience in field of economical growth development, it is obvious, that Latvia has performed more in an experimental way, not regarding experiences of other countries of similar situations, not relating political, social, economical and regional targets, considering also that they always changed radically when new political forces entered the leading political environment.

### Key words:

Structural funds, funding, financing, development of theories, regional equality.

## Introduction

Nowadays European Union (EU) has become a union that comprise more than twenty common policy and activity spheres. The integration process of Europe has been continued by setting new objectives, meeting new challenges and looking for better solutions. Every new member state joining EU has to observe *acquis communautaire*<sup>1</sup> – a principle that foresees that „candidate countries have to get ready for receiving support from European Union structural funds. This is not an easy task; first of all every new member state has to get acquainted with the rules of EU regional policy and afterwards has to adjust its national legislation, administrative and financial instruments for attraction of structural funds. The better the country fulfils these tasks the more effective it will be able to use the assistance of structural funds. As the Ireland's example shows the fund assistance can provide a very important and positive support for the development of national economy” (Kalniņa I., Sebre A., Grūberte D., 2001).

Ireland is one of the economically most developed, industrial and market-oriented countries which until now has most successfully used EU structural funds. The received financing from EU support funds has considerably promoted economic growth of the country. In Ireland during the recent years rapid development with impressive growth and employment indicators was experienced. Alongside with it Ireland works intensively with quality and efficiency, insuring the existing demands of the labour market. For most part the efficiency of solving these issues is implemented with the help of EU structural funds.

During last five years Latvia as an EU member state had available remarkable means of European Union policies financial instruments, which still in the hard times of national economy keep stimulating the growth and development of the state. Also in the period from 2009 until 2015 there is planned a substantial support of European Union budget for Latvia, which in the further years will proceed to come into state's economy. The ability of Latvia to acquire and to forward these finances for development of the most important sectors in regions is a cornerstone of a successful development of the state.

By entering EU in 1 May 2009 Latvia as a new of the new member states also had an opportunity to participate in regional and structural policy processes of EU with an objective to ensure quicker proximation of Latvia's economical and social indicators to the average level of EU member states. During the last five years financing of more than 1 milliard LVL has flown into the national budget with positive balance which is 2% from

the country's gross domestic product in the respective period (Finan u ministrija, 2009).

EU budgetary funds provide support for wide scope of activities. This support regarding its scope may be changeable – starting from the whole covering of expanses and finishing with financial support of only some percents. The range of potential recipients of financial aid is also wide. Not only member states but also candidate states, separate municipalities, public organizations, private enterprises, universities and even separate individuals can be among them.

As it is stated in many documents related to structural funds the aim of EU structural funds is to prevent regional and social inequality among EU member states and their regions and to improve economic and social cohesion in all Europe. Certainly these funds is a great benefit for Latvia and they can substantially promote development of our country. Though one has to remember that a substantial financing also creates a risk and that inadequate use of these funds can stimulate regional inequality, social outcast, environmental degradation and corruption (Brizga J., 2007).

When Latvia started its way towards EU the following objective was set – “Latvia joins EU because we want to see Europe as an effective and competitive actor that plays on global scale and Latvia would have to integrate and become a part of it. Latvia's aspiration to become an EU member state stands out from the basic interests of our society. Latvia integrates into EU to implement interests of the society. EU is something more than just an economic conception. Common values and ideals is a stable basis for creation of a family with stable, secure and happy nations. The idea of integration is alive as long as society supports it.” (Hajo B., Kissiov V., Martikonis R., Marton I. and ulca I., 2002). So the aim of Latvia in European Union is to promote people's welfare and to raise the quality of life.

In the period of time from 2009 until 2015 a substantial EU budget support for Latvia is planned so it will continue coming into state's economy. Latvia's ability to uptake this financing and channel it to the development of the most important sectors in regions is like a keystone for successful regional development.

Taking into consideration the experience of the EU peripheral country – Ireland, Latvia has an opportunity to compare its situation and government's decisions in state's development sphere thus evaluating the main development reasons of a similar state and analysing the made mistakes. The development example of Ireland provides a good opportunity for Latvia to create most effective further state's economic activity directions, framework and plans that would promote constant growth of state's development. Comparing Latvia's experience in the field of economic development growth it is evident that Latvia has acted more by experimenting

<sup>1</sup> ES Basic package, which consists of the Treaties establishing the basis and the underlying laws and regulations and which is binding on all EU Member States.

instead of, looking at the experience of other countries being in the same position, not binding together political, social, economical and regional objectives that were always sharply changing when the new political force entered the government.

That is why the **aim of the research** is defined – to evaluate Ireland's and Latvia's achievements in acquisition of structural funds.

