

RIGA TECHNICAL UNIVERSITY
Faculty of Engineering Economics and Management
Institute of International Business and Customs
Department of International Business, Transport Economics and Logistics

Sanda BLUMBERGA

**EFFECTIVENESS OF EUROPEAN UNION
FUNDS IN LATVIA**

Summary of Doctoral Thesis

Riga 2012

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Summary of Doctoral Thesis

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The Doctoral Thesis has been elaborated at the Department of International Business, Transport Economics and Logistics, Faculty of Engineering Economics and Management, Riga Technical University. To be granted the scientific degree of Doctor of Economics, the Doctoral Thesis will be defended publicly on May 18, 2012 – 10.00 a.m., at the Faculty of Engineering Economics and Management, Riga Technical University, 1/7 Meža Street, Room 309.

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DECLARATION OF ACADEMIC INTEGRITY

I hereby declare that the Doctoral Thesis submitted for the review to Riga Technical University for the promotion to the scientific degree of Doctor of Economics, is my own and does not contain any unacknowledged material from any source. I confirm that this Thesis has not been submitted to any other university for the promotion to other scientific degree.

Sanda Blumberga

April 5, 2012

The Doctoral Thesis has been written in Latvian. The Doctoral Thesis consists of an introduction, four chapters, conclusions and proposals, bibliography with 151 reference sources; it has been illustrated by 20 figures and 43 tables. The volume of the present Doctoral Thesis is 190 pages, not including 6 appendices.

The Doctoral Thesis and Summary are available at the Scientific Library of Riga Technical University, 10 Kļipsalas Street.

To submit reviews please contact the Secretary of RTU Promotion Council “P-09”, Dr.habil.oec., professor Anatolijs Magidenko; 1/7 Meža Street, Riga, LV-1048, Latvia.

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GENERAL DESCRIPTION OF THE THESIS

Topicality of the research

The widening of international economic cooperation and development of international economic relations are the leading trends in the process of development of world economics that has promoted the creation of economic and political unions among the countries and influenced economic progress all over the world. In the process of expansion of international economic relations, the influence of economic unions is clearly defined. Under the influence of globalisation processes, the development of international economic unions plays an important role in fostering economic growth and prosperity of the country.

The European Union is the economic and social union of the countries that unites the most influential and economically strongest European countries. On 1st May 2004, Latvia became the member state of this organisation that can be considered a significant factor in the promotion of the economic, social and political progress of the country. One of the political pillars of the European Union is a regional policy; European Union funding and allocation of the financial means to the less developed member states in order to help them to achieve the level of development of the most powerful countries in Europe is one of the important directions of this policy.

European Union (EU) funds is one of the instruments of EU regional policy designed to reduce regional differences between the EU countries and help the development of the EU countries and regions whose per capita Gross Domestic Product (GDP) is lower than the EU average.

In the planning period 2007 – 2013 EU financing for the member states is being allocated according to three aims of cohesion policy: convergence that supports conditions promoting growth in regions whose GDP per capita is less than 75% from the average Community indicator; regional competitiveness and employment for regions that do not comply with the convergence aim, and territorial cooperation in Europe – with local and regional initiatives cross-border cooperation, cross-regional cooperation and experience exchange have been supported.

The European Union provides financial assistance to the member states in the way of EU funds for implementation of projects in various fields important for every country – public infrastructure, entrepreneurship, agriculture, education and social security, environmental protection and other fields.

Therefore EU funds play a significant role for the economic development of Latvia. The EU regional policy through the EU funds promotes the development of national economy of Latvia, investing in infrastructure development, entrepreneurship, social sphere and technical assistance projects, which in the current situation are crucial for the development of the country and the achievement of infrastructure level of the most developed countries in Europe.

The EU funds are financial means that can promote the economic activity in the country in several ways. First of all, if the EU funded projects are implemented by the private institutions and enterprises without the involvement of the state, the investment projects are implemented through the EU assistance and private financing. Second, if projects are implemented by state institutions or local authorities with small amount of state financing, the public sphere is developed – infrastructure, education, social services – with the help of the projects, creating jobs, decreasing unemployment and promoting economic recovery.

To ensure the sustainable development of the country, it is important to use available funds purposefully and with maximum return to the national economy. In Latvia as well as in other EU countries, it is crucial to ensure the effective use of restricted EU financial means. As a result, the effective management of EU funds and implementation of EU co-financed

projects provide return on investment and economic development of the country. Consequently, effective use of the EU funds is very important for the development of national economy of Latvia.

Current economic situation and slow development pace identify problems also in planning of the EU funds and project implementation processes; by allocating the EU funds properly and effectively, the state should benefit from the EU financing that has to result in the economic development of the state. Consequently, in the preparation process of the new planning period – from the year of 2014 – it is significant to evaluate the existing situation in the sphere of EU funds and apply new effective methods and schemes to the EU fund planning and implementation processes that is very important factor in order to promote the overall development of Latvia in such strategically important fields as infrastructure, entrepreneurship, education, information technologies, environment and social care.

Within the framework of the Thesis, the EU funds operation has been considered as totality completely related to all the EU funds processes – EU funds planning, distribution, acquirement, implementation and evaluation. EU funds acquirement – utilisation of the allocated EU funds financing for the implementation of EU funds projects and disbursement to financing recipients.

With the help of EU funds, accessibility questions regarding entrepreneurship financial means for the development of the enterprises are being solved. In the implementation process of the majority of EU funds projects, enterprises are involved – as direct implementers or as work executors attracted by the contract in the framework of EU funds projects. Suggestions imparted in the Promotion Thesis are offered to achieve the maximum benefit from the EU funds available for project applicants and implementers, e.g. enterprises, local authorities and other organisations, with the effective work of the state institutions. Problems addressed in this work are connected with the ones enterprises face in the EU funds application and implementation process. Implementing the offered proposals, and elaborated methods and theoretical principles, it is possible to unburden the EU funds project application and implementation process for the entrepreneurs.

Majority of the suggestions and methods offered in the Thesis, for example, advance payment allocation proposal for the entrepreneurship, are directly pointed to facilitate the work with EU funding for the entrepreneurs – both in application and implementation processes – and for the entrepreneurship support programmes improvement. Several subchapters are directly devoted to the entrepreneurship support – entrepreneurship support general analysis, elaboration of the discounting mechanism of EU funds co-financed state aid programmes project, most part of the EU funds implementation and programme improvement measures, one part of the project evaluation methods improvement.

Theoretical and methodological foundation of the research:

The issue of European Funds has been researched by scientists in Latvia and abroad. In the EU member states and candidate countries this topic has been studied by Becker S.O., Campbell J., McSorley L., Charvatova D., Christodoulakis N.M., De Rooij R., Ortmeyer A., Getimis P., Kovacs I., Šumpikova M., Pavel J., Tatar M., Valve H., Zerbinati S., Kalyvitis S. C., Mohl P., Hagen T., Kuyucu Helvacioğlu A.D., Tektas A. and others. In Latvia, the EU funds have been studied by Āboliņa I., Jakušonoka I., Pilvere I., Latviete I. and others. General Project evaluation methods have been examined by Didenko K., Lāce N., Kutuzova O., Rurāne M. and others, as well as foreign researchers Milanovic D.Lj., Milanovic D.D., Cheng E.W.L., Li H., Alidi A.S. and others.

However, the scientific literature on the EU funds can be characterized by lack of the certain suggestions, applicable schemes, developed theories and theoretical principles of the EU fund allocation. Most of all scientific literature offers general conclusions based on the analysis of the implementation of programmes or groups of programmes in various countries.

Research is mainly based on the interviews of various involved officials and project implementers. Many research studies are devoted to the evaluation of the influence of EU funds. It is necessary to emphasize political science tendency of the EU funds operation research, which does not include economically justified and detailed methods and principles. Consequently, the implementation and administrative processes of EU funds often lack a necessary scientific substantiation.

Therefore, **the aim of the Doctoral Thesis** is to elaborate theoretical principles, methods and proposals for the effective use of the EU funds financing and implementation of the EU funds in Latvia, studying and analysing the results and experiences of the past years of the EU fund allocation.

To achieve the aim stated, the following tasks are put forward:

- 1) to study and analyse information on the EU funds in Latvia till 2010;
- 2) to evaluate EU funds in Latvia and, as a result, to develop proposals for increasing the effectiveness of their use;
- 3) to perform research on the EU funds implementation system in Latvia and to elaborate proposals for the development of every stage of its operation;
- 4) to study and analyse the existing theories and methods that are used in the evaluation of financing allocated to EU funds projects and in the field of EU funds implementation;
- 5) based on the situation analysis in Latvia, to elaborate theoretical principles, methods and schemes for granting the EU funds that can be used in implementation of the EU funds.

The object of the research is the financing of projects co-financed from the EU funds in different spheres of national economy, including the entrepreneurship.

The subject of the research is the effectiveness of the EU funds financing implementation, financing allocation methods and approaches.

Scientific novelty of the Doctoral Thesis

1. A detailed analysis and evaluation of the EU funds in Latvia till 2010 has been accomplished, summarising data about all EU funds in three planning periods.
2. A set of methods and measures for the promotion of the EU funds operation effectiveness in Latvia has been elaborated.
3. By evaluating the existing appraisal system of the EU funds in Latvia and different evaluation methods, a new comprehensive evaluation system of the effectiveness of the EU funds operation has been created.
4. To optimize and arrange the allocation of the EU funds, the improved financing allocation system and theoretical principles of selecting projects for the EU funding have been elaborated that are proposed to be applied in the procedure of allocating the EU funds in the sphere of entrepreneurship.
5. By evaluating appraisal scheme drawbacks of the pre-accession period funds and the EU funds in the planning period 2004 – 2006, the improved scheme for project appraisal in the planning period 2007 – 2013 has been created.
6. Based on the EU funds allocation analysis, financing allocation methods for support programme creation have been elaborated that can be used in financing allocation among different programmes.
7. By studying the impact of the EU funds on regional development problems in Latvia, a regional allocation system for the promotion of EU funds regional effectiveness has been elaborated.
8. By analysing methods and indicators applied in project evaluation, project effectiveness evaluation system has been developed, based on the project character, sphere and size.

9. By evaluating the planning situation of EU funds in the country, the methodical approach to strategic planning of the EU funds has been created.
10. By studying the EU legislation in state aid area, the discounting mechanism of the EU funds co-financed state aid programme project support amount in the entrepreneurship sphere has been elaborated.

Practical application of research findings

Research findings included in the Doctoral Thesis are practically applied in the EU funds planning and programme implementation process in Latvia; most of the proposals offered and schemes developed have been submitted to the Ministry of Finance of the Republic of Latvia (Letter No.1.1-15/993 of 11 September 2006 “On Documents for the Programming Period 2007 – 2013”, Letter No. 1.1.-37/858 of 18 April 2007 “On the Improvement of Implementation Procedure of the EU Structural Funds for the Planning Period 2007 – 2013”) and to the Ministry of Economics of the Republic of Latvia (Letter No.1.1-15/1001 of 14 September 2006 “On Legal Project of the EU Structural Fund and Cohesion Fund Management Law”, Letter No. 1.1-15/1402 of 30 November 2006 “On Complement of Operational Programme “Entrepreneurship and Innovation””), when the author worked as a Head of Strategic Planning Unit of the Structural Funds at the Investment and Development Agency of Latvia. Also other letters have been submitted about different regulation projects of the Cabinet of Ministers of the Republic of Latvia and procurement process improvement.

Some of the submitted proposals have actually been applied in normative, planning or methodological documentation for the planning period 2007 – 2013, for example, programme development proposals, description of the project evaluation scheme, proposal for the advance payment procedure, proposal for purchase documentation verification.

Limitations and constraints of the research:

The Thesis has been elaborated taking into account the information on the EU fund operation in Latvia in three planning periods – pre-accession period, planning period 2004 – 2006 and the first part of the planning period 2007 – 2013. In this Thesis only the EU funds are considered, but other financial instruments that are non-EU funds are not studied. EU funds in the pre-accession period are ISPA (Instrument for Structural Policies for Pre-accession), PHARE (Poland, Hungary Aid for the Reconstruction of the Economy) and SAPARD (Special Action Programme for Agriculture and Rural Development). In the planning period 2004 – 2006 according to the normative documentation, EU funds are ERDF (European Regional Development Fund), ESF (European Social Fund), EAGGF (European Agricultural Guidance and Guarantee Fund), FIFG (Financial Instrument for Fisheries Guidance) and CF (Cohesion Fund), as well as European Community Initiatives *EQUAL* and *INTERREG*. In the period 2007 – 2013 ERDF, ESF and CF are considered to be the EU funds, programmes connected with agricultural and fisheries activities financed from the European Fisheries Fund and European Agricultural Fund for Rural Development are separately divided.

