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## Regional strategies in Baltic countries

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**“REGIONAL STRATEGIES IN BALTIC COUNTRIES”**

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**Abstract**

The article describes the existing situation and gives analysis of the regional development policy determination and implementation in all three Baltic countries. The starting point of the regional policy statement and creation was equal for Estonia, Latvia and Lithuania since 1991.

According to statistical indicators, there are differences in implementation of the regional development activities among all Baltic countries and in regions inside each country.

The author has analysed in more details the differences between regions in Latvia and the main guidelines of the regional policy implementation in Lithuania and Estonia.

Analysis shows the differences of the institutional mechanism in all three Baltic Countries. The legal bases are different by time and content in Estonia, Latvia and Lithuania. The executive institutions are different at national and regional levels in all three Baltic Countries.

Regional development policy support is concentrated on separate territories in each country according to EU regional policy principles.

The expected results and evaluation system are not included in the regional development policy documents in all three countries. It is one of the weakest points of the regional development policy implementation process in Latvia. The regional development legislation is very general without monitoring indicators and evaluation process.

The author has analysed the prepared development strategies of regions according to possibility to evaluate success of development of planning documents.

The descriptive analysis of documents, statistical indicators, matrixes and interviews with responsible persons for the regional development policy at national level and regional level were used in the research.

**Key words:** *regional policy, regional strategy, and regional development*

## **Introduction**

Since regaining the independence in all three Baltic States- in Estonia, Latvia and Lithuania- changes in territory development and planning took place, which were determined by transition from command economy to market economy. In the middle of 1990ies the government and its executive institutions- ministries- turned to the regional development policy and regional development planning. Prerequisites for the creation of regional policy and regional development planning system in all three countries initially were similar.

One of the topical issues to be solved was the formation of regions in all three Baltic countries according to the European Union NUTS III level. Until the restoration of independence there were two levels of local governments: local and county governments, there were no regional local governments. Local and district governments with their own initiative started territory development planning process according to bottom- up approach in the middle of 1990ies. Ministry and local government planning specialists acquainted themselves with the theoretical experience and practice of European countries in regional development and planning, and started work at determining the regions and elaboration of planning guidelines.

Each of the Baltic countries in the European Union is perceived as one region, which could become a part of the European countries in future. Estonia, Latvia and Lithuania as a whole and in each separate region within the country are similar, but there exist and still increase negative differences between separate parts of the country territory or regions. It is determined by the history, geographic location, nature and environment varieties, as well as by the level and tendencies of social and economic development.

The main reason, which determined the necessity of creation of regional development policy in the Baltic countries, was and still is the existing negative differences among the regions. The most essential characteristics, which indicate the negative differences among the regions, are: Regional GDP, level of unemployment, income tax per capita. In order to characterize the differences, features and opportunities among the regions, which basically determine the principles of development of regional strategies, the author employs the data, which characterize the NUTS III level regions.

Each of the Baltic countries has different creation of regional development policy and its implementation mechanism.

## **Materials and methods**

The bulk of the research is elaborated, based on empirically- qualitative method- documentation research. The author has analysed the legislation documents related to regional policy, planning documents, assessing the achieved benefits. In the course of the research the responsible authorities on the national and regional level were interviewed.

## Results and discussion

In Estonia there are five NUTS III level regions Northern Estonia, Central Estonia, Northeastern Estonia, Western Estonia and Southern Estonia.

In Latvia in 1999 five NUTS III level regions were created: Riga, Vidzeme, Kurzeme, Zemgale and Latgale.

In Lithuania 10 regions are created: Alytus, Kaunas, Klaipeda, Marijampole, Panevezys, Siauliai, Taurage, Telsiai, Utena and Vilnius. In Lithuania these 10 regions are second level local governments, which are called 'counties', not 'regions' like in Latvia and in Estonia. Comparative description of population about the regions in Latvia, Lithuania and Estonia is given in Table 1.