The **dealt tasks** for implementation of the objective:

1. To evaluate Ireland's good practice experience in acquisition of EU structural funds.
2. To analyse Latvia's experience and results in acquiring EU structural funds.

## Materials and Methods

In the research of the topic normative acts of the Republic of Ireland are normative acts – researches of Irish scientists on changes in the country since its joining EU, the processed data from the home page of the Ministry of Agriculture of the Republic of Ireland and the publicly accessible data of Irish Central Statistics Office and of Republic Of Latvia – scientific researches in the sphere of EU structural funds, the processed data in the home page of the Ministry of Finance, EUROSTAT data.

The main methods used – monographic descriptive method, verification of content compliance among documents of different levels, method of analysis, method of synthesis to explore problem elements and to synthesize interconnections or to formulate conformity to natural laws, collecting and processing facts, statistics, other data and specific information on the implemented activities and events of EU structural funds.

## Results and discussion

### Ireland's good practice example in acquisition of EU funds

Ireland is one of the most centralized states in Europe; it is a sovereign, independent state. There is liberal democracy with parliamentary government system in the state. It comprises about 80% of the islands of Ireland, and since the 1973 it is a Member State of the European Union (EU). The capital of Ireland is Dublin, the territory occupies 70 300 square kilometres with 3.6 million inhabitants (Agriculture in Ireland).

The Irish have strengthened their local authority for the better use of the support of European Union. For this reason a reform was done and all the municipalities were united into eight regions. (According to area and number of people it is very similar to the five planned counties in Latvia). The only task of regional authority is coordination of relevant development projects between counties and Brussels – only three civil servants perform

this work and for maintenance of the new authority of each region the state spends from 70 to 140 thousand LVL per year (I. Andiņš, 2002).

Right now only a little bit more than in 20 years, Ireland's government has achieved its economic growth and its results in recent years shows that it is the EU country with the largest gross domestic product (GDP) growth per year. As Latvia, also the Republic of Ireland is situated in the European border, it is a small, peripheral country which 25 years ago was a backward western European outskirts, and its only engine of the economy was agriculture (Par Īrijas veiksmēm, Latvijas izredzēm). EU have had the greatest impact on Ireland's economy, in its influence state's agriculture and industry strengthened (Vaidere I., Vanags E., Vanags I., Vilka I., 2008).

Analysing Ireland in comparison with Latvia in agricultural economic sphere it is obvious that at the moment agricultural development and policy in Ireland is more progressive, open and developed than in Latvia, it is one of the basic sectors of the country while in Latvia only now the government have started discussing and planning to direct it as one of the state's basic priorities. It should be also noted that farmland in Latvia, in comparison with Ireland, is much more qualitative and of high value which means that the mentioned natural resource in Latvia is also more accessible than in Ireland – it is not necessary to use so much additional chemicals. In Latvia it is possible to grow food more naturally and biologically. In Ireland industry sector highest technologies developed especially well foreign capital was attracted widely, the companies had access to the big European market. Though after joining EU Ireland partly lost its autonomy of economic policy, the benefits it brought were more considerable. The trade became more balanced. If in 1960 75 % from Ireland's export was directed to United Kingdom then in 1980 it was 43 % and in 1995 – only 35 %. The Share import of goods from the United Kingdom fell from 50% in 1960 to 35% in 1995 year (Vaidere I., Vanags E., Vanags I., I. Vilka, 2006).

Joining EU Ireland had great hopes for it. It was connected with common EU policies in different spheres as well as Structural funds that allocated money for different spheres. After signing the union's contract 1992 the priorities of the state were identified – education, idea sharing, training, youth issues, health care, culture and human rights. However it should be noted that comparing with Latvia's politicians, Irish politicians and specialists can better acquire considerable resources from Structural funds that allows them to improve those state spheres

After signing the agreement of the union in 1992 the priorities were identified – education, idea sharing, training, youth issues, health care, culture and human

rights. Though one has to admit that in comparison with Latvian politicians Irish politicians and specialists can get much more resources from Structural funds which help them to improve such public spheres that falls out of EU. The financing was mostly channelled to the following aims:

1. agriculture, fishery, forestry industries, tourism and rural development;
2. industrial and service sectors;
3. preventing peripheral effect;
4. for labour resource needs.

The Republic of Ireland understands that without joining EU its development would not be so successful but here the great ability of the state to attract EU funds to such a peripheral country and use and invest them for the common state development should be mentioned. Most of them were foreseen for the realization of common EU agricultural policy which served good for the state's development (Ireland Agriculture, Ireland Republic Department of Agriculture official web site). Overall, EU membership has given Ireland the growth of investment and capital flows, new work places, more stability and hence higher welfare.