Research methods:

In the process of development of the Doctoral Thesis, the following research methods have been used: logical and constructive methods, statistical analysis, comparative analysis, system evaluation methods and expert evaluations. To provide the visuality of the research findings, the author uses tables, charts and schemes.

In the Doctoral Thesis the following information sources have been used: relevant documents issued by the Ministry of Finance, Ministry of Economics of the Republic of Latvia and Central Bureau of Statistics, normative documents regulating the operation of the EU funds – laws of the Republic of Latvia, Regulations and Reports of the Cabinet of

Ministers of the Republic of Latvia, as well as the author's personal experience in the corresponding sphere

Thesis Statements to be defended:

1. To identify operational problems of the EU funds, there is a need to perform effectiveness evaluation of the EU funds. The EU funds operation effectiveness can be evaluated only with a comprehensive and complex approach, estimating all operational aspects of the EU funds at all operational stages.
2. The EU funds in Latvia have made contribution to the development of the national economy. However, by performing an overall evaluation, it has turned out that the utilisation of the EU funds in Latvia has not been effective enough taking into account their acquirement, planning, impact on the national economy and regional development, as well as implementation assessment; therefore, there is a need to develop it, improving EU funds planning, allocation, acquirement and implementation processes.
3. Effective utilisation of the EU funds is not possible without new methods, principles and improvements applied to the EU funds planning, allocation, and administration system. To obtain a maximum return of the co-financed projects from the EU funds as well as contribution to the national economy, there is a need to employ the improved methodological approach to the EU funds management processes, taking into account the proposals elaborated by the author.

PUBLICATIONS:

The research findings are published in 11 internationally recognized peer-reviewed scientific journals:

Articles in Scientific Journal of Riga Technical University:

1. Blumberga, S. Effectiveness of Acquirement of European Union Funds in Latvia // Scientific Journal of Riga Technical University, Series 3, Economics and Business. – vol.20 (2010), pp. 33 - 40.
2. Blumberga, S. European Union Funds Allocation Theoretical Principles and Evaluation of Project Effectiveness // Scientific Proceedings of Riga Technical University, Series 3, Economics and Business, Economy: Theory and Practice. – vol.18 (2009), pp.19 - 25.

Full Texts in the Proceedings of International Scientific Conferences:

3. Blumberga, S. European Union Funds and Their Influence on the Regional Development of Latvia // Research for Rural Development 2009. Proceedings of the 15th Annual International Scientific Conference, Jelgava: LLU, 2009.– pp. 196 – 202.(CABI database).
4. Ozola, S. (Blumberga, S.) Evaluation Scheme of EU Fund Projects in Latvia // The Problems of Development of National Economy and Entrepreneurship. Proceedings of the 49th International Scientific Conference of Riga Technical University on Economics and Entrepreneurship – Riga, RTU, 2008: CD-ROM, 4 pages.

Abstracts in the Proceedings of International Scientific Conferences :

5. Blumberga, S., Počs, R. Methods of Evaluation of European Union Fund Operation Effectiveness // the 52nd International Scientific Conference of Riga Technical University, RTU FEEM Scientific conference on Economics and Management abstract proceedings. – Riga: RTU, 2011. – pp.28. – 29.
6. Blumberga, S., Počs, R. Strategic European Union Fund Planning for the Promotion of Sustainable Development // Proceedings of the 9th International Conference “Information Technologies and Management”, April 14 – 15, 2011 – “Information

- Technologies, Management and Society” - Riga: Information Systems Management Institute, 2011. – pp. 158 – 160.
7. Blumberga, S. Efficiency of Acquirement of European Union Funds in Latvia // the 51st International Scientific Conference of Riga Technical University, RTU FEEM Scientific Conference on Economics and Entrepreneurship, conference abstracts proceedings. – Riga: RTU, 2010. – pp.19 - 20.
 8. Blumberga, S. European Union Fund Allocation Theories and Evaluation of Project Effectiveness // the 50th International Scientific Conference of Riga Technical University, RTU FEEM Scientific Conference on Economics and Entrepreneurship, conference proceedings. – Riga: RTU, 2009. – pp.53 – 54.
 9. Ozola, S. (Blumberga, S.) Evaluation Scheme of EU Fund Projects in Latvia // The Problems of Development of National Economy and Entrepreneurship. Proceedings of the 49th International Scientific Conference of Riga Technical University on Economics and Entrepreneurship – Riga: RTU Publishing House, 2008. – pp. 117 – 118.
 10. Ozola, S. (Blumberga, S.) European Union Funds and Their Influence on the Development of the Baltic States // The Baltic Region between Germany and Russia. Dependence and Independence in Past and Present. Proceedings of the 7th Conference on Baltic Studies in Europe – Luneburg, Germany: Nordost-Institut an der Universitat Hamburg, 2007. – p. 93.
 11. Ozola, S. (Blumberga, S.) Development of Discounting Mechanism for the EU Co-Financed State Aid Program Projects // the 47th International Scientific Conference of Riga Technical University devoted to the 40th Anniversary of the Faculty of Engineering Economics and Management. Abstracts of presentations. – Riga: RTU, 2006. – p.65.

Research findings are presented in the following international scientific conferences:

1. Blumberga, S., Počs, R. Methods of Evaluation of European Union Fund Operation Effectiveness. The 52nd International Scientific Conference of Riga Technical University, RTU FEEM Scientific conference on Economics and Management (SCEE'2011), Riga, Latvia, October 7, 2011.
2. Blumberga, S., Počs, R. Strategic European Union Fund Planning for the Promotion of Sustainable Development. The 9th International Conference “Information Technologies and Management”, Riga, Latvia, Information Systems Management University, April 14 – 15, 2011.
3. Blumberga, S. Effectiveness of Acquirement of European Union Funds in Latvia. The 51st International Scientific Conference of Riga Technical University, RTU FEEM Scientific Conference on Economics and Management (SCEE'2010), Riga, Latvia, October 15, 2010.
4. Ozola, S. (Blumberga, S.) European Union Funds and Their Influence on the Regional Development of Latvia. The 15th Annual International Scientific Conference “Research for Rural Development 2009”, Jelgava: Latvia University of Agriculture, May 20 – 22, 2009.
5. Ozola, S. (Blumberga, S.) Evaluation Scheme of EU Fund Projects in Latvia. The 49th International Scientific Conference of Riga Technical University “The Problems of Development of National Economy and Entrepreneurship”, Riga, Latvia, October 9 - 13, 2008.
6. Ozola, S. (Blumberga, S.) European Union Funds and Their Influence on the Development of the Baltic States. The 7th Conference on Baltic Studies in Europe, Luneburg, Germany, Nordost-Institut an der Universitat Hamburg, June 8 – 10, 2007.

7. Ozola, S. (Blumberga, S.) Development of Discounting Mechanism for the EU Co-Financed State Aid Program Projects. The 47th International Scientific Conference of Riga Technical University devoted to the 40th Anniversary of the Faculty of Engineering Economics The Problems of Development of National Economy and Entrepreneurship”, Riga, Latvia, September 21-23, 2006.

Furthermore, the author has participated and represented administration institutions of Latvia involved in the EU fund administration in the following international conferences:

1. Fit for the Future. Powerful Cities and Regions through European Structural Funds 2007 – 2013. International Kick-off conference on the New Funding Period. (Fit für die Zukunft. Starke Städte und Regionen durch Europäische Strukturfundsförderung 2007 – 2013. Internationale Konferenz), Agiplan, Bonn, Germany, August 29 – 30, 2006.
2. European Trend Chart on Innovation. Innovation and Public Procurement. European Union Policy Workshop. CDTI, Madrid, Spain, October 19 – 20, 2006.

In 2007 the author as a representative of the Investment and Development Agency of Latvia has participated and applied the research findings in the working party of the Ministry of Finance of the Republic of Latvia “EU Funds Thematic Evaluation Consultative Working Group”.

Volume and structure of the Doctoral Thesis

The Doctoral Thesis is an independent scientific research work written in Latvian. It consists of the introduction, exposition of contents, conclusions and proposals, bibliography and appendices.

A content of the Thesis is outlined in four chapters.

Chapter 1 “Analysis of the European Union Funds in Latvia” deals with the comprehensive EU funds analysis in Latvia in three planning periods – pre-accession period, period of 2004 – 2006 and period of 2007 – 2013. The author has summarized information about all EU funds of these planning periods, their operational aims, financing areas and volume.

Chapter 2 “Analysis of Effectiveness Evaluation Methods” includes the analysis of EU funds evaluation in Latvia. The author also studies and evaluates both general and EU funds effectiveness evaluation methods, as well as proposes a new complex system scheme of effectiveness evaluation of the EU funds operation.

Chapter 3 “Evaluation of the European Union Funds Effectiveness” is devoted to the effectiveness evaluation of the EU funds in Latvia according to the approach developed in the Chapter 2. Consecutive EU funds operational stages are analysed, main problems and drawbacks of each stage are identified, evaluation of the achievement of the goals set and corresponding documents is performed. Within the framework of this chapter, the EU funds acquirement evaluation, influence on national and regional economy development evaluation, project appraisal and institutional system evaluation are carried out.

In Chapter 4 “European Union Funds Effectiveness Promotion Opportunities in Latvia”, various proposals for promoting the EU funds effectiveness in Latvia are offered for solving the identified problems of the EU funds effectiveness at all operational stages of the EU funds. For the promotion of the EU fund performance effectiveness, the author offers the elaborated methods for allocation of the EU funds, theoretical principles of allocation, improved project evaluation methods, developed new project evaluation scheme, EU fund strategic planning methodical approach, project discounting mechanism, as well as proposals for the EU funds implementation and programme improvement, EU fund use in regional development and EU funds effective performance in the recession period.

The total volume of the Thesis is 190 pages, not including appendices. There are 20 figures, 43 tables and 6 appendices included in the Thesis, which explain and illustrate the contents of the research. For the elaboration of the Doctoral Thesis, 151 information sources have been used.

MAIN SCIENTIFIC RESULTS OF THE THESIS

1. ANALYSIS OF THE EUROPEAN UNION FUNDS IN LATVIA

In this chapter, all implemented *pre-accession EU funds* in Latvia are analysed – ISPA (Instrument for Structural Policies for Pre-accession), PHARE (Poland, Hungary Aid for the Reconstruction of the Economy) and SAPARD (Special Action Programme for Agriculture and Rural Development). ISPA was oriented on faster alignment of the existing community infrastructure standards to the EU candidate countries, carrying out financial investment in environment and transport infrastructure measures of these countries. Additionally to the investment in infrastructure, a part of the ISPA budget could be used for technical assistance measures.

In April 2004, when Latvia entered the EU and ISPA became Cohesion Fund, 25 ISPA projects with total financing of EUR 491 682 824 were approved since 1999, including ISPA financing of EUR 310 241 258 that accounts for 63.1% of total financing, which is necessary for project implementation. 13 from the approved projects were environment sphere projects, 11 transport sphere projects and one technical assistance project.

In 1991 between the European Commission and the government of Latvia, the first contract on EU PHARE programme on receiving financial support was signed, based on which Latvia started to receive aid in the framework of the EU PHARE programme. From 1998 EU PHARE programme was available, which was oriented to institution building and investment support priorities. 30% of EU PHARE programme budget were allocated for institution building, and 70% for investment support.

Summarising financing indicators, it can be concluded that since 1999 EUR 164.54 million have been invested in PHARE programme; in its turn, EU allocation to the programme added up to EUR 179.17 million. The experience gained from PHARE programme implementation has contributed to preparation for working with structural funds, especially with ERDF activities.

In the period from 2000 till 2006, SAPARD financing for Latvia as the EU candidate country was available for development of rural areas and carrying out structural reforms in agriculture. For the most part, financing (32%) was used for reforestation of agricultural lands, land survey, for agriculture and fishery production processing, and 26% of financing – for marketing improvement, 24% – for diversification of rural economies. A small part was channelled to training and technical assistance measures to Ministry of Agriculture as SAPARD managing authority. From 2000 till 2006, total SAPARD financing comprised EUR 152 499 868.

Performing the comparison of pre-accession funds, it can be concluded that all these aid instruments were different and provided for achievement of the specific goal.