Table No.1. Number of populations in regions of Baltic countries

Region	Mean annual population
Northern Estonia	525564
Central Estonia	144124
North-eastern Estonia	179519
Western Estonia	166194
Southern Estonia	354114
Riga	<b>959596</b>
Vidzeme	358693
Kurzeme	320601
Zemgale	345329
Latgale	381912
Alytus	187397
Kaunas	699314
Klaipeda	385008
Marijampole	188298
Panevezys	298958
Siauliai	369192
Taurage	<b>134051</b>
Telsiai	179599
Utena	184879
Vilnius	<b>848890</b>

Source:

*Statistical Office of Estonia website 2000. –<http://gatekeeper.stat.ee>*

*Department of Statistics 2002. – <http://www.std.lt/STATISTIKA/Apskritys>*

*Latvia`s regions in figures 2001. Central Statistical Bureau of Latvia. - Riga, 2002*

Data for regions of Estonia year 2000, regions of Latvia 2001, regions of Lithuania 2002. The largest number of population is Riga region of Latvia 959596, the next largest region is Vilnius of Lithuania 848890, and the lowest number of inhabitants is Taurage region of Lithuania 134051.

### *Institutional provision*

#### *Estonia*

In 1994 in Estonia the first regional policy document “The guidelines of the Regional Policy” was elaborated, on the basis of which the “Regional Development Strategy of Estonia” was developed in 1999.

The main directions of the regional development strategy vision of Estonia are:

- ❑ The development of counties is balanced
- ❑ Successful development of counties is based on skilful and innovative use of local advantages
- ❑ The jobs, services, and populations have concentrated more then currently into counties centre and other large settlements of the county
- ❑ Rural settlement is viable
- ❑ Transport, communication and technical infrastructure have been developed as an integer network
- ❑ Regional institutions are participating in international cooperation

The government of Estonia performs general regional policy management. The minister responsible for the regional development policy and self-governments is the Minister of the regional affairs, but the responsible institution is Ministry of Interior. This order in Estonia has not changed since 1994, when the regional policy was started. The regional Development Agency is established in Estonia, which is a sub-structure of the Estonian Entrepreneurship Support Agency. The main goal of this organization is to attract financing to the regional development and support of the national business development. Regional Development Agency operates as a regional development policy implementation structure.

#### *Latvia*

In 1993 in Latvia the Ministry of Environment Protection and Regional Development was established. It was the first step on the road towards sustainable and balanced development of regions in accordance with investigation of natural resources and lenient employment of their advantages in territorial development. The functions of the Ministry of Environment Protection and Regional Development included the issues of the regional development policy. Regional Development Department was established, whose task was to elaborate and implement the policy of the Republic of Latvia in territorial planning, urban environment, and housing and tourism infrastructure creation. The main emphasis was laid upon territorial planning development, which is one of the tools of the regional development. In 1994 the Cabinet of Ministers among 10 national programs adopted as priority the regional development. The first regional

policy document in Latvia was the “Guidelines of Regional Policy Development of Latvia”, adopted by the Cabinet of Ministers in 1995.

The next step in the creation of the regional development policy structure was the elaboration of the Concept of the regional Development Policy in the Ministry of Environment Protection and Regional Development along with the elaboration of the Concept of the regional economic Development by Ministry of economics in the fall of 1996. According the concepts the Cabinet of Ministers elaborated the “Law on Specially Supported Regions” and a number of regulations of the Cabinet of Ministers, which regulated the order of identifying and assigning the status of a specially supported region. The government in 2002 approved the Law on Regional Development. The goal of the Law on Regional Development is to promote and provide balanced and sustainable development of the country, considering the characteristics and opportunities of the whole territory of the country and separate parts of it, to reduce the malevolent differences among them, as well as to preserve and develop the features characteristic to the nature and culture environment of each territory and its developmental potential.