Analysing the successful economic growth of the Republic of Ireland for more than 20 years it is possible to define several internal and external reasons of state development. Among these reasons EU membership and the provided opportunity to acquire the funds is to be mentioned. Successfully used development possibilities and government's action in acquiring EU funds demonstrates that the following list of reasons has been the basis for national recovery and strengthening and ensuring their positions also nowadays. Peter Sutherland – Irish politician, economist, and member of European Commission and the head of international bank has expressed in public for several times that “Ireland's membership in EU is with no doubt the most essential reason of Ireland's economic progress in recent past. It is removal of borders and liberation of dependency on United Kingdom which is connected with excellent access to markets (Sweeney P., 2008).

The intensive work of government and agencies, substantiation of views and ability to attract additional resources from EU funds gave the country relevant development jump especially in infrastructure and training spheres (Clinch P., Convery F., Walsh B., 2002). Ireland implements and understands also that isolated use of structural funds and acquisition of finances does not ensure economic growth. It all has to be implemented in parallel with the appropriate national economic and sectoral policies, create effective institutional and administrative structures, which also contribute rational use of allocated funds.

Irish economy specialists' views on acquisition of EU funds differs – one part of analysts consider that EU financing is partly wasted by investing it to social

sphere instead of investing it into the development of infrastructure which still is not complete (Sweeney P., 2008).

It should be added that in comparison with Latvia's infrastructure Ireland has accomplished considerably more.

Employment growth and the low unemployment rate created a situation when Ireland's population pyramid was not normal – in the middle it was very narrow, which meant that the country lacked the working-age population (Sweeney P., 2008). The real current situation was as a consequence of Ireland's national period, when it experienced a rapid and disruptive migration wave in the seventies of the nineteenth century. Mostly the talented, able-bodied population and people willing to work emigrated while the remaining were mostly low-skilled residents. After the 1980 situation rapidly changed - young people were given better education, government paid attention to finances of education sphere, increasing them and strengthening the quality of education by offering better opportunities (material base, teachers' salaries, etc.) for its acquisition (Sweeney P., 2008). For solving these issues finances of EU funds were successfully used for retraining of people and / or their training. Therefore, the possibility to increase the knowledge and skills of population was reached, as well as to provide much better quality of basic education for young people. In the result of targeted policy in 2004 the educational level in Ireland was higher than the average in EU.

National development, social guarantees, options and stability gave the opportunity and interest to return to many residents who had emigrated to other countries. Similarly, the open state labour market helped to offset the negative deviations of the population pyramid. The flexible labour market, good quality assurance and relatively cheap labour force attracted many domestic and foreign investors (Clinch P., Convery F., Walsh B., 2002). Ireland's education system reform has enabled the country to maintain its level of development in the future and to raise the overall quality of life. Paul Sweeney – a recognized and respected representative of economic sciences in Ireland, analyst, an author of several economic and social scientific analytical books, considers that one of the key enablers of national development is the quality of all education levels (primary, secondary, higher, vocational, etc.) and education as such must be one of the country's highest priorities - “ greater resources should be invested in education - both financial and human - only then Ireland will be able to sustain its economic, social and cultural success, and to ensure it fully for its people also in future” (Sweeney P., 2008).

Ireland's development is the most successful example of the EU Member States: on date of accession in 1973 the level of its gross domestic product per capita was

only about 60% of the EU average, in 1990 this indicator rose to 75%, and even after ten years has exceeded the average EU level for 20%. It should be noted that Ireland's economy is significantly dependent on the world market fluctuations, and it is affected by the situation in U.S. markets more than other European countries. Thus, Ireland has failed to escape from the slowdown of economic development tempo. For example, during the period from 2000 until 2005 and in 2008 reduction of GDP growth rate in Ireland is observed (Central Statistic Office, 2009).

The most important sectors in ensuring growth of GDP are manufacturing, business and finance, trade, transport and communication services. The most important external factor of Ireland's success is participation in the EU, which intensified competition, broadened the scope of the market and promoted efficiency growth. In addition, Ireland has for already some time privileged status in the EU. In the framework of the last Programmes Ireland after 1989 received substantial funds which retained the demand and facilitated the adaptation process at the open competition conditions. These additional funds promoted development of the public infrastructure and increased attractiveness to foreign investors.