In the planning period 2004 – 2006, EU structural funds – ERDF (European Regional Development Fund), ESF (European Social Fund), EAGGF (European Agriculture Guidance

and Guarantee Fund), FIGF (Financial Instrument for Fisheries Guidance) and CF – became available for Latvia as a member state of the EU.

Main planning document of structural funds for 2004 – 2006 in Latvia is Single Programming Document or National Development Plan (NDP).

Development aims listed in it are connected with tuning against the main competitive differences in short term and middle term and creation of necessary conditions for Latvia to achieve the long term goal and become a competitive knowledge-intensive country.

According to NDP, 4 priorities were put forward for the distribution of structural funds that could be considered also investment areas:

- 1st priority: Promotion of Territorial Cohesion.
- 2nd priority: Promotion of Enterprise and Innovation.
- 3rd priority: Development of Human Resources and Promotion of Employment.
- 4th priority: Development of Rural Areas and Fisheries.

Additionally, the 5th priority was added – Technical Assistance – that was not investment area, but was connected with administration support.

In the period 2004 – 2006, total financing of LVL 439 652 273 were allocated from the EU in a way of structural funds.

Evaluating allocation of structural funds among different fields, it can be concluded that the most part of financing is allocated to infrastructure sector – 32.6% from financing, followed by entrepreneurship and human resource development with similar indicators 21 – 25%. Area of rural development has received a decent amount of support – 14.6%; a small amount of support – around 3% – was allocated to fisheries and technical assistance sectors.

Analysing fund allocation of this period, it can be concluded that financing was allocated according to the development stage of Latvia in 2002 and 2003; consequently, inadequately large amount of financing was allocated to simple development programmes. Economic growth in 2006 already demanded the implementation of a more complicated and innovation-oriented programme. It has to be emphasized that easily implementable support programmes were introduced that can be characterized by a large amount of financing for certain projects, purchase of equipment, infrastructure establishment in the framework of projects.

Analysing Cohesion Funds activities in the planning period 2004 – 2006, it can be seen that that in total financing of EUR 515.9 million has been allocated to Latvia for the implementation of environment and transport projects. It can be concluded that Cohesion Fund financing in the planning period 2004 – 2006 was very important and assisted for adjustment of national importance environment and transport infrastructure objects that lacked financing from the national budget means. This way Latvia was given a chance to achieve the level of infrastructure of the most developed EU member states and create jobs for the local staff that was involved in implementation of these large projects.

In addition to the aforementioned EU funds, in the planning period 2004 – 2006 also European Community initiatives such as *EQUAL* and *INTERREG* were operating. The largest part of *EQUAL* funds – 52% – was allocated to activities encouraging the working capacity, followed by equal opportunities activities – 35%. The largest part of Community initiative *INTERREG* funds – 70.8% – was allocated to cross-border cooperation events, followed by international cooperation events with 23.4% of total financing.

In general, it can be concluded that the above-mentioned Community priorities are an important constituent part of EU fund allocation strategy, but in comparison with the EU structural funds and Cohesion fund contribution they have small financing amounts.

In the planning period 2007 – 2013, EUR 4.53 million were allocated to Latvia (EUR 4'530'447'634) for the implementation of the cohesion policy aims with the intercession of EU funds (ERDF, ESF and CF). For the achievement of the aims stated in the National Strategic Reference Framework (NSRF), ESF, ERDF and CF investments in Latvia are guided with the help of three Operational programmes:

- ESF OP “Human Resources and Employment”;
- ERDF OP “Entrepreneurship and Innovations”;
- ERDF and CF OP “Infrastructure and Services”.

Analysing financing allocation, for the most part, the financing – 29.9% – is allocated to the field of transport and information communication technologies, also a great part – 17.4% of financing – is allocated to the field of environment. Such substantial financing in these areas can be explained with the implementation of Cohesion Fund projects in the fields that have bigger volume and require remarkably greater financing amount. Also, special attention is devoted to entrepreneurship and education field, approximately 10% of financing to each. Approximately 6% of financing are allocated to employment and social inclusion, city environment, science and health fields. 2-3% of financing are allocated to power industry and technical assistance.

Analysing this finance distribution among the sectors, it can be concluded that overall distribution is logically built because financing is basically allocated to large infrastructure projects that are nationally important and necessary. But priorities of other support fields need to be reconsidered according to the economic situation in the country. Larger part of financing would be needed in entrepreneurship and innovation sector for developing the competitiveness of the state. Smaller part could be allocated to employment and city environment because investment on employment opportunities has not been the most effective so far and before making large investment amounts, financing allocation in this sphere has to be changed. City environment is not the field that has to be developed under the conditions of economic recession.

Performing a more detailed analysis of the OP “Human Resources and Employment”, the largest part of financing is allocated to “Employment promotion and healthy workplace” priority activities; a large part is allocated to higher education, science and skills activities. Financing of higher education and social inclusion activities is comparatively insufficient to the importance of these spheres for society and wholesome development of the country.

The largest part of ERDF OP “Entrepreneurship and Innovations” financing – 58.8% – is allocated to the priority “Science and innovation”, finance accessibility has received 28.2% of total financing of operational programme, a small amount – only 10% – has been allocated to entrepreneurship promotion. Large amount of financing for science and innovation is related to such programme implementation as competence centre development and technology transfer. Small amount for entrepreneurship support can be partly connected with EC demand for supporting innovative activities and not simple business infrastructure, but insufficiency of the financing of such kind has to be admitted. In general, this operational programme is very important and is the main state aid instrument for the enterprises in Latvia.

The largest part of financing – 26.7% of European Regional Development Fund and Cohesion Fund OP “Infrastructure and Services” – has been allocated to transport development priority that is followed by environment infrastructure priority with 20.9% of the total OP financing. It is attributable to Cohesion fund project proportion in this sphere. This operational programme is very significant for the development of the country; public infrastructure is of significant importance in provision of common welfare, promotion of entrepreneurship and investment attraction. As a negative aspect and planning imperfection of this OP energy effectiveness, support has to be mentioned that was not necessary in the period of 2007 – 2013 when economical problems appeared; moreover, this support overlapped the

support of climate change financing instrument administered by the Ministry of Environment that is non-EU fund element.

In the planning period 2007 – 2013, agriculture and fisheries support activities have been divided separately from others with the Ministry of Agriculture as a managing authority that is not in subordination to the Ministry of Finance. Total financing for agriculture programmes in the period 2007 – 2013 is EUR 2332.25 million, the largest part of which is allocated to the first two axes – improvement of competitiveness of agriculture and forestry sectors and environment and rural landscape improvement.

In general, analysing support measures for the planning period 2007 – 2013, it can be concluded that they are similar to support programmes of the period 2004 – 2006, but these have been efforts to regroup the support, for example, agriculture and fisheries support activities have been separated from other EU funds, ERDF and CF support has been united. A tendency can be surveyed to develop more complicated support programmes in terms of previous programmes that were comprehensible in 2006 when measures were developed, but it was not suitable for financial situation in the country in 2008 – 2010.

Analysing the operation of all planning periods, it can be concluded that experience factor plays an important role in programme planning and formation process because all the consecutive programmes are made on the basis of programmes implemented earlier. It has to be admitted that opinion expressed from public institutions (mostly, branch associations, research institutions, higher educational establishments, local governments) is important for programme development in the period 2007 – 2013. Following the European Commission requirements, innovation and technology transfer programmes are developed for the planning period 2007 – 2013 that are not suitable for economic situation in 2009, 2010. In general, it can be concluded that starting from the pre-accession period, total financing amounts of EU funds have increased, expanding their influence on the Latvian national economy.

2. ANALYSIS OF EFFECTIVENESS EVALUATION METHODS

To implement effective and purposeful planning and allocation process of EU funds, there is a need to evaluate EU funds operational effectiveness of the previous planning periods. In 2014 new EU funds planning periods will begin, and now planning and coordination of the EU funds operation sectors are being commenced on the EU and national level. For the development of this process, a detailed evaluation of operation effectiveness of EU funds in the previous periods can provide significant information. To perform a complex evaluation of EU funds operational effectiveness, there is a need to apply appropriate effectiveness evaluation methods.

Different authors have linked the *concept of effectiveness* to the achievement of the aims (Elling B., Mouzas S., Andersen J.A.). For the description of the effectiveness concept in the framework of this work the following terms are accepted:

- Effective operation is operation that leads the process towards the achievement of the goal.
- Effectiveness is the ability of the system to achieve the aims stated rationally using the resources given.

EU funds operation evaluation is one of the constituents of the EU funds management; therefore, its realization is one of the EU funds managing authority duties performed by the Ministry of Finance as the EU funds managing authority. At present, EU funds assessment methodology is not elaborated in one united document; its elements are

included in various normative documents regulating EU funds operation, as well as in informative documents of managing authority.

European Commission Regulation No. 1083/2006 identifies three kinds of assessment – ex-ante, before beginning of the planning period, within the planning period and ex-post, after the end of the planning period.

All types of assessment are important and necessary but their content has to be applicable, necessary and appropriate to the concrete economic situation in the country. It is crucial to take into account the conclusions derived from the assessment and with their help to improve the EU funds operation that is not observed in Latvia at present.

EU funds assessment in Latvia is mainly a compliance mechanism regarding the EU Regulations. Also the assessment topics are not chosen according to the coordinated system, but, first of all, all the assessments demanded by the European Commission are carried out, followed by topics offered by the institutions involved in administration of the EU funds. Often these topics are not unanimously necessary and with high priority for the overall assessment of the EU funds operation. There is a need to apply a systematic and complex approach for the evaluation of most important aspects of the EU funds operation, spheres that need to be assessed and assessments that need to be carried out on a mandatory basis have to be set in order to evaluate the overall EU fund operation usefulness and effectiveness.

In Latvia *implementation effectiveness of the EU fund programme* is considered and evaluated separately based on the programme supervision indicators set in the planning documents. According to the Single Programming Document, three types of supervision indicators are put forward – outcome, result and influence indicators. In supervision indicator system for the planning period 2004 – 2006, many problems can be observed; therefore, there is a need for change in its elaboration methodology and indicator system improvement.

According to the point of view of the author, the effectiveness indicator system as at present and offered in future is too complicated and not understandable for the project implementers; therefore, there is a need for simplification. The author offers such a solution – every support programme has its goals that need to be achieved, in fact, the achievement of these aims should be provision of effectiveness, and supervision indicators have to be derived from the aims of the programmes/activities. This group should be called goal indicators. Every support programme has its positive side effects that have to become result indicators. Such a system would be logical and easily understandable for all the involved parties.

In general, project implementation effectiveness can be evaluated in three ways:

1. Direct way – receiving project implementation reports where a project implementer indicates the achieved results; in this way information on goal indicators will be gained;
2. Partly direct way – a programme administrating institution carries out the analysis of resumptive information, for example, in which regions projects are implemented or in which branches they are implemented;
3. Indirect way – analysing situation in a country or region, using statistic information. Information gained in this stage identifies the EU fund influence on the national economy.

Using the second and the third methods, the information on result indicators is gained.

As supervision indicators in project reports such indicators as job creation, financing for research and development activities, new products introduced in production, scope of the road modernised in kilometres etc. can be required. Information received from the projects, as well as basic information on project implementation place, branch and financing has to be registered in one united registration system that would facilitate summarising of the results.

For the evaluation of the EU funds, also general effectiveness and system operation evaluation methods can be used, including the quantitative evaluation methods.

Adjusting a goal attainment model elaborated by E.H. Shaw (Goal seeking extension of the Input-Output model), it can be applied for the EU fund operation evaluation also in Latvia. Adapting this model for the EU fund operation evaluation, it can be concluded that effectiveness has to be measured as relation of planned results and results actually achieved, that is goal attainment level that can be obtained by analysing programme evaluation indicators.

In other research works, system evaluation methods are given that from the point of view of management science can be divided into two groups:

1. *Soft systems methodology - SSM*;
2. *Viable systems model - VSM*.

Analysing the essence of VSM model, it can be concluded that it can be applied for the EU fund evaluation in Latvia; it can be applied for every EU fund operation element, estimating system operation performance by elements.

It can be concluded that applying methods given in this chapter, the result of the evaluation is one-sided; it is formed as a reflection of one viewpoint and it lacks factual and quantitative argumentation. Evaluation can uncover general EU fund system effectiveness problems, but it does not indicate the specific elements that need improvements; therefore, a more detailed and complex effectiveness evaluation is needed, applying also other methods.