Since 1993 several times the regional development policy and planning sphere has experienced changes in Latvia. As of April 1, 2003, the regional development issues are the competence of a newly founded ministry- Ministry of Regional Development and Local Governments.

In distinction from Lithuania and Latvia, the implementation of the regional development policy is carried out by SNLLC “Regional Development”, which supervises the Regional Fund.

#### *Lithuania*

In 1996- 1997 the understanding of the regional policy dealt with the creation of the institutions in the regions. In 1998 the Seims of Lithuania adopted the “Guidelines of Regional Policy of Lithuania”. In 1999, the Cabinet adopted the Cabinet Decree on the Implementation of Regional Policy Guidelines.

The Law on Regional Development was adopted by the Parliament in the year 2000.

From 1996 to 1997 the issues of the regional development policy were solved in the Ministry of Public Administration Reforms and Local Authorities. In Lithuania in 1999 The National Regional Development Agency was established, which is a public non- profit company owned by the Lithuanian Association of Commerce. It is the biggest consulting and technical assistance company in the area of regional development in Lithuania.

Comparing the created institutional mechanism for the creation and implementation of the regional policy, there are essential differences among Latvia, Lithuania and Estonia. In Lithuania and Estonia the regional policy creating and implementing agencies are institutionally more powerful than in Latvia, because the National regional Development Agencies of Estonia and Lithuania are closely linked with agencies supporting entrepreneurship or similar structures, which provides close cooperation with entrepreneurs and investors, which is one of the basic corner- stones in the development of the regions.

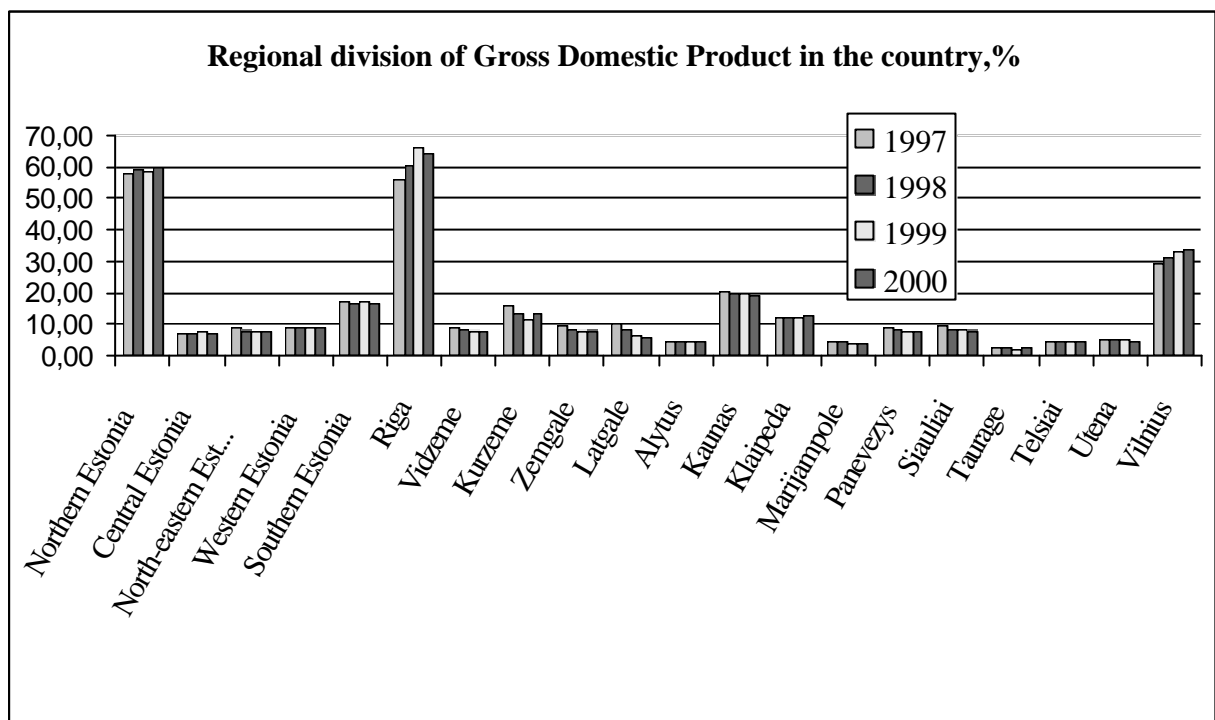
In each country there was a ministry responsible for the issues of the regional development. It was different in each country and the competences have changed in the course of time, most often in Latvia.