Membership in the EU and the EU Structural and Cohesion Funds, the single market and equal competition law is the greatest financial benefit for Ireland. Ireland's national example shows that any country, whether it is located peripherally from Europe, the world's centre or at the very heart of it, there must be an active activity, a desire to develop the country in a sustainable period of time, using any of the offered opportunity - external or internal. It is important to stress that the active activity of Ireland's government, agencies, and regions is the reason for the fact that the state has used the given opportunities and successfully implements them in life. Improving quality of life depends on productivity growth, i.e. - contribution of one employed man or the result, which is reached in one worked hour (P. Clinch, Convery, F., B. Walsh, 2002). For any work and activity as the main meaning is productivity - the importance of productivity growth as a living standard determinant is relevant which also shows the quality of life. There is a large difference whether the productivity increases for 1.5% or 3% per year. At the lower growth 46 years will pass to double life quality standards, while at the highest - 23 years (as the Ireland's example shows). A country with a low productivity level will also see the low quality of life standards. The following productivity factors can be mentioned as the main modern ones - well-educated and adaptable workforce, working with new technologies and modern physical infrastructure (equipment, buildings) and innovation, scientific, technological research, industrial research and development. Ireland's example demonstrates that emigration is not always a bad factor.

The emigrated people study abroad, acquire good experience and return back with a greater capacity. Latvian should pay more attention for returning its emigrated people back home, as their proportion and the rapid wave of emigration of 2009 shows that it is significantly large number of emigrated population for the country's development and growth opportunities in the future. Productivity is also connected with the openness to new ideas, new approaches to work, it is essential, especially if productivity and growth rate has to be preserved.

Most of the politicians and state development researchers, scientists and academics of the Republic of Ireland admit that one of the main aspects of Ireland's development has been targeted investing of EU Funds in human resource. Compared with the other beneficiaries of the Structural Funds, who have invested in human resource on average 20% of the total funding, Ireland invested on average 35%. The implemented educational development and employment promotion programme in Ireland has been based on two fundamental principles:

- education must meet the requirements of the economy, and it has to prepare qualified human resources for the current market needs;
- the funding should be available as easy as possible (Janova K., 2003).

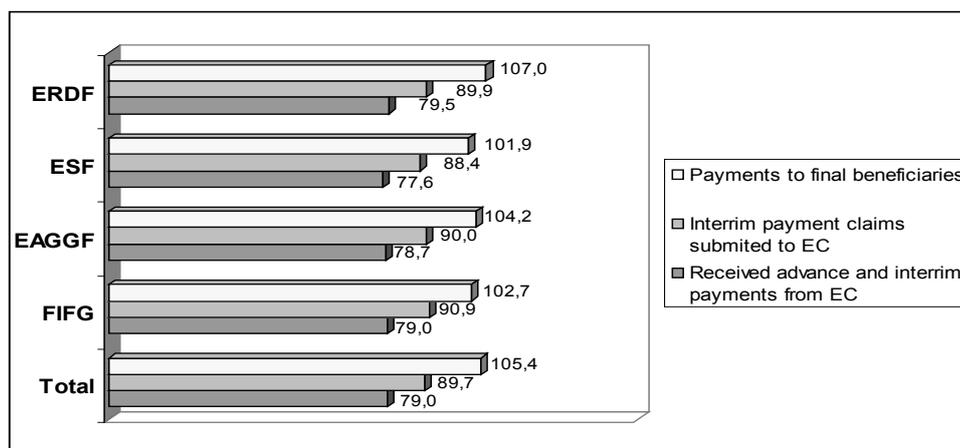
#### **Acquisition of EU Structural Funds in Latvia**

Support of EU structural funds is provided to reduce regional disparities. Thus Latvia receives financing as one country not as separate regions as it is practised in the most part of EU member states. In Latvia even since the beginning of planning period 2004 – 2006 different views were proposed about the application of these funds. As J. Brizga notes, these funds are certainly a great benefit and can substantially promote the development of our country. They enhance the hopes that Latvia will approach the welfare level of West European countries faster than before. The only concern that is related to structural funds can be expressed in two questions: firstly – will Latvia be able and have enough time to uptake the due financial support? Or - the legal capacity and the skills of responsible institutions and project applicants to ensure that the funds reach the project implementers timely are doubted. Secondly, will the allocation of financing be open and fair? In other words – there are suspicions about the possibility of corruption and non-transparent distribution of funds and Latvia's recent historic experience of squandering foreign funds proves it. These are very relevant issues. Though they remain within one paradigm - with cognition that structural funds is a positive benefit for Latvia. Should the motive of acquisition of structural funds be "faster and more"? Does the inflow of great finance into the country automatically mean favourable improvements? (Brizga J., 2005).

During the period of time 2004 – 2008 financial stimulus for economic development from European Union and other foreign financial support has flown into Latvia in the amount of 1, 55 milliards LVL which is almost three times more than 0, 54 milliards LVL that Latvia has paid into EU budget during this period. This financing has come into infrastructure development of state and municipalities, it was also allocated as a support to enterprises, it was used for qualification improvement of people and for other spheres. From 2004 until 2007 additional financing of 0, 09 milliards LVL beside state budget directly from EU was received by private sector, municipalities and non-governmental organizations (Finan u ministrija, 2009).