One of the methods for effectiveness evaluation is to employ EU fund influence on the indicators of national economy. To evaluate EU fund effectiveness and the effect on the economic development in different European countries, various macroeconomic models are applied and simulation imitation is carried out with their assistance, for example, the regression analysis applied by S.O. Becker, P.H. Egger and M. von Ehrlich for the evaluation of the influence of Objective 1.

To determine the intervention of structural policy, also imitating models can be used within the framework of which a system depicting or imitating the economy examined is created. Most known imitation models are HERMES, ECOMOD, HERMIN and QUEST.

For the evaluation of cohesion policy the European Commission employs HERMIN and QUEST models. Employing two models with very different assumptions, more credible results are provided.

Analysing these models, it can be concluded that different approaches are used in their implementation, but it is impossible to determine the best one for Latvian conditions, because every model concentrates on one particular aspect. As these methods are mostly one-sided, to gain more credible result several models are employed. Effectiveness cannot be evaluated as some solitary growth function as it is often done in these models; it is affected by many other EU fund operational factors.

Taking it into account, there is a need to apply a systemic and complex approach for the evaluation of all important EU fund aspects and spheres. It would allow evaluating overall EU funds operation expedience and effectiveness more extensively.

For the evaluation of EU fund operation effectiveness, the author offers to apply a complex approach that consists of the most important EU fund operation elements, including EU fund operational processes and their results. Such an approach would ensure all-embracing EU fund operation evaluation, taking into account all the EU fund operational aspects and would solve EU fund effectiveness evaluation methodological problems.

These processes can be depicted in the complex evaluation system scheme of the EU fund operation effectiveness (see Figure 2.1.). The complex evaluation approach of EU fund

effectiveness offered consists of consequent EU fund operational stages and the evaluation of the processes, problems, achievement of the goals set and corresponding documents.

The EU fund operation logically begins with the planning process that implies the determination of the main support directions and elaboration of planning documents. At this stage, the evaluation of EU fund planning documents and their connection with other state planning documents is necessary. It is followed by the EU fund allocation stage to various sub-spheres and certain projects in which project evaluation scheme and project appraisal criteria are applied; at this stage there is a need for evaluation of financing distribution, project evaluation process, allocation principles and methods.

The EU fund operation is followed by the acquirement stage in which the allocated financing is utilised. At this stage, there is a need to accomplish the EU fund acquirement and its capacity analysis. Also there is an implementation process, as a result of which the EU funding projects are implemented. At this stage, there is a need to evaluate the administrating effectiveness and implementation practice of the EU funds.

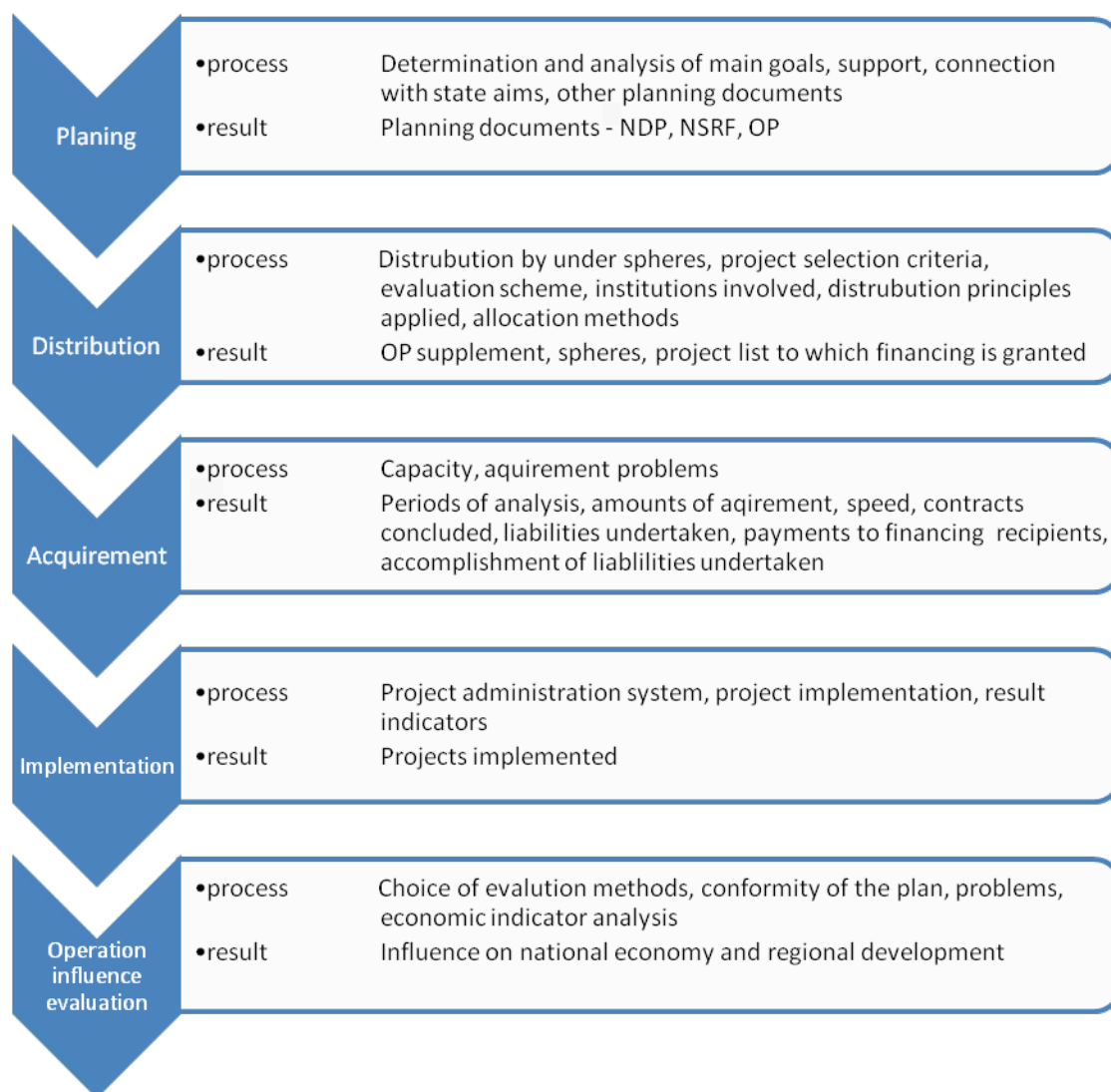


Figure 2.1. Complex evaluation system scheme of EU funds operation effectiveness. [Author]

The last stage is the evaluation stage of the influence of EU funds operation, in which the evaluation of EU funds and their influence on the development of the national and

regional economy should be performed according to the plan prepared by the managing authority. At this stage, there is a need to carry out the appraisal of evaluation methods and problems and to provide the evaluation analysis of the impact on national economy and regional development.

3. EVALUATION OF THE EUROPEAN UNION FUNDS EFFECTIVENESS

In general, EU funds effectiveness in Latvia can be evaluated by different EU funds operation system elements, assessing various aspects involved in the EU funds operation – EU funds distribution, acquirement, implementation, utilisation and results. Both operational processes and results of the EU funds have to be evaluated.

Currently it is suitable and methodically right to carry out *EU funds acquirement amount evaluation* according to four reporting periods.

In the first period – from May 1, 2004 until December 31, 2006 – more than LVL 420 million or 85.7% of the financing available in the planning period 2004 – 2006 were allocated to the projects of the EU structural funds. Funding in the amount of LVL 141.4 million or 32.1% of financing was paid out to project implementers. In this period, the acquirement of European Agriculture Guidance and Guarantee Fund was the most successful – 99% of the financing available in the planning period 2004 – 2006 were allocated to projects; LVL 47 million (or 72.6% of financing) were paid out to project implementers.

In the second reference period – until March 2007 – the liabilities of EU funds comprising the amount of 100.4% or LVL 441.6 million were undertaken, more than financing available, thus overcommitment was used. It was done with the aim not to lose the financing allocated in case the projects were not successfully implemented. Only 35.9% of all the allocated financing were paid out that can be characterized as a very low disbursement level. A high disbursement level can be observed in all activities connected with agriculture. In case of ERDF, the level of disbursement is low, but it can be explained with project duration. ERDF projects are usually large-scale and are implemented in a longer period of time.

In the third period – until the end of the 1st quarter of 2009 – financing disbursement to project implementers finished, i.e. all the financing was paid out, on which contracts on project implementation had been signed and that had been allocated by the European Commission.

Financing disbursed to all structural funds exceeded the financing allocated by the European Union; therefore, in addition to the EU financing, state budget means had to be utilised.

Analysing Cohesion Fund acquirement already in December 2006, 46 projects of the Cohesion Fund, including financing of EUR 710.8 million (LVL 499.5 million), were approved by the European Commission, and all the financing provided for the planning period 2004 – 2006 was attracted. Until the end of the 1st quarter of 2007, 32.7% of financing were disbursed for the Cohesion Fund recipients, which is a good quantitative progress in case of large projects but it has to be taken into consideration that this amount could be achieved at the expense of advance payments that can burden the progress of further dynamics. Until the end of March 2009, the Cohesion Fund recipients received 66.8% of the liabilities undertaken by the contracts or EUR 474.9 million from the Cohesion Fund.

In the fourth period 2007 – 2013, analysing the EU funds acquirement on July 31, 2009, it can be concluded that acquirement takes place very slowly and only 24.4% of financing or LVL 777 million were allocated and only 4.9% or LVL 157 million of the total financing were paid out, which presents evidence of serious acquirement problems.

In general, it can be concluded that EU funds use and acquirement intensity in Latvia in the planning period 2004 - 2006 is rather high, and all the available financing is acquired, it means that high effectiveness of quantitative acquirement is shown. But the question arises, if this financing is allocated according to the aims stated and to the appropriate projects that could not be implemented without the EU funds and to the appropriate spheres that would enhance the development of the country, is this acquirement also on a high quality level?

In the planning period 2007 – 2013, opposite situation has been observed – even quantitative financing acquirement is not provided, i.e. the largest part of financing cannot be paid out for the EU fund projects and in the next planning periods Latvia would not be able to claim biggest support amounts from the European Commission.

Analysing acquirement indicators, it can be observed that regardless of “good” EU funds acquirement data (quantitative indicators), several problems of effective acquirement have occurred that indicate insufficient effectiveness of the acquirement from the qualitative point of view.

In March 2009, in the acquirement process of the EU funds problems occurred regarding inadequate expenditures, including project expenditures that were not supported within the activity and expenditures that were created in the process of taking no notice on the normative documentation regulating procurement procedure. Financing from the EU funds could not be awarded to such inadequate project expenditures. Also programme result indicators achievement problems were observed. In the sphere of entrepreneurship, achievable indicators, which directly influence entrepreneurship, were set only for 20 out of 29 activities before their implementation.

In the planning period 2007 – 2013, slow acquirement is connected with administrative institution delay in preparation and confirmation process of normative documents. Also problems are created by the co-financing necessary for the implementation of projects that is hard to attract in economic recession period, i.e. credit financing low availability. The evaluation accomplished indicates the necessity to improve EU funds distribution and programme planning processes.

In the Thesis *EU funds macroeconomic influence on the development of national economy and regional development* is evaluated. Assessing EU funds effectiveness, it can be measured by macroeconomic influence indicators. Macroeconomic impact of the EU structural policy has been evaluated by many authors from other countries. The research findings differ, and there is no consensus in evaluation because some authors do not prove positive EU fund influence on the growth, but others admit positive influence. Consequently, it can be concluded that EU fund allocation as itself does not guarantee development; the effective application of this financing is needed. According to the research findings of P.Mohl and T.Hagen, influence on the development depends on the Objective.

Calculation carried out by the European Commission with the HERMIN and QUEST models shows Cohesion policy expenditure influence on GDP in Latvia in the period 2000 – 2009 within the range of 0.7 – 0.8%; it has been anticipated that this influence in 2007 – 2016 will comprise 2.6% according to HERMIN model and approximately 2.2% according to QUEST model calculations. This indicator is intermediate comparing to other EU countries receiving EU funds, and it can be considered acceptable but does not provide evidence for high EU fund operation effectiveness.

The author of the Doctoral Thesis has evaluated EU fund macroeconomic influence, using data gained in the study carried out by the Ministry of Finance of the Republic of Latvia “Macroeconomic Impact Evaluation of EU funds”.

In general, it can be concluded that in 2004 – 2008 EU funds influence has been both positive regarding GDP, work productivity, employment growth, and negative regarding the growth of inflation and trade balance gap. The influence has been positive on budget balance, as well as neutral regarding increase in salaries.