Analysing the distribution of the Gross Domestic Product for the three Baltic Countries among the NUTS III level regions, one can see a common problem in Latvia, Lithuania and Estonia, that a very high GDP forms in the region which includes the capital city and its agglomeration

Picture No 1. Source: Statistical Office of Estonia website. –<http://gatekeeper.stat.ee>

Latvia`s regions in figures 2001. Central Statistical Bureau of Latvia. - Riga, 2002

Department of Statistics. – <http://www.std.lt/STATISTIKA/Apskritis>



According to the Picture 1, the distribution of Gross Domestic Product in Estonia and in Latvia in 1997 is very similar- in Northern Estonia it was 58% and in Riga region 56%, which shows that these regions produce more than 50% of the whole Gross Domestic Product in the country, although these are one of the smallest regions according to their size. In Lithuania, where there are 10 regions and Vilnius region (which includes the capital city) is 2.8 times bigger that Riga region by size, GDP in distribution according to the regions is 50% smaller than in Riga region. There are no distinct differences in regional development in Lithuania, which can be explained by polycentric location of cities and their development, growth, e.g. in 2000 Vilnius region 33.7%, Kaunas region 19.2% and Klaipeda region 12.4%. But for less developed regions GDP has a tendency to diminish from year to year, which indicates insufficient introduction of the regional policy and insufficient financing.

Comparing GDP per capita in the richest regions of Latvia, Lithuania and Estonia, the situation is different: in Riga region 4134 EUR per capita in 2000, in Northern Estonia 6285 EUR per capita in 2000 and in Vilnius region 5658 EUR per capita in 2001.

The differences among the weakest regions in Latvia, Lithuania and in Estonia are much more expressed: in Latgale region in 2000. GDP per capita was 1045 EUR, in North Eastern Estonia in 2000 GDP per capita was 2318 EUR and in Taurage region in 2001 GDP per capita was 2234 EUR.

The highest level of unemployment among the regions in Latvia in 2001 was in Latgale- 15.5%, which is two times higher than the average in the country. In the period of 3 years the unemployment level has dropped off for 1% per year. The high level of unemployment is connected with reduction of common work- places- closure of enterprises or reduction of production amount. Therefore it is very essential to create territory attractive to entrepreneurship, thus attracting investors first of all, to the country, secondly, to the regions to be developed, in order to stop the decrease of development of the regions and flow of the labour force to the centre.

The unemployment level in Lithuania from 7.1% in 1996 has increased to 12.5% in 2001. The highest level of unemployment in 2001 was in Marijampole region- 16.95%, where the level of unemployment has increased for 11% since 1996. The lowest level of unemployment in 2001 is in Kaunas region- 9.7%, followed by Vilnius region- 10%. Comparing the unemployment indicators in Riga region and Kaunas region, one can see that in Kaunas region the unemployment level is two times higher than in Riga region. The main difference between the unemployment indicators in the regions in Latvia and Lithuania is the tendency for the unemployment to diminish in Latvia, but to increase in Lithuania.

### ***Regional policy instruments***

In Estonia the regional development policy is implemented thoughtfully and purposefully with the assistance of regional development programs, introducing the programming principle in the practice, which will be closely linked with EU structural policy in future. In 1996 Regional Development Strategy determines seven regional development programs:

- Agriculture program;
- Industry program;
- Island program;
- Cross border co-operation program;
- Local initiative program;
- Network of centres program;
- The Setomaa program.