Also in the period of time from 2009 until 2015 a substantial EU budget support for Latvia is planned so it will continue coming into state's economy. Latvia's ability to uptake this financing and channel it to the development of the most important sectors in regions is like a keystone for successful regional development.

In 2009 of 30. June in Latvia the EU Structural funds' planning period of 2004 – 2006 has come to an end. Now it is possible to evaluate what has been done during the previous four years and appraise to what extent the structural funds has reached the set basic objective – to reduce social and economic disparities among EU regions, that is, to approximate the socio-economic indicators of Latvia to the average level of EU.



Source: made by the authors according to the data of the Latvia Ministry of Finance, 2009

**Figure 1. Uptake of EU structural funds in the planning period of 2004 – 2006 (until 31.03.2009.) in Latvia, %**

As it can be seen in Figure 1 about acquisition of EU structural funds in the planning period of 2004 – 2006, one has to conclude that Latvia is one of the countries that have even exceeded 100% of repayment of structural funds for funding recipients, as Latvia has taken overliabilities and have the opportunity to declare the relevant costs above 100%, thus in case of possible EC financial adjustments there is a degree of flexibility to replace the ineligible expenses with the eligible ones maintaining the opportunity to receive the maximum possible final payment. The largest repayment percentage of the EU allotment is for ERDF which is followed by EAGGF and FIFG and as the final is the ESF. Also from the declared EU financing and from the received payments of the EC comparing all the funds the best indicators is for ERDF followed by EAGGF and FIFG and as the last one but not on the whole with good indicators – ESF. It is to note that Latvia is one of the new EU fund member states that has attained the maximum possible advance and intermediate payment level of 95 % from structural funds' allotment.

One has to agree to what E. Jermolajeva and the group of authors have said – that the impact of EU financing on the regions can be evaluated not faster than 2-3 years after its contribution and in 2008 it was already possible to analyse the impact of 2004 – 2006 (Jermolejeva

E., Zelča S., Baltere.R., 2008). The previous research shows that possibilities and interests of all regions to acquire funds within one financial instrument are not the same. The economic “reaction” of the region towards the efficiency of the invested funds is not identical as there are different economic advantages and economic development interests among regions (Sakriņa D., 2008).

Studying EU funds' impact in Latvia, in Table 1 the authors have analysed EU funds financing in Latvia in 2004 – 2008 from GDP (percentage) of the respective period. The highest impact by percentage was in 2007 which is not without reason as the first activities of the planning period 2007 -2013 were started; it is also evident that in 2007 the financing within 2004 – 2006 planning period was greater. Comparing EU funds' impact in 2004 – 2006 planning period it should be concluded that by percentage the greatest financing amount was in 2005 – 2.11% from annual GDP. From 2003. until 2008. GDP are grow than 8 840 042 thousand Latvian lat, or 54 %. According with EUROSTAT data in period of 6 years from 2003. until 2008 (including) – GDP to 1 inhabitant in Latvia goes closer to EU-27 level for 12.3 percent points – from 43.3% until 55.6% like average in EU-27, authors cogitate then there are partial EU fund influence.

**Table 1. EU structural funds financing in Latvia 2004.-2008. from appropriate period GDP, %**  
(thousand.LVL)

| Fund \Year                                                        | 2004      | 2005      | 2006       | 2007       | 2008       |
|-------------------------------------------------------------------|-----------|-----------|------------|------------|------------|
| Cohesion Fund CF                                                  | 16 708.2  | 56 429.2  | 73 410.7   | 96 063.3   | 70 326.7   |
| European Social Fund 2004-2006 ESF                                | 9 265.0   | 8 016.4   | 2 719.8    | 45 876.8   | 4 070.9    |
| European Regional Development Fund 2004-2006 ERDF                 | 24 404.30 | 24 296.10 | 22 286.20  | 107 254.00 | 75 292.7   |
| Financial Instrument for Fisheries Guidance 2004-2006 FIFG        | 1 773.7   | 5 556.1   | 2 430.4    | 5 687.3    | 696.1      |
| European Agricultural Guidance and Guarantee Fund 2004-2006 EAGGF | 29 564.1  | 96 645.2  | 113 264.4  | 13 682.0   | -          |
| CF 2007-2013                                                      |           |           |            | 27 054.0   | 43 286.1   |
| ESF 2007-2013                                                     |           |           |            | 7 740.0    | 11 610.1   |
| ERDF 2007-2013                                                    |           |           |            | 34 297.1   | 51 445.6   |
| Total                                                             | 81 715.3  | 190 943.0 | 214 111.5  | 337 654.5  | 256 728.2  |
| GDP                                                               | 7 434 454 | 9 059 087 | 11 171 693 | 14 779 810 | 16 274 496 |
| % from GDP                                                        | 1.10      | 2.11      | 1.92       | 2.28       | 1.58       |

