

Republic of Latvia

(Latvijas Republika)



Capital: Riga

Inhabitants: 2.281.305 (2007)

Area: 64.589 km²

1. Introduction



Latvia is situated on the east coast of Baltic Sea, bordering Estonia (to the north), Lithuania (to the south), Russia and Belorussia (to the east). The area of the territory of Latvia is 64 589km², and the population 2,281,305 (2007).

The Capital of Latvia is Riga with a population of 722,485. Riga was founded in 1201. It is the most important political, economic, cultural and scientific centre of the country. Riga produces 57.3 percent of the total GDP of Latvia.

Latvia as an independent country was first founded in 1918. Latvia became a European Union Member State on 1 May 2004. Latvia is a sovereign, independent, unitary and indivisible national state. The form of government is a republic,

according to the Constitution of Latvia (Satversme), adopted in 1922 and modified in 1998. It is organised according to the principle of separation and balance of the legislative, executive and judicial powers.

The legislative power is represented by the single chamber Parliament (Saeima) of Latvia. The Saeima consists of 100 deputies, elected by universal, equal, direct, secret and free suffrage. The deputies (at both national and local levels) and the President are elected for a four-year term.

The executive power is represented by the Government – Cabinet of Ministers, led by the Prime Minister, appointed by the President who is elected by the deputies of the Saeima.

Latvia has rather long history of development of local governments. Analyzing the 10 laws on city municipalities, which were in force at the territory of Latvia (including also periods when Latvia was not independent state) beginning from 1877, we see that tendency to democratization and decentralization fluctuated with a tendency to centralization. In the last fifteen years one of the most important tasks in Latvia has been to carry out local government reforms, including administrative –



territorial reform, the latter with the aim of amalgamating small local authorities.

The main goals of the local government reform are the further democratization and decentralization of state power and administration, improving the quality of public services rendered to local citizens and greater involvement of local citizens in the process of government and administration.

The principles of local government reform in Latvia are based on the principles of the European Charter of Local Self-Government as well as of the legislation of the Republic of Latvia. The European Charter was adopted by the Saeima on February 22, 1996. Latvia has accepted 29 of the 30 paragraphs of the European Charter. The exception was paragraph 8 of article 9, ensuring access to national capital markets. However this post-dates the adoption of the Constitution (Satversme), which did not include any principles relating to local autonomy.

The first democratic local elections since the Second World War were held in December 1989. In February 1990 three laws were passed, setting out how local government would work at the level of city (town), rural municipality and district. In April 1991 further laws were passed. In September 1993 a Conception of Local Government Reforms was adopted by the Cabinet of Ministers. The result was the first general law for all kinds of local governments, passed on 19 May 1994, which with some amendments, still serves as the main law on local government.

All recent legislation laws on local government have been aimed at increasing decentralization, including political decentralization, functional decentralization and (partly) financial decentralization.

2. Territorial organisation

Latvia's self-government system consists of two levels.

The first level includes:

- 7 republican city municipalities (republikas pilseta);
- 52 urban municipalities (pilseta);
- 430 rural municipalities (pagasts);
- 36 area municipalities – amalgamated municipalities (novads).

Area municipalities are generally formed as a result of the amalgamation of several rural municipalities and (usually) an urban municipality.

The second level of self-government system includes 26 district self-governments (rajons) and 7 republican city municipalities. Thus, cities are represented on both levels simultaneously.

The average size of municipalities by population is rather small – 4,200. Cities count for 68% of the country's population, whilst rural territories only 32%.

In addition to local and district self-governments there are five planning regions, which are not administrative – territorial units but whose main function is coordination of economic and territorial planning.

The capital city Riga does not have a separate legal regime, and has the same status as the other six republican cities. There are no metropolitan areas with specific governance arrangements.

A major administrative – territorial reform is currently under consideration. It is proposed that after the 2009 local elections the number of local governments should be reduced to 110, a decrease of approximately 80%. This will be



accompanied by abolition of district self-governments, since the amalgamated municipalities will be large enough to make the district tier superfluous.

Total public expenditure in Latvia in 2006 was 6 billion EUR, that is 2,633 EUR per capita. Public expenditures form 37.2% of GDP. Total local expenditures in 2006 was 1.7 billion EUR, that is 27.4% from total public expenditures and 10.2% of GDP. Local public expenditure per capita in 2006 was approximately 700 EUR.

3. Local democracy

3.1. Local political system

Local democracy in Latvia is based on a representative system. The representative body of local government is the council. It is elected by citizens in equal, direct, secret and proportional elections. Since 1997 the regional (district) councils have been an exception to this rule – they are not elected directly, but are formed by chairmen (heads) of councils of urban and rural municipalities. In the 1989 local elections a majoritarian system was used, but since 1994 elections are based on proportional representation.