Implementation of each regional development program is based on program documentation. The contents of the program documentation is essential:

- The description and analysis of the regional development of the target area;
- Objectives, strategy and expected results;
- Development priorities, measures and activities;
- Funding schedule of the measures planned;
- Organization of management, monitoring, evaluation and auditing.

In Estonia the regional policy instruments – specific development programs were created, and financing was assigned. In Estonia the regional development policy was elaborated in close cooperation with specialists from Finland, which provided an opportunity to Estonia to arrange and create the regional policy instruments in a shorter period of time. Estonia was the first among the Baltic countries, which elaborated the assessment system and main prerequisites for the assessment of the achievements of implementation of the regional policy in Estonia and for prevention of the possible drawbacks.

In Latvia there are three regional policy instruments. The first and the oldest since 1996 is the state financing in the form of target subsidies for the planning of territory development for the local, district and planning regions' local governments, in order to elaborate the territory development programs, territory planning. From 1996 till 2002 the amount of the target subsidies is 4.2 million Lats. The most important regional development program is the specially supported region program, which is on-going regional development instrument in Latvia since 1998. The main part of specially supported areas is located in Latgale region. It covers territories with the total number of population, which does not exceed 15% from the population of the country. The main goal of this program is to accelerate the economic development in the regions. The program supports the entrepreneurship in the following ways:

- Investments in the enterprise statute capital;
- Partial credit interest clearance;
- Activities of economic education,
- Joint financing of activities promoting the entrepreneurship, organized by self- governments and infrastructure.

The National Government of Latvia has selected Latgale and Zemgale regions as the target regions for Phare 2000 support according EU concentration principle.

In 2001-2003 the National Policy for Regional Development in Lithuania is focused on three target regions for concentration of Phare support and Lithuania Cabinet supports the regional development of: Klaipeda- Taurage, Marijampole and Utenas counties.

The main differences among the three Baltic countries in defining and implementation of the regional strategies are connected with the employment of regional policy instruments and their types in each country. In Latvia initially the main emphasis was put on territory development planning; from 1995 to 1998 it was the only really functioning instrument. Latgale Region Development Agency since 1999 actively participates in elaboration of the documents of national significance and basically works on the elaboration of the plan of sustainable and integrated development of Latgale region and the development policy of the whole region. Direct instrument of economic promotion for specially supported regions started functioning only since 1998.

In Estonia they have identified territories of various character for supporting, in order development took place there. The offer of regional policy instruments in Estonia is more complete and wider. In Estonia the regional policy implementation instruments began functioning earlier, which is essential in the process of changes. In distinction from Latvia, the regional policy strategy of Estonia includes the assessment, monitoring and supervision activities, which is an indispensable contribution in the assessment and implementation of the strategy.

## **Conclusions**

1. In future the national regional development strategies of Estonia, Latvia and Lithuania must emphasize the balance among the economic, social and nature environment, whose successful interaction can produce better results in the development of regions. At present each of the Baltic countries emphasizes one of the above- mentioned environments, but the promotion of development processes requires simultaneous balance and interaction among them.
2. In Latvia NUTS III level regions do not correspond to planning regions, according to which the regional policy implementation is introduced and the development strategies are elaborated. There exists a contradiction that the system of statistics is created according to NUTS III level regions, but regional policy and planning according to different- planning regions, whose statistical data must be calculates separately.
3. In Lithuania the second local government level is successfully combined with NUTS III, where the national regional policy and implementation strategies are created.
4. It is essential to promote and introduce by the help of exchange of experience the best and most successful regional development practice in each of the Baltic countries as separate activities, thus enhancing the opportunity to avoid the mistakes in the elaboration, implementation and especially in the assessment of the regional development strategies.

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