Source: made by the authors according to the data of the Latvia Ministry of Finance, 2009

Authors agree of research group of the society “International Baltic Economic Political Study Centre”, “Baltic Consultations” Ltd is noteworthy; in their research it is concluded “...that EU funds has had positive impact on the main indicators, for example, productivity and GDP in 2004 -2006 planning period as well as that a positive impact is being anticipated for the planning period 2007 – 2013. At the same time the viewpoint that the funds might be responsible for the lack of imbalance which is observed in Latvia during the last years or that these funds might be the resource of imbalance in future is supported reservedly. In fact on the contrary – most probably the funds will compensate the recession of economic activities which has recently begun in Latvia and in our neighbouring Baltic states.” The research group also notes “...that in Latvia the impact of funds on the main economic indicators, for instance, productivity amount (GDP), inflation and external balance depends on the balance between the impact of demand and impact of supply (Biedriņa “Baltijas starptautiskais ekonomikas politikas studiju centrs”, 2008).

As the published statistical data of different institutions shows until now the money of EU structural funds was invested for satisfaction of needs of the capital Riga and the territories of its area. This deepens the gap among big development centres and the rest of Latvia’s territory even more. Due to lack of finances most part of Latvia’s municipalities and provincial towns are falling into decay. Also the political emphasis which is put in the way that Riga, its area and big development centres in perspective will ensure high GDP increase tempo which will multiply continuous growth of Latvia’s people welfare up to the level of average EU well-to-do is very doubtful. The research group continued to verify

this hypothesis also in 2008 by performing monitoring observations and researches on the unused state regional development possibilities (Keis S., Tilta E., Zariņa V., Jesemčika A., Medne A., Kazinovskis A., Balode G. 2008).

The analysis provided estimates of the impact of EU funds in the Latvian economy and society, SKDS data suggest that the December 2008 total slightly less than 2/3 (63%) surveyed the population that impact positively (aggregated responses very positive and more positive), while only 5% of survey participants generally expressed a contrary position (very negative and more negative). That European Union funds are not affected by the Latvian economy and society, in December 2008 indicated 14% of survey participants (SKDS, 2008).

As the authors demonstrate the EU funds in the statistical analysis of data from the fund-raising site, time period from 2004. until 2008, the Riga region (Riga City and Pierīga) received 55% of all EU funds (aggregated and projects carried out in Riga region, and national-scale projects). Latgale received the lowest share of the funding of 9%, while the remainder were divided more or less similar between Zemgale, Vidzeme, and Kurzeme. To assess the fundraising, they look at the author’s Table 2, broken down by category of expenditure.

Looking in Table 2 data - the result shows that the breakdown by category of expenditure is different in different regions, namely, - 35% of the total EU funds were used for physical capital formation (category - investment in equipment, buildings and other capital). The largest capital investments were made in the Zemgale region (52%), followed closely followed by the Vidzeme region (48%) and Kurzeme region (46%). Riga was the capital region and the lowest proportion was below the average Latvian (23%), but the Latgale

**Table 2. EU funds allocation by investment categories 2004.-2008. in Latvian regions**  
(milj.LVL)

|                                                      | Rīga's<br>region | %   | Latgale's<br>regions | %   | Zemgale's<br>regions | %   | Vidzeme's<br>regions | %   | Kurzeme's<br>regions | %   | Summary | %   |
|------------------------------------------------------|------------------|-----|----------------------|-----|----------------------|-----|----------------------|-----|----------------------|-----|---------|-----|
| Investment in total factor productivity              | 148.9            | 54  | 18.9                 | 39  | 12.4                 | 18  | 19.6                 | 28  | 27.2                 | 33  | 226.9   | 41  |
| Investing in technology                              | 14.8             | 5   | 0.2                  | 0   | 0.8                  | 1   | 0                    | 0   | 0.7                  | 1   | 16.6    | 3   |
| Investment in equipment, buildings and other capital | 63.3             | 23  | 18.3                 | 38  | 36.0                 | 52  | 33.4                 | 48  | 38.7                 | 46  | 189.7   | 35  |
| Investment in human capital                          | 49.3             | 18  | 11.2                 | 23  | 19.8                 | 29  | 16.9                 | 24  | 16.9                 | 20  | 114.3   | 21  |
| Summary:                                             | 276.3            | 100 | 48.6                 | 100 | 69.0                 | 100 | 69.9                 | 100 | 83.5                 | 100 | 547.5   | 100 |

Source: made by the authors according to the data of the Latvia Ministry of Finance, 2009

region of 38% of funds invested capital. The largest category of investment - investment in total factor productivity in Latvia as a whole was 41%, and these investments will significantly differ between regions. The largest contribution to the total factor productivity conducted in Riga region - 54% of all investments in the region. Least this heading spent Zemgale region (18% of all the region's expenditure), expenditure was close to the region of Latgale Latvian average (39%) but lower in Vidzeme region Kurzeme region (28% vs. 33%). The highest proportion in human resources invested in Zemgale region (29% of all the region's expense) in the other areas the proportions were similar. Technological change was generally the lowest cost category (only 5% of total expenditure), and the largest share of expenditure was concentrated in the Riga region. Riga region had the largest proportion of fund expenses, which contributes to total factor productivity. Vidzeme region Kurzeme region Zemgale region of the investments were made mainly in physical capital.