According to the study of the Ministry of Finance of the Republic of Latvia, changes in added value in various sectors are reflected comparing to the non-fund situation, taking into account the influence of the planning period 2004 – 2006. The highest increase in the added value has been concentrated in private services, which does not indicate a good and effective development scenario because income created by the EU funds is mostly spent for private consumption, and expensive consulting charges are being paid. Also the significant influence of funds has been observed in the sphere of agriculture, where funds have promoted the remarkable development. Regardless of the financing invested, the sphere of industry has barely developed that gives reason to consider investment ineffective or even fictive, e.g. existing production has been financed or there has not been inception or increase influence.

As the data gained in the study of the Ministry of Finance can be compared to the actual statistic indicators, the author has evaluated percentage influence. Thus, in the period 2003 – 2007 actual GDP level increased by about 34%. Accordingly, less than 30% – 14.5% in the end of 2007 – of the total growth and one-fourth of the inflation can be theoretically attributed to the macroeconomic influence of EU funds.

Taking into account the data of Central Bureau of Statistics on the growth of GDP in the following time period, i.e. in 2008 and 2009, it has to be concluded that this development is not positive – GDP index in percentage from the previous period is 96.7% in 2008 and only 82.3% in 2009 – that testifies that EU funds influence is not positive and the use of EU funds is not effective enough.

In general, it can be concluded that the impact of EU funds projects until 2007 has been positive, but it has not sufficiently influenced the economic growth and provided sustainability, especially in industry and public services. Therefore, there is a need for changes in EU funds planning and allocation process that would enhance long-term development of national economy and would help the country according to the economic situation.

Until 2008, the EU funds accelerated the economic growth by acting as an accelerator of the economics proportionally to the financing invested in economics, but because of unsubstantiated and ineffective investment the EU funds accelerated the economic recession starting from 2009. Accomplished investment did not provide sufficient return and gained production could not find its market. Businesses had bank loans connected with the EU funds projects that were not viable and substantiated and did not gain profits; therefore, many businesses ceased their activities worsening the economic situation in the country. Many projects were paused or stopped because they could not gain credit resources for the project implementation.

As a negative factor influencing the national economy, inflation increase due to the EU funds allocation has to be mentioned, that was caused by increase in demand and not substantiated prices in projects indicating larger prices than in real market situation in order to gain larger financing.

Analysing *the allocation of the Structural Funds* between the regions, in the period 2004 – 2006 it can be concluded that 49.52% of all the financing were allocated to Riga region, and the smallest amount of the financing – 9.8% was allocated to Latgale region. Riga region received almost half of all financing that did not create equal opportunities for regional development in the country using EU funds opportunities.

Analysing the data of indicator - GDP per capita in regions in percentage from the Riga region GDP which is the highest – between 2000 and 2006 it has to be pointed out that in 2006 regional disparities, except for Pierīga and Vidzeme region, increased. If we take Kurzeme region in 2000, its GDP was 56.03% of Riga region GDP, but in 2006 this indicator was only 43.93%. The lowest rate, in general, was in Latgale region – only 27.35% of Riga region GDP in 2006. It means that Riga region had three times more development opportunities using EU funds than Latgale region. Also, in 2009 Riga region GDP per capita remained significantly bigger than in Latvia in general. Riga region has almost two times higher GDP per capita ratio than in Latvia in total.

Analysing regional development indexes in 2007 and 2010, the only positive indicator was for Riga region. Latgale region in 2007 had the lowest value with -1.267 points. Besides, direct link to the social economic indexes indicating the development of the region and attracted EU funds can be observed – the most developed regions have received the largest amount of the financing and regions with the smallest index value have received the smallest amount.

In the period 2004 – 2006, the investment attracted from the EU funds did not significantly influence the regional disparities, and consequently this funding did not achieve the aim of regional development. According to the analysis of Gross Domestic Product and other indicators, financing options of the EU funds have not enhanced the development of the regions in Latvia. Therefore, it is important to suggest the best ways for improving the situation.

Planning and distribution process of EU funds takes place in several stages. It includes, first of all, general distribution of the EU funds on a national scale according to the main operation spheres – entrepreneurship, social sphere, education, infrastructure development and others. This process takes place only with the confirmation of the European Commission. Secondly, when main support spheres are set, different sub-spheres are determined – support activities and programmes, which will gain financing.

After that a concrete project selection procedure is carried out, defining criteria and evaluating projects within specific support programmes.

The implementation and administration system of the EU funds plays an important role in the effective EU fund operation provision, and consequently in the promotion of development in Latvia.

Comparing administration systems of the EU funds for both periods (see Table 3.1.), it can be concluded that in the planning period 2007 – 2013 the system has been slightly simplified. But it has to be concluded that in the allocation and administration of EU funds in Latvia too many institutions and agencies are involved, there is the large number of responsible and cooperation institutions, e.g. nine responsible institutions and seven cooperation institutions. It has to be emphasized that programmes connected with agriculture and fisheries are implemented separately, and there is separate financing allocation agency in this sphere. It hampers the orientation of project applicants and understanding of the EU funds matters.

Under conditions of economic crisis, administering institutions treat project implementers even more strictly and bureaucratically, do not show understanding and flexibility, hampering or even ceasing project implementation and, as a result, delaying effective acquirement.

Table 3.1.

Administration Scheme of the EU Funds

Planning period 2004 - 2006			Planning period 2007 - 2013	
Managing authority	Payment authority		Managing authority, Revision authority	Payment authority, Certification authority
Monitoring committee	Managing committee		Monitoring committee	Public procurement bureau
1st level Intermediaries			Responsible institutions	
2nd level Intermediaries	Grant scheme managers		Cooperation institutions	
Financing recipients			Financing recipients	

[Author]

To provide acquirement capacity of the EU funds, there is a need for a strong institutional system to provide the administration of EU funds on one side and a high level of acquirement capacity of financing recipient on the other side. Therefore, it is possible to talk about the acquirement capacity of the EU funds on the supply side and acquirement capacity on the demand side. Capacity of demand side is connected with the opportunity to prepare and implement projects, as well as plan the necessary projects and provide their long-term effect – sustainability. The implementation processes of the EU funds can be depicted in the following way (see Table 3.2.):

Table 3.2.

Implementation System of the EU Funds

Supply for the EU funds - administration	Demand for the EU funds
Allocation of the EU funds	Project preparation of the EU funds
Supervision of the EU funds	Project implementation of the EU funds

[Author]

Processes of the supply and demand are interconnected – allocation of the EU funds interacts with the project preparation and submission of the EU funds, and the supervision of the EU funds interacts with the project implementation of the EU funds. Supply side determines its requirements, and demand side tries to accomplish them, which is later verified by the supply side. Then the demand side expresses the public opinion – their suggestions and objections.

Analysing the EU funds and the implementation system of EU funds projects in Latvia, it can be concluded that applicants and implementers of the EU funds, as well as administrative institutions of the EU funds play an important role in the effective acquirement provision of the EU funds.

To accomplish the complex evaluation of the EU funds effectiveness, there is a need for assessing *the evaluation system* that is a part of the allocation process of the EU funds.

For all selection methods – open project competition, grant schemes and national programmes – one united project evaluation scheme has been used (see Figure 3.1.).

In the planning period 2004- 2006, a project appraisal scheme was based on the two-step evaluation with two subsequent decisions on project conformity with the criteria. Analysing this project evaluation scheme and the problems created within its framework, it

can be concluded that this scheme was ineffective, resource-consuming on the administrative side and created many difficulties.

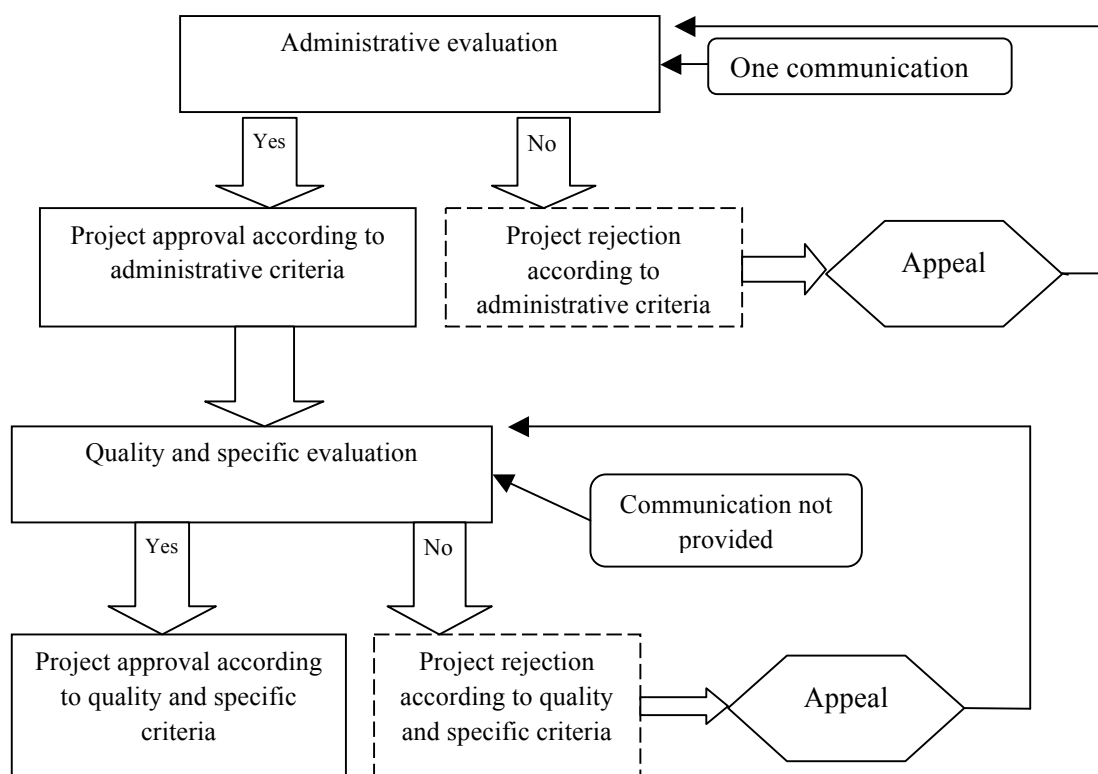


Figure 3.1. Project evaluation scheme for the planning period 2004– 2006. [Author]

This project evaluation scheme did not include project competition and comparison, thus all projects submitted in the fixed time period and complying with minimal requirements were approved.

Project was evaluated according to specific and quality criteria, i.e. in substance, only if it complied with the administrative criteria. If the project did not comply with one of the administrative criteria, i.e drawing up requirements, the project was refused and was not evaluated in substance. Consequently, Latvian economy lost potentially successful and effective project implementation potential. It has to be admitted that there was only one communication envisaged at the stage of administrative evaluation that created a situation when the project applicant could not change its application twice and could be refused because of the incorrect project application formatting and not due to the fact that the application did not comply with the aim of the programme.

General evaluation of EU funds operation is carried out using system evaluation methods. According to SSM methodology, CATWOE analysis is applied to the evaluation of the EU fund operation (see Figure 3.2.).

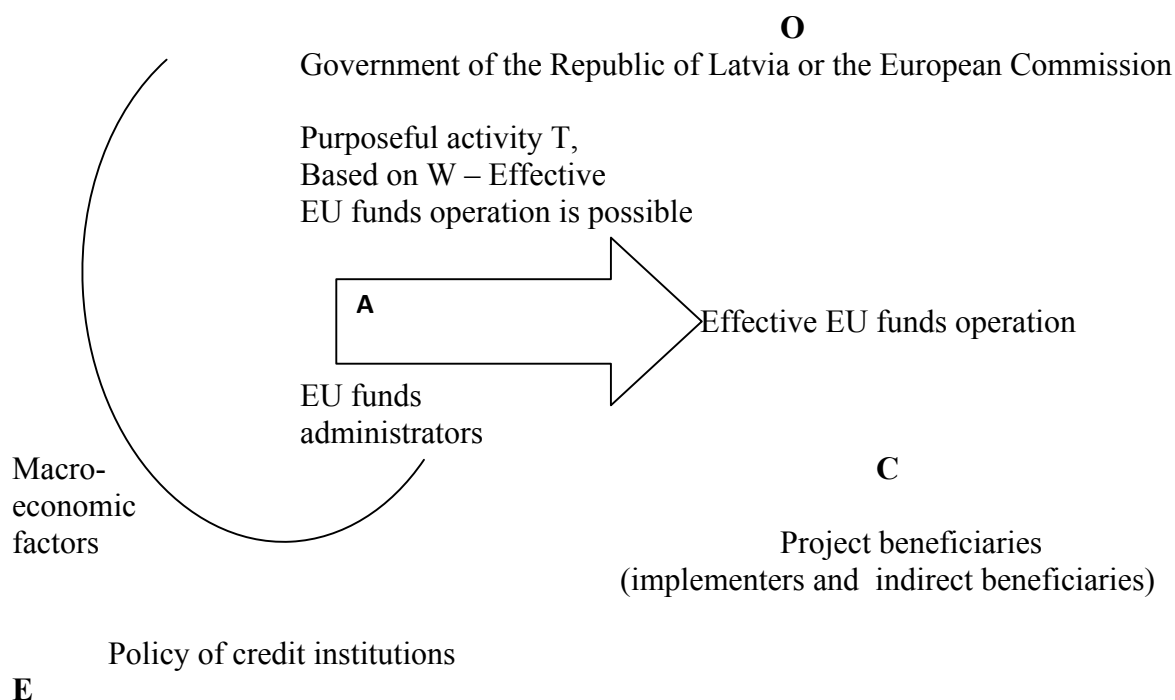


Figure 3.2.CATWOE analysis for the EU funds operation in Latvia.