The 1994 law on local elections significantly reduced (three to four – fold) the number of deputies. The average number of deputies serving on a local council is eight. According to the law the right to vote for council is granted to citizens of the Republic of Latvia and since 2005 – also the residents of Latvia who are citizens of any EU country. Local elections are pluralistic. The main national parties participate alongside local parties. From 2001 only political parties or their coalitions have had the right to submit lists of candidates in cities and areas with the population of 5,000 or more. Lists of candidates for other local councils may be submitted by both registered political

organizations and voters' associations (so called "local lists"). The voters' associations are formed by those who sign for a list of candidates, signifying their support, as well as individuals appearing on that list.

There is a trend in Latvia to reinforce the executive body and improve the efficiency of local authorities. In municipalities with a population of 5,000 or more the position of executive director (manager) is compulsory according to the amendment in the law "On Local Governments" passed in 2000. The local government executive director and executive body are responsible to the council, which has the power to dismiss the executive director.

3.2. Citizen participation

Voter turnout in Latvia in 1994 election was 58.5%, in 1997 – 56.8%, in 2001 – 62.0%, in 2005 – 52.9%. A relatively high turnout in the 2001 election was partly the result of high-profile election campaigns, but the main reason for the low turnout in 2005 was citizens' disillusion with the political parties, which offered very similar programs. To investigate the connection between the level of socio-economic development and voter turnout all rural municipalities were divided in five groups accordingly their development index, using method of equal length intervals. The results were surprising - in small economically weak local governments the turnout was higher than in large economically strong local governments (see table 1; p. IV).



Table 1. The connection between territory development index and voter turnout in rural municipalities in the election

Group of rural municipalities by territory development index	Territory development index	Voter turnout (in %)
1	1.025 - 0.431	48.9
2	0.430 - -0.164	53.0
3	-0.165 - -0.758	57.2
4	-0.759 - -1.353	59.8
5	-1.354 - -1.948	60.8

Source: the author's calculation.

The situation is similar in towns and cities - in the weakest group the voter turnout was 60.3%, in the second weakest – 55.2%, but in the three strongest groups it waves from 50.2% to 52.9%.

In small local governments the candidates of deputies are nearer to citizens and citizens know them better than in large local governments. For example, in local governments with the population less than 1,000 there are in average 63 electors per deputy, but in local governments with the population 10,000 and more – 2,681 electors. or 43 times more.

However competition in large economically strong municipalities is greater than in small, economically weak municipalities. For example, in the economically strongest 15% of cities an average 7.6 deputy candidate lists were submitted, but in weakest 15% of towns – only 3.1 lists, or 2.5 times less.

There is currently a proposal to replace the existing proportional system of representation with a mixed system in which a part of deputies would be elected on the basis of a proportional system and a part – on the basis of a majority system. This proposal is linked with the planned administrative – territorial reform. After the amalgamation of local governments the existing proportional system of representation would not ensure that at least one deputy is elected from each

former rural municipality. Having the former rural municipalities as electoral districts and applying the majority electorate to them could be seen as a guarantee that the settlements concerned would be represented in the local council.

The procedures of direct democracy (participative budgeting, local referendum, recall etc.) are not provided by the Constitution (Satversme) or by the law. However, democratic forms of representation or participation below the municipal level are provided by the law.

The main forms of the population participation in local government actions in Latvia are the following:

- participation in local council elections;
- participation in local government councils and their committees meetings;
- involvement the population in local government boards, commissions, working groups;
- access to the written proceedings of council meetings;
- creation consulting councils and small councils;
- reviewing citizens' complaints and suggestions;
- deputies' reception of visitors;
- public hearings;
- participation in preparation and discussion of annual public report;
- "round tables" and conferences;
- opinion surveys;
- public meetings, etc.



All forms mentioned above belong to support of local government action. But public participation may also be manifested in the form of protest meetings, strikes, demonstrations, pickets, which are more characteristic of the larger cities. .

In the process of self-evaluation of local government action in the January of 2007 the heads of local governments answered to the question: "How far does the local population participate in local government action and decision - making?" The results are not encouraging: 41% of local leaders consider public participation to be only fairly active, 51% think that it is passive and 3% - that it is very passive. Only 4% of respondents consider that the population participation is active and 0.4% that it is very active.

The population's assessment of local governments is shown by the results of direct interviews of Latvia's population aged between 15 and 74 years in 2004, organized by the Baltic Institute of Social Sciences. Only 39% of respondents are sure that local governments operate in accordance with the laws professionally, but 20% of respondents think that employees are often incompetent, their activities are ineffective. The most positive answers are given by respondents, living in villages, rural areas (54%), but the least positive answers were given by Riga's respondents – 26%. It is not surprising because in more inhabited territories population is more distant from deputies and staff of local governments. 11% of respondents or their acquaintances have paid for favorable outcome in local governments, the most in Riga – 14%, the least in rural territories – 9%. Only 9% of respondents have met deputies of local governments regarding some political issue during the past 3 years, whilst 16% of the respondents answered "Yes" to the question "Have the local government representatives been unfair or

inconsiderate toward you, or have not provided the required information during the past years? However, 48% of the respondents trust the local governments and 39% distrust. Trust is higher in local government than in the European Union (37%) and central government (25%). Lowest of all the population's trust in political parties – 10%.

From this it is clear that corruption continues to be a barrier to the trust that is necessary as a basis for public participation.