In her work professor V. Bikse notes that EU structural funds in Latvia are not used effectively. There are three project implementation ways of EU structural funds: national, open call and grant scheme. The analysis of the implemented projects as well as participation in project calls shows that:

- In application of EU structural funds there is no clear vision of what are the quintessential national problems for the solving of which EU structural funds should be channelled. Frequently instead of channelling the funds to solving substantial issues for the development of Latvia, they are dispersed among different ministries for financing the implementation of very similar events.
- There is no businesslike cooperation among ministries to channel the funds for solving substantial problems of Latvia. The money is dispersed among different public institutions for implementation of similar events not solving important issues on ministry level.

- Besides our observations proves that at the moment governmental institutions in Latvia are not interested to cooperate with project experts of European Commission, to delve into the essence of projects, to try to understand its importance, to provide their implementation because according to them it is labour-consuming process.

The authors of the paper with the remarks of the professor of Economics that the possible solution of the previously mentioned problems for Latvia as EU member state of lower development level – “to channel more EU structural funds to elaboration of national projects involving highly qualified specialists” (Bikse V., 2009). It is being done also nowadays. Though for evaluation of the efficiency of the already elaborated projects additional research should be done.

To promote the use of all structural funds in 2006, solutions to hampering factors of acquisition of funds were found; they were adapted in the 2004 – 2006 structural funds projects. But this work should be continued in order to prevent the observed shortcomings and not to create new barriers for project evaluation in EU funds planning period of 2007 -2013.

In December 2005 the leaders of EU member states agreed on financial perspective for 2007 – 2013. During this budgeting period Latvia managed to considerably increase its financing in the result of which during the next seven years it will receive 4,53 milliard euros (approximately 3,18 milliard LVL). In addition to it in 2007 – 2013 Latvia will have access to EU funds – European Agricultural Fund for rural development – the total amount of financing is 1363 million euros, European Fisheries Fund, the total funding amount of which is 164 million euros and the European Agricultural Guarantee Fund for direct payments, 1012 million euros is foreseen for it (Eiropas Savienības informācijas aģentūra, 2007).

As the most important objectives of the use of this financing is promotion of Latvia's economic and

public competitiveness, creation of work places and productivity increase. The main strategy if the country foresees qualitative education possibilities for everybody, encouraging youth to get higher education in natural sciences and technical specialities and also to promote the research, development and innovation system of the country to reorganize economy of the industrial sectors with more advanced technologies. Special attention is paid to such horizontal priority spheres as well-balanced territorial development, Riga's competitiveness in international area, equal opportunities, sustainability, macroeconomic stability and information society. More attention will be paid also to urban development and activation measures for the support of groups living in unfavourable social environment.

The authors have also examined EU structural funds' impact in one year and per one inhabitant in both countries in 2004 – 2006 planning period which for Ireland was 7 years and for Latvia it was 3 years.

**Table 3. EU structural funds, including per capita, Latvian and Ireland, EUR**

|                                                 | <b>Latvia</b>  | <b>Ireland</b> |
|-------------------------------------------------|----------------|----------------|
| EU Structural Funds grant period (years)        | 3              | 7              |
| Area km <sup>2</sup>                            | 64 589         | 70 300         |
| Population (In 2007)                            | 2 275<br>500   | 4 339<br>000   |
| EU structural funds programming period (EUR)    | 625 568<br>826 | 901 000<br>000 |
| EU structural funds on average per year (EUR)   | 208 522<br>942 | 128 714<br>286 |
| EU structural funds on average per capita (EUR) | 274.91         | 207.65         |

Source: made by the authors according to the data of the EUROSTAT

Analysing Table 3 it is obvious that by area, number of people and EU structural funds' financing Latvia has lower indicators but calculating EU structural funds' financing on average per capita we see that in Latvian case, the funding is 67.26 EUR higher than in the case of Ireland.