Analysis conclusion – EU funds operation can be considered one of the factors promoting economic development; however, in order to achieve this aim, an adequate and effective EU fund operation, as well as a favourable attitude of all the involved parties, which promotes the development, is necessary. According to the Viable System Model (VSM), EU fund operation and programme implementation take place at the Reality level; therefore, according to the model there is great potential and opportunities for the development to reach such levels as Latency and Potential.

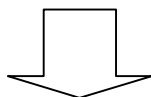
4. EUROPEAN UNION FUNDS EFFECTIVENESS PROMOTION OPPORTUNITIES IN LATVIA

For the development of *planning and allocation system of the EU funds* in Latvia, the author proposes the implementation of the improved EU funds allocation system that is shown in Figure 4.1. The system is based on the three stages of financing allocation, and for each stage the appropriate applicable method, system or principle are offered. It has to be emphasized that a larger return and effectiveness can be achieved applying methods and principles related to the larger national influence on the decision-making process.

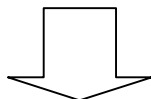
At the first stage, main place is taken by the defence of national interests, e.g. representation of the interests of the country in Brussels, when the negotiations take place and decision is made on the allocation of financial resources of the EU funds and the main support spheres. Qualitative position elaboration of the state and its defence are very significant.

At the second stage of allocation, when the operational programmes and operational programme supplements are elaborated there is a need to consequently follow the elaborated allocation methods of funds, but at the criteria definition stage 3.1. of the programme project evaluation – to the theoretical principles of allocation. In its turn, at the project evaluation stage 3.2., the project analysis system and evaluation scheme offered should be observed.

Stage	Stage characterisation	Institutions involved	Methods, principles, approaches applicable
1 st stage	Determination of main support spheres (entrepreneurship, social sphere, education, infrastructure development)	80% EC influence 20% LR influence	Defence of the national interests



2 nd stage	Elaboration of support activities, operational programmes and supplements, determination of support directions and sub-spheres	20% EC influence 80% LR influence	Funds allocation methods
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3 rd stage	Project selection	100% LR influence	
3.1. stage	Criteria definition		Theoretical allocation principles
3.2. stage	Project evaluation		Project analysis systems, Evaluation scheme

Figure 4.1. Allocation system model of the EU funds. [Author]

In *EU funds allocation process* among different programs, several methods can be applied. All the methods that can be used for the allocation of the EU funds can be divided in two groups – the methods currently used in Latvia and desirable methods. The first group includes such methods as the Potential applicants' studies method, EU regulations method and Past experience method. The second group includes Research-oriented method and Economic situation method.

The commonly used method of the first method group is the Potential applicants' studies method. It implies the identification of potential applicants, i.e. exploration of the market needs and demand for programmes financed from the EU funds and consultations with social partners – branch associations, municipalities, regional development agencies.

The second group of methods that would increase effective use of the EU funds is not currently used in Latvia, but could be very efficient and could promote the development of the country.

1. The first method of the desirable method group is the Research-oriented method. It implies drawing conclusions from different research materials concerning various aspects of national economy, situation in industries and different aspects of the EU funds use. This method would bring the system of EU funds planning to a new higher level and definitely promote sustainable development of the country.
2. Another method of the desirable method group is the Economic situation method that includes allocations according to the economic situation in the country. To allocate funds effectively, there is a need for evaluating the economic situation in the country,

exploring the statistical data of the concrete time period. EU funds have to be employed as an instrument to evade from the economic crisis and increase economic growth potential of the country in the period of economic prosperity.

Analysing GDP growth in the period of 2002-2010 and defining growth or decline periods, the author offers the desirable EU funds programmes for each period that would promote sustainable development according to the economic situation (see table 4.1.).

In every situation, financial means have to be proportionally allocated to such spheres as education and social support that do not create any income but are necessary for the general welfare of the population, thus supporting and promoting the standard of living and sustainable development of the country. In growth periods, more sophisticated programmes with a long-time effect should be a priority; innovation development and technology transfer centres should be supported. In the periods of decline, more effective programmes that have an immediate effect on the national economy should be supported.

Table 4.1.

Gross Domestic Product and Support Programmes

Year	Growth (in percentage over the previous year)	Period	Appropriate EU funds programmes
2002	106.5	Slight growth	Infrastructure development, Staff training programmes, Specific business development – definite location or branch, export support. Applicable science support.
2003	107.2		
2004	108.7		
2005	110.6	Significant growth	Innovation development
2006	112.2		Business incubators
2007	110.0		Technology transfer centres, Competence centres. Science support – more for research Environment protection programmes.
2008	96.7	Decline	Support for all kinds of business development, acquisition of machinery, export support. Unemployment elimination, retraining support. Direct science support
2009	82.3	Sharp decline	National infrastructure development with state financing, job creation programmes
2010	99.7	Decline	Support for all kinds of business development, acquisition of machinery, export support. Direct science support.

[Author]

According to the Table 4.1, for programme project evaluation criteria definition stage 3.1, the author has developed and elaborated the *theoretical principle selection system*.

Export-oriented principle – a principle that determines potential enterprises to which financing for the development of entrepreneurship should or should not be allocated. The principle is based on the assumption that it is useful to support exporting enterprises.

Co-financing principle – financing is allocated to projects with the lowest state co-financing rate. As a result, restricted financing is allocated to a larger number of projects, and the state aid promotes implementation of more projects.

Negative development level principle – the less developed the region is (town, rural municipality, district), the more financing is allocated to the development of the region in order to promote equivalent regional development in a country.

Positive development level principle – the more developed the region is, the more financing is invested in future development to promote competitiveness of the state.

Finance efficiency principle – financing is allocated to projects in which prices of products and services are brought nearer to real market prices and to projects with the transparent and appropriate use of financial means.

Experience principle – financing is allocated to enterprises or individuals that have a previous experience in accomplishing activities similar to those envisaged in a project or a positive experience in the use of financial means allocated from the EU funds.

Innovation principle – financing is allocated to projects that are directed to the creation of new products at a higher level as possible (in an enterprise, state or worldwide). Especially topical principle for the EU member states is to achieve the level of the USA and Japan in the innovation creation sphere.

Value-added principle – financing is allocated to projects or enterprises that create higher added-value (can be used for the entrepreneurship projects). This way contribution to entrepreneurship with high added-value is promoted, enhancing the economic development of the country.

Beneficiary principle – the more enterprises, state institutions or persons are involved in project implementation or gain benefits from its implementation, the more projects have to be supported. Especially project implementation in partnership is supported, having more project implementers for one project.

For each support programme, one guiding theoretical principle for fund allocation should be chosen, the best variant – to apply one united principle in the country, according to which the state and the EU financing is allocated for projects. Also several guiding principles can be chosen, for example, one for the entrepreneurship projects, the second for the social sphere projects, the third one for different infrastructure projects, not including entrepreneurship. It is important to coordinate this allocation principle to the general state development strategy.

After choosing the theoretical principle, a suitable selection criteria choice should be applied, assigning to it the largest proportion (at least 40%), thus demonstrating its importance. It is important not only to follow the application of concrete principles but also the react in a sufficiently flexible manner to the changes in economic situation, changing the guiding division principles.

Approving every project, its effectiveness and contribution to the development of economy should be evaluated. Such an approach is not applied to the EU funds administration at present. Effectiveness includes how much country would gain from the project; therefore, one of the criteria should be related to project effectiveness and viability. In case of entrepreneurship, it should be evaluated with rentability and profitability indicators, because such projects will bring a higher income to budget in the way of taxes paid. In case of social projects, contribution to human resources should be measured. A new group of criteria connected with effectiveness should be introduced – jobs created, added value of the project, productivity.

Studying different project types and project effectiveness indicators applicable, the author recommends pointing out three analysis groups that should be applied in the process of evaluation:

1. Project analysis system

Project analysis consists of several stages:

- 1) finance analysis;
- 2) economic analysis;
- 3) multi-criteria analysis;
- 4) sensitivity and risk analysis.

In case of Latvia, this methodology should be applied to the large EU fund investment projects (according to conditions of Regulation) and Cohesion Fund projects. It is advisable to determine total cost limit for the large projects starting from which there is a need to accomplish a full or partial cost-benefit analysis. For projects with total costs from LVL 1 500 000 to LVL 5 000 000, a partial analysis set should be applied, including finance, sensitivity and risk analysis.

For projects with total costs exceeding LVL 5 000 000, a full analysis system should be applied, consisting of a finance analysis, economic analysis, multi-criteria and sensitivity and risk analyses.

2. Entrepreneurship projects analysis for projects that create income – the finance analysis should be applied to evaluate the gain of the country from the project.

For the projects in support programmes, whose support amount does not exceed LVL 100 000, simplified indicators should be used, for example, jobs created.

For the projects in support programmes with the support amount over LVL 100 000, future finance flow forecasts should be demanded, appropriate formula for the evaluation of project effectiveness and return on the national economy should be chosen.

Evaluating different investment effectiveness evaluation methods, it can be concluded that such methods are suitable for project effectiveness determination – commercial evaluation of investment effectiveness, period of repayment of investment, net discounted income, rate of return, investment yield or accounting profit margin, internal rate of return, investment rentability and project ranking method. These methods can be used in project viability and profitability evaluation in entrepreneurship projects, applying them according to specific features of the programme.

3. Social and environment sphere projects that do not produce income but have social benefits. Analysis of qualitative character should be applied, for example, multi-criteria analysis that includes analysis of different political aims – environment protection, social equality. Project multi-criteria analysis can be shown in the matrix below (see Table 4.2.).

Table 4.2.

Multi-Criteria Analysis Matrix

Project A			
Criteria	Points	Level of importance	Influence
X	P1	IMP1	P1* IMP1
Y	P2	IMP2	P2* IMP2
Z	P3	IMP3	P3* IMP3
Total			\sum INFLUENCE 1
Project B			
X	P1	IMP1	P1* IMP1
Y	P2	IMP2	P2* IMP2
Z	P3	IMP3	P3* IMP3
Total			\sum INFLUENCE 2

[Author]

where X,Y,Z – selection criteria chosen;

P1, P2, P3 – evaluation of the selection criteria in the scale points:

IMP1, IMP2, IMP3 – criteria importance level (0.1 – 0.9).

According to the Table 4.2., the best project is determined comparing the summary results \sum INFLUENCE 1 and \sum INFLUENCE 2.

Then the evaluation is applied to the results of the project analysis.

This analysis provides a detailed project influence evaluation and helps to determine which projects are more important for the development of the country.

Also social cost-benefit analysis can be applied, presenting factors that would serve as additional benefits or costs after the implementation of the project.

Accomplishing the analysis, it can be concluded that to promote overall and national economy development with assistance of the EU funds projects and to provide the achievement of definite aims, there is a need to apply concrete division methods and theoretical principles. It would provide the implementation of a concrete strategy and clarity of project aims at the project planning stage and determine the direction in which projects will be supported, promoting the development of the country in a definite direction.

To accomplish the changes in the previous ineffective *evaluation system* of the planning period 2004 – 2006, a new evaluation system for the planning period 2007 – 2013 was developed and the proposals for the optimisation of evaluation system were submitted to the managing authority of the EU funds.