Overall assessment concluded that one of the most successful examples that illustrate the principles of the EU funds is Ireland. It is one of the largest recipients of EU funds. It should be noted that once it was a poor country in the EU but now its level of development than the EU average. EU funds have certainly played a role in this process. However, there is a clear difference between the most important beneficiary fund growth - for example, Greece does not endorse the expectations of the level of development, which was placed on the positive role of the EU funds. This suggests that the seemingly free incoming money does not automatically

faster economic growth. Furthermore, treatment of these funds, the financial donations, free, easy cash receipt to be the greatest possible error. An important factor is the diversion of public funds for each area and measure selection. For example, Ireland is markedly different from the Greek, Spanish and Portuguese in their priorities for the use of EU funds available for funding. A significant part of EU money - about third part - in Ireland were driven human resources development projects. In other countries, this priority had been distributed in less than a quarter of EU funds, instead of highlighting the investment in physical infrastructure.

Comparing Latvia's experience in the economic growth development sphere, it is evident that Latvia has worked more by simply experimenting rather than looking at the experience of other countries, having similar situations, not linking together the political, social, economic and regional objectives, taking into account the fact that they always drastically changed when the new political forces entered to lead the political environment. Consequently, now Latvia can be compared to Ireland, when it was in a similar situation more than 25 years ago. Latvia from its independence until now can be defined as one phase of development, which, unfortunately, does not create national growth, but on the contrary - many former government decisions which have not been in long-term beneficial for national economic development, cause real threats to the national economic system, which can lead to a complete breakdown of the country. To create a good political, economic and regional development system, it is not necessarily to inherit it - Latvia had enough time, opportunity and examples to develop the country and create favourable conditions for its long-term growth. Taking into consideration experience of EU peripheral country Ireland, Latvia has the opportunity to compare its situation and government's decisions in national development sphere, thus assessing the main development reasons of a similar state and analyzing its errors. Ireland's national development model allows the Latvian state to elaborate effective national economy development directions, guidelines and plans to promote the continuous growth of country's development.

### **Conclusions and proposals**

The main conclusions about acquisition of EU Structural Funds in Ireland and Latvia are:

- Ireland is one of the most economically advanced, industrial, trade-oriented countries, which so far has managed to use the EU structural funds most successfully.
- Ireland's example shows that any country, whether it is located peripherally from Europe, the world's centre or at the very heart of it, must be in active activity and have a desire to develop the country in a sustainable

- period of time, using any of the offered opportunities - external or internal.
- EU funds are a positive benefit for Latvia. Though the quality of structural funds' acquisition is evaluated as law and effective less – aimless and pointless channelling of great financing part is being observed. Until now the EU structural funds in Latvia have not attained their objective. They have not reduced the disparities between regions and Riga. On the contrary: rapid development is observed in Riga but the hopes of people from the regions for the growth of welfare level did not prove right.
  - EU funds in Latvia had positive impact on the main indicators, for example, productivity and GDP in 2004 – 2006 planning period and their positive impact is foreseen also in the planning period of 2007 – 2013.
  - Support of EU structural funds in Latvia should be allocated basing on regional division. The financing should be foreseen by percentage for separate regions by years, basing on such indicators as GDP on one inhabitant, number of people in the region, level of employment and unemployment, territorial development index etc. In its turn, if a region in the end of a respective year was not able to acquire the foreseen funds fully, the surplus could be accordingly divided among the rest of the state's regions that have more actively used the funds.
  - Latvia could learn from Ireland's national activity and development experience how to recover from the economic crisis and to benefit from the EU, how to use existing resources and the available economic potential more productively and usefully developing and applying it with far-reaching development consequences for the future and creation of successful cooperation among public – employers and employees.
- Ostensibly about the free incoming money from EU funds does not automatically faster economic growth. Furthermore, treatment of these funds, the financial donations, free, easy cash receipt to be the greatest possible error. An important factor is the diversion of public funds for each area and measure selection. For example, Ireland is markedly different from the other powers in setting priorities for the use of EU funds available for funding - shifting the financing of human development projects. At the same time, most other EU member states as a priority had been established by the physical infrastructure development. The results show that Ireland's decision has brought the country much more successful and far-reaching implications. Latvia, investing in people, it is possible to reduce the population drain from the country. Investing in people is also a larger, better knowledge and opportunities for people to work, set up a business, to become socially active in the country to gradually reduce the existing socio-economic problems.

Taking into consideration experience of EU peripheral country Ireland, Latvia has the opportunity to compare its situation and government's decisions on state development, thus assessing the main principal causes of state development of a similar country and analysing its errors. Ireland's national development model allows Latvia to create maximum effective courses of action for the further development of national economy, its guidelines and plans that would promote continuous development of national growth.

To promote better use of all structural funds in 2006 solutions for several hampering factors of EU structural funds' acquisition were found; they could be applied to the structural fund projects of 2004 – 2006. But this work should be continued to prevent shortcomings and not to create new barriers in project evaluation in EU funds planning period of 2007 - 2013.

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