Proposals for changing the evaluation system included basic principles on the project evaluation system for the period 2007 – 2013 that were submitted by the author to the Ministry of Finance of the Republic of Latvia as the managing authority of structural funds.

- The sense of the new system is the change of evaluation stages of the previous system; at first, projects are evaluated according to specific criteria – their content, effectiveness and their correspondence to the aims of the programme.
- Every project receives its assessment and all the projects are ranked according the points received. At this stage, the decision is made – to approve or refuse the project.
- After that only those projects which were chosen as the best in the project contest are put in order according to administrative requirements.
- If a project complies with specific evaluation criteria, but does not comply with the administrative evaluation criteria, a project applicant has a chance to improve the project application, communicating with the implementation institution (also several times, mistakes can be clarified in Client Service Department), providing compliance with administrative requirements.
- If a project does not comply with specific criteria, a letter on the project application improvement to provide the compliance with the administrative criteria is not sent, and the project is rejected according to specific evaluation criteria.

To introduce this system, and as a project competition takes place according to specific evaluation criteria, the emphasis has to be shifted from administrative evaluation to specific and quality evaluation that is the most important in choosing projects with the highest level of the return on the national economy.

According to this scheme (see Figure 4.2.), the projects, which have a greater contribution to the development of Latvian economy and have a higher added value, are approved.

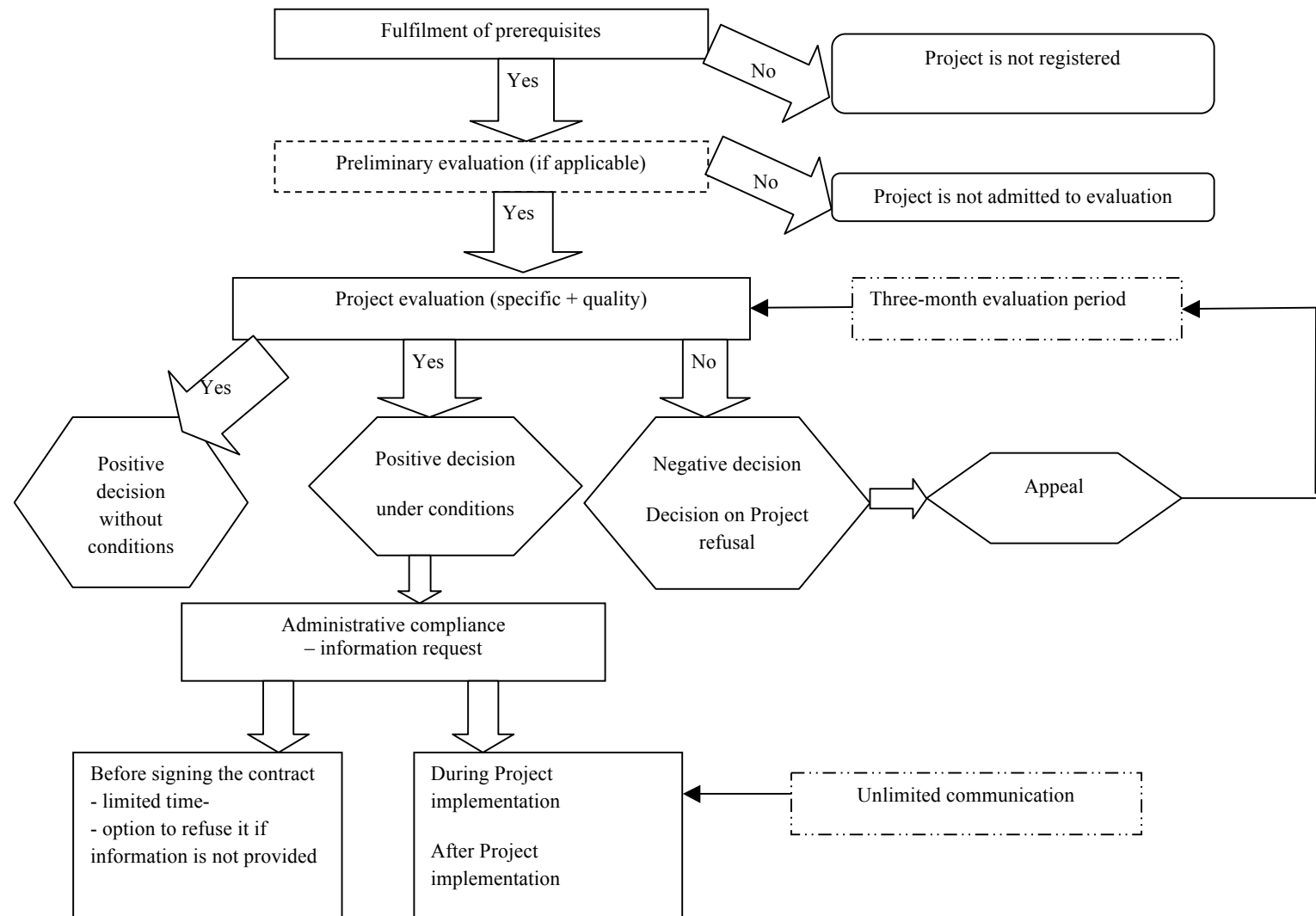


Figure 4.2. Project evaluation scheme for the planning period 2007 – 2013. [Author]

Proposals were considered, and meetings were organised with the representatives of the involved institutions, where the author defended her ideas, and the majority of the proposals that substantially change project evaluation system, performing specific project evaluation before the administrative inspection, were taken into account and introduced in normative documents determining the operation of the EU funds in Latvia for the programming period 2007 – 2013.

By applying these proposals, many problems that appeared in the planning period 2004 - 2006 were resolved; for example, waste of resources considering all the projects according to administrative criteria even if they did not comply with the programme purpose in general, project rejection because of administrative inaccuracies in a project even if the project directly complied with the programme concept and would give a larger added value comparing to other projects. Consequently, projects that would give a greater contribution to the development of Latvian national economy will be selected.

Changes in *the administration system of the EU funds* are needed for the implementation of sustainable development principles.

There is a need to reorganize the national regulation acceptance system of the EU funds that is very complicated and time-consuming. To reconcile and approve the EU funds programme, there is a need for the acceptance by the Cabinet of Ministers that basically means the agreement on the draft of regulation with all ministries and subordinated institutions involved in the administration of the EU funds programmes. Therefore, a more effective implementation of the EU funds would be the programme approval at the level of responsible ministries, when it is signed by the respective Minister under whose supervision the programme is implemented. It would provide the effective programme development and approval procedure and would allow the flexible introduction of all the necessary improvements and simplifications according to the current situation and policy of the respective area.

This proposal would enhance the development of Latvian national economy because programme launching and consequently project implementation would begin about half a year earlier, therefore also the EU funds project results and positive impact on the economy would appear approximately half a year earlier or even more than in case of the regulations procedure of the Cabinet of Ministers. It is very important for the economy of Latvia at the current development stage.

It is not effective to standardize all EU funds application and implementation documents as Latvian managing authority is doing by adding project application forms to the general regulations of the Cabinet of Ministers on the management of the EU funds and Cohesion Fund. It can create a situation when the amount of required documentation is equal both for small and large projects that is not commensurable and does not promote sustainable development.

Demand for support programmes has to be studied, because it is not useful to create programme which has no applications. To balance the available financing with the potential number of project applications and to acquire all the available financing, according to the author's proposal, the managing authority carried out the research on the number of potential applicants for every structural funds financing activity and the sub-programmes envisaged in the sphere of entrepreneurship. The results were used in the planning process and for the attraction of potential project applicants.

There is a need to include in regulations of the Cabinet of Ministers option for the advance payment allocation not only for municipalities and state institutions but also for the private financing recipients. It is especially important in the period of economic crisis for such programmes like development of new products and technologies, high added-value

investment. This request has been expressed to the Ministry of Finance as the managing authority of the EU funds and defended in the conciliation meeting, where the regulations of the Cabinet of Ministers are considered, therefore in the planning period 2007 – 2013 reception of advance payments for the entrepreneurship projects is possible.

To ensure the effectiveness of the EU funds projects in Latvia, there is a need for an effective administration system for the allocation and supervision of the EU funds, as well as an effective administration system of EU fund project implementers for project preparation and implementation. To ensure a complete project implementation and, consequently, to claim for the EU funding, especially in economic recession or under inflation conditions, possible solution would be simplification of administrative implementation procedures, flexible permission system of changes in project activities and effective consultative support. There is a need to perform project implementers' consultations in spheres, which experience the largest implementation problems, for example, payment requests.

Also, the programme improvement measures have to be taken in order to provide effectiveness of the projects financed from the EU funds. For the programmes planned within the framework of the Operational programme "Entrepreneurship and Innovation", the author as a Head of Strategic Planning Unit of the Structural Funds at the Investment and Development Agency of Latvia has made proposals to the Ministry of Economics, for example:

1. Regarding activity "Business Incubators", there is a need to demand minimum total area of 2000 m², optimal area – 3000 m². In the framework of the programme, it is necessary to envisage support for the business incubator clusters – several small size incubators with united administration that are placed in one region and whose total area consists of at least 2000 m². Such areas are determined to be optimal according to the studies of effectiveness assessment of the existing business incubator operation.
2. Determining eligible costs of the activities, there is a need to include project administration costs, defining their limits. This limit should be the same in all programmes. It is proposed to determine 10% limit.

The process of planning and creating programmes financed from the EU funds that would enhance sustainable development of the country is essential. For the development of enterprises, a universal support programme has to be introduced without having specific restrictions and divisions of eligible costs. It would also promote sustainable development by encouraging entrepreneurs to prepare complex projects, including construction acquisition of new equipment, provision of training services, as well as entering foreign markets. Besides, only one project application would be needed instead of the three demanded at present. It would also save government resources for programme development and project evaluation processes, which could be allocated to the areas where they are crucially necessary for the development of the economy.

Improvement measures for the EU funds implementation are also needed for *regional development*. Performing the regional impact analysis, conclusions and proposals are made, concerning the improvement of the situation and the decrease in the regional differences in terms of the EU fund assistance, for example:

1. For the regions, financing from the EU funds has to be planned already in the State Development Plan, and there should be regional development policy in EU funds allocation. There is a need for a united regional quotation for the EU financing that would mean a definite amount of financing means allocated directly for the development of certain regions.

2. Before allocating financing means from the EU funds directly, there is a need to perform a research and investigate the strong sides of the regions and the most important potential areas for development.
3. In order to facilitate the development and competitiveness, there is a need to concentrate on the strong sides of the regions and not on the prevention of the weak sides because the state aid oriented to weak sides will not bring the desired result. On the other hand, by developing strong sides and industries, it is possible to achieve significant results and economic progress. Every region has its strong sides and industries it should concentrate on; it is not effective to develop all the sectors everywhere.
4. One possible way of the development would be to introduce specialisation of the regions based on some core industries. It can be implemented when funding and state aid is available just for stated branches, and different clusters of branches are made in every region enhancing development in one purposeful direction. Riga region can be definitely seen as innovation and high added-value production centre because main universities and research institutes are concentrated there.
5. A new regional allocation system of the EU funds has to be implemented according to the proposals and improvements offered. In general, possible means to endorse the development of the undeveloped regions of the country by support programmes could be divided into three groups:
 - 1) Creating specific support programmes for the development of regions. It implies specific support programmes that are designed with definite aims like water supply development in towns with a certain number of people. Project applicants from Riga, Riga region and the largest cities usually cannot apply for such kind of programmes. This is the most effective way to achieve specific development results.
 - 2) Applying criteria that allow granting more points for projects in regions. This option implies that there are specific project evaluation criteria, i.e. the projects from regions can gain more points than projects from Riga, Riga region and the largest cities.
 - 3) Providing larger aid intensity for projects from regions. It means that projects from regions or specially supported areas could gain larger co-financing from the EU and government than projects from Riga, Riga region and the largest cities, so that they would have more options to implement projects. This is a very acceptable way for supporting more those regions that do not have possibilities for large co-financing rates.
6. For implementation process of Structural Fund programmes, which have a large number of potential applicants, the united regional branches of implementing agencies should be created. Their functions should include project application reception and information on support programmes. Thus, regions would have more information and consultations on different aid programmes, which would increase the participation of regions and project applicant activity in regions, which in its turn would assist to achieve regional balance objective.
7. One of the important aspects is that it is not enough just to have support programmes, but there should be a special working party organized that, first of all, would assist in the development of projects as such and give a preliminary assessment on the suitability of a project and its effectiveness for the development of the region. Consultation work has to be organized for regions to increase regional potential. After approving projects, this working party would supervise the implementation of projects in regions and offer free consultations on project implementation.

The purposeful and proper use of the EU funds is one of the most important factors to ensure the sustainable development of the country. One of the main steps to effective use of the EU funds is the effective *planning process of the EU funds*. In the planning process of the EU funds, there is a need to apply a strategic approach, detailed analysis of circumstances in a country, as well as policy analysis.

At the beginning of the planning process, one main united strategy for the development of the country has to be developed, for example, National Development Plan; all state financial support priorities have to be included in this plan. After that these priorities have to be explained in detail in the state support planning document. The financing of these activities and consequent projects should not depend on the existing or non-existing financing from the EU funds.

Necessary projects and activities should be derived from the strategy to fulfil the aims set and after that financing should be allocated. Available financing from the EU funds cannot be a prerequisite for project implementation. Development planning scheme using state support should be as follows:

Strategy → Aims → Activities → Projects → Financing

Figure 4.3. Methodical approach to the EU fund planning process. [Author]

There is a need to coordinate all the financial aid instruments because often there is a situation when the EU financing is shared independently from other kind of state financing that creates effect of disorder both for state institutions and potential project implementers that have difficulties to orientate themselves in ongoing processes and have to demand financing in different institutions.

In the period of *economic recession*, the EU funds should be used as a reviving factor for the national economy because projects implemented through the EU funds imply investment; engaging the investment multiplication effect, they will definitely increase economic activity in the country helping to get out of the recession and to promote sustainable development.

It is crucial to combine financing from the EU funds with guarantee financing, issuing state guarantees for receiving loans for project implementations. It is necessary for those projects that are accepted and that need loans for implementation. Such an action should be taken because many projects are not implemented at all because project implementers could not gain credit resources for the accomplishment of projects; thus, there is a situation, where the acquirement of the EU funds is not performed, aims of the programmes are not achieved and sustainable development goal is hampered.

For the period 2007 – 2013, in the planning documents of the EU structural funds – European Commission guidelines (“Guidelines on National Regional Aid”) and drafts of regulations for state aid schemes for the period 2007 – 2013 – a *discounting mechanism* is included that was not provided in the planning period 2004 – 2006.

Applying the discounting principle for the situation in Latvia, it can be concluded that a double discounting situation is created because there is a need to discount both costs created in the process of project implementation and project support amount disbursed to the project implementer.

At the first step of the discounting process, eligible costs are discounted for their value at the moment of support allocation. As the value of the costs is their present value, actual support amount for the project determined as percentage of project eligible costs is

diminished. In this case it can be concluded: the smaller discount rate is, the more beneficial conditions are for the support reception for the entrepreneur.

Considering a discounting condition from another point of view (see Figure 4.4.), the second step discounting is formed, because, concluding contract with the support recipient on the fund allocation, a precise support amount is planned and reserved. In this case it can be concluded that the larger the discount rate, the more beneficial conditions are for the support reception for the entrepreneur. This is a logical solution and the most preferable from the point of view of the entrepreneur because an enterprise has to invest resources already at the moment but they will be recovered only after project implementation at the moment of project support disbursement.

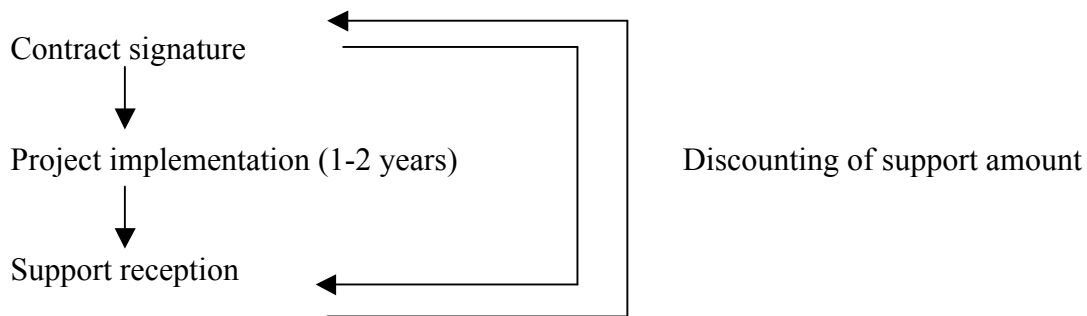


Figure 4.4. EU funds project discounting principle. [Author]

It can be concluded that support amount depends on the paying capacity of the enterprise, e.g. if entrepreneurs are ready to invest their own or loaned resources in a project and not to demand advance payment or intermediate payments, entrepreneurs can receive a larger support amount as a result of discounting.

CONCLUSIONS AND PROPOSALS

1. European Union funds financing has given its contribution to the development of Latvian national economy, but evaluation of the EU funds in Latvia reveals problems at all operational stages of the EU funds – starting from planning and allocation processes, continuing with selection and acquisition processes and ending with the project administration and implementation processes.
2. Project selection and evaluation system in the first EU funds acquirement periods – pre-accession period and the period of 2004 – 2006 – has not been effective enough. It was resource-consuming and did not provide the choice of the best projects; as a result, national economy of Latvia lost potentially successful and effective opportunities of project implementation.
3. Regardless of good numerical EU funds acquirement indicators, in the planning period 2004 – 2006, 105.4% of the financing from the EU structural funds were disbursed to the financing recipients; in this period a significant qualitative influence of the EU funds on the national economy of Latvia was not observed. In the planning period 2007 – 2013 due to the economic recession, the EU funds acquirement problems have occurred that are connected with low loan co-financing accessibility in the country, creation of the projects inappropriate for the development needs in the prosperity period and mistakes in the project implementation process.
4. In general, it can be concluded that EU funds did not sufficiently influence economic growth and did not provide sustainability, especially in basic branches as industry and public services. Regardless of the financing allocated, the industry has developed relatively poorly that gives the reason to consider a part of the investment ineffective, e.g. the existing production has been supported or there has been no initiation or increase influence. Therefore, there is a need for changes in the planning and allocation process of the EU funds that would enhance the long-term development of national economy.
5. Studying regional allocation of the EU funds in the planning period 2004 – 2006, and EU funds programmes, it can be concluded that EU funds offer opportunities for regional development, but EU funds allocated so far have not positively influenced regional development in Latvia. In comparison with the highest GDP per capita in Riga region, GDP per capita in regions in percentage did not change in 2000 and 2009, for example, in Latgale region – 28.2% and 32.7% respectively or even diminished, for example, in Kurzeme region from 56.0% to 47.3%. Regional differences increased because for the most part financing was allocated to the most developed regions, besides there was no sufficiently coordinated general regional development and EU funds regional impact strategy.
6. The planning process of the EU funds in the country is not coordinated and does not promote sustainable development. At the moment the situation is created when activities are coordinated with the financing available, e.g. if there is financing available from the EU side, such an activity is being implemented that does not promote effective development because projects that are really necessary for the development needs are not supported. Also support instruments in the country are not coordinated, e.g. similar support programmes are implemented contemporaneously both using financing allocated from the EU funds and other state aid sources.

7. In the period of economic recession, EU funds programmes are implemented that were envisaged for the period of economic growth, but in the period of decline simple programmes such as support for new production, support for job creation that could revive national economy should be used. Also it can be observed that in the period of economic recession, projects in the social, cultural and public infrastructure spheres with state co-financing accepted earlier are implemented. This kind of projects could be postponed because of problems in the state budget.
8. Evaluating the administration system of the EU funds, it has to be concluded that in the allocation and administration process of the EU funds in Latvia too many institutions and agencies are involved, there is a large number of responsible and cooperation institutions. Under conditions of economic crisis, administrating institutions treat project implementers even more strictly and bureaucratically, especially in the sphere of entrepreneurship, because projects with private financing are connected with higher risk projects, do not show understanding and flexibility, hampering or even ceasing project implementation and, as a result, hampering effective acquirement.
9. Performing general evaluation of the EU funds operation by means of system evaluation methods, it can be concluded that the EU funds operation can be considered one of the factors promoting economic development but in order to achieve such an aim adequately, effective EU funds operation as well as a favourable attitude of all the involved parties is necessary. EU funds operation and programme implementation take place at the Reality level; therefore, there is a great potential and opportunities for the development.
10. Currently in Latvia Potential applicants' studies method, EU regulations method and Past experience method are used in order to allocate the EU funds among different programmes. It creates acquirement and planning risks and does not provide sustainable development of the country.
11. Problems in EU funds operation stages mentioned in this Thesis frequently occur in the sphere of entrepreneurship. EU funds support for the entrepreneurship is very important as entrepreneurship development projects are those which can create income and provide economic development in the fastest way; therefore, it is especially important to provide effective planning, allocation, acquirement and project implementation and introduce new methods in the operation of the system in the entrepreneurship sphere.
12. The activities to promote the effectiveness of the EU funds, which are offered in the Doctoral Thesis, can be used not only in Latvia but also in any other EU member state, which receives financing from the EU funds. Also they can be used in any country that provides state aid measures in the form of projects for the development of the country.

Based on the conclusions made, the author puts forward the following proposals that are envisaged for the Ministry of Finance of the Republic of Latvia as the managing authority of the EU funds in Latvia:

1. To provide implementation of the united strategy connected with the EU funds operation and achieve the desirable programme results for the development of the country, EU fund project evaluation criteria should be developed according to the theoretical principles of allocation of the EU funds elaborated by the author – co-financing principle, negative and positive development level principle, added-value principle, export principle etc.

2. To increase effectiveness of the projects supported by the EU funds, it is advisable to apply project analysis systems offered by the author for project evaluation process – project analysis set, entrepreneurship project analysis, social sphere project analysis and methods advised within their framework – multi-criteria, risk analysis, economic analysis, investment repayment period, internal rate of return, investment rentability, analytical network process and other methods.
3. To provide sustainable development of the country, there is a need to elaborate support programmes conforming to the economic situation that would give the largest contribution to the development of the country. In growth periods, more sophisticated programmes with long-time effect should be a priority; innovation development, technology transfer centres should be supported. In the periods of decline, more effective programmes that have an immediate effect on the national economy should be supported. Therefore, the author recommends applying the financing allocation methodology for improvement of the EU funds planning and allocation process in Latvia and employ Research-oriented and Economic situation methods that could promote the development of the country and increase the effectiveness of the use of EU funds.
4. In order to make the use of the EU funds more effective and to increase their influence on the sustainable development of the country, there is a need to restructure the planning process in the country. First of all, a strategy has to be developed, necessary projects and activities should be derived from the strategy to fulfil the aims set, and after that financing should be allocated.
5. For the promotion of regional development, a regional policy should be introduced in the allocation of the EU funds, implementing quotation principles and including EU funds activities in regional development plans. Research has to be carried out on the strong sides of the regions and potentials that need to be supported with the EU funds assistance. Also, there is a need to create consulting working parties for project preparation and implementation support in regions.
6. To provide effective project evaluation process, the offered project evaluation scheme has to be applied that would solve succession of problems occurred in the period 2004 – 2006 – projects are primary evaluated according to their effectiveness and conformity to the programme objectives and not according to the formal administrative requirements. Also, a project applicant has a chance to adjust project application compliance to administrative requirements several times. Consequently, valuable projects directly corresponding to the programme concept cannot be refused just because of formal drawing up requirements, and projects can be selected that would give a greater contribution to the development of national economy. Project selection and the amount of criteria should be balanced according to the certain activity and project support amount, determining the content of project application forms and evaluation scope based on the project support amount. It would enhance administrative effectiveness and facilitate small project preparation and evaluation process.
7. To provide effective implementation of projects and programmes in the planning period 2007 – 2013, there is a need to introduce advance payment allocation also for the entrepreneurship programmes that has not been done in the planning period 2004 - 2006. In the period of economic crisis, it is especially important for such programmes as development of new products and technologies, high value added investment.

8. To introduce equitable management principles and comply with the EU regulations for the entrepreneurship project implementation, it is preferable to use a discounting mechanism of the project support amount from the state aid programme that is offered by the author.

One part of the proposals offered in the Thesis are intended for the planning period 2007 – 2013 or for the improvement of the mid-term operation effectiveness of this period; and some of them are already applied to operation of the EU funds – a new project evaluation scheme, programme development proposals, advance payment necessity proposals. The second part of proposals is envisaged for the new planning period after 2013, planning of which in the EU has already begun in 2011. Proposals elaborated in the process of the research have practical importance for the improvement of planning, administration, implementation and acquirement processes of the EU funds in Latvia, as well as effectiveness provision of projects co-financed from the EU funds.