4. Centre – local relations

4.1. General issues

The main institution responsible on local government issues is the Ministry of Regional Development and Local Governments. The ministry is empowered to issue regulations on local government. Every year the negotiations between Cabinet of Ministers and local governments are organized.

At Parliament (Saeima) the Commission of State Administration and Local Government has been organized.

In Latvia, the following issues are usually subject to coordination between the Cabinet of Ministers and local authorities:

- the drafting of laws and regulations that affect local governments;
- determination of general and specific grants allocated to local governments each fiscal year;
- identification of financial sources to compensate additional functions that are delegated to local governments;

The Union of Local and Regional Government of Latvia (ULRGL) represents the local authorities in negotiations with the state. A protocol is formulated annually



upon negotiations between working groups formed by ULRGL and representatives of all ministries. Budget allocations continue to be the main area of conflict in centre-local relations.

4.2. Supervision of local government

Local governments are subject to both legal and financial supervision. Responsibility for reviewing the legality of decisions lies with the Ministry of Regional Development and Local Governments. The State Audit Office carries out financial supervision.

If the chairperson of the council violates the Satversme (constitution), laws, regulations of the Cabinet of Ministers or court orders, the minister responsible for local government affairs may suspend his or her official duties. The suspension results in dismissal if upheld by a court or if the affected chairperson does not appeal the suspension in court within two weeks.

The Saeima may dismiss a local government council if it:

- repeatedly violates the Satversme, laws, regulations of the Cabinet of Ministers or court orders;
- repeatedly passes decisions or pursues activities that are competence of the Saeima, the Cabinet of Ministers, ministries, other state administrative institutions or the courts;
- does not elect a chairperson, vice-chairperson and standing committees within two months of its first meeting or upon resignation of the officials or institutions in question;
- fails to attain a working quorum (a simple majority of the deputies) to three meetings in succession (On Local Governments 1994).

Till 2008 there is one example in practice, when Saeima dismiss the local government council.

The fiscal autonomy of local governments is not wide. Since 1995 the central government has gradually reduced access of local government to private capital markets. Currently, local governments can borrow money mainly through the Treasury. Such restriction contradicts the call of the European Charter on Local Self-Government for a free access of local government to the national capital markets.

On June 6, 2002, Saeima passed the "Law on State Administration System". This law touches also the issues of local governments. In this law local government is determined as derived public person. It has its own autonomous competences assigned by law, including formation and confirmation of the budget. According to the law, institutions and officials of local government are a form of delegated administration, not direct administration. The local governments of Latvia are concerned that according to this law local governments are included in the system of state administration.

In the paragraph 8, item 4 of the law determinates that local government, executing state administration functions which according to the law are passed to the competence of local government, is under supervision of the Cabinet of Ministers in order and volume determined in the Law "On Local Governments".

The paragraph 7, item 5 of the "Law on State Administration System" determines that supervision means the right of the higher institution or official to verify the legality of decision of lower institution or official and to repeal unlawful decision as well as in case of inactivity to give order to make decision. It is contradicted with the



law "On Local Governments", which determines that the minister empowered by the Cabinet of Ministers can suspend unlawful regulation or other normative act or action of their separate items passed by local government council with motivated order, but a council has the right to apply to the Constitutional Court.

4.3 Protection of local self-government rights and interest

The Association of Local and Regional Governments of Latvia (ALRGL) is the national institution deemed to represent local government interests with respect to the central government. The ALRGL represents all groups of local governments – cities, towns, rural municipalities, districts local authorities. The law "On local governments" states that an organization or society which brings together more than half of local governments of each category can represent local authorities in negotiations with central government. More than 90% of each group of local authorities are members of ALRGL.

5. Local responsibilities (functions)

In determining the distribution of functions among the state (central government), regional and local governments, private sector as well as non-governmental organizations (NGOs) the principle of subsidiary is to be applied: the solutions to problems should first of all be sought on the lowest level which is closest to the people. No task should be solved on a higher level than necessary.

In decentralizing state functions and in transferring them to the local government levels, it should be kept in mind that, along with the transfer of functions, corresponding financial resources must be provided, as stated in the European

Charter of Local Self-Government (1985) and in the law "On Local Governments" (1994).

According to the law "On Local Governments" (1994) the responsibilities of local government in Latvia include:

- autonomous functions stated in the law "On Local Governments" that are permanently binding;
- autonomous functions stated in other laws;
- state administrative functions that have been delegated to local government in accordance with the procedures stated in the law "On Local Governments";
- functions that have been delegated to the local government by other local governments;
- single tasks assigned by state administrative institutions;
- voluntary initiatives.

The execution of autonomous functions that are assigned by the law "On Local Governments" are to be financed entirely by the budget of the respective local government. When additional functions that are delegated by law incur an increase of expenditures, new sources of income to cover these responsibilities must be provided in that law. The execution of additional functions may be legally delegated to local governments if the sources of additional financing are simultaneously identified to provide for any increase in expenditures. Local governments are in charge of carrying out such functions and are responsible for them.

According to the law "On Local Governments", the main functions of municipalities are to:

- provide municipal services to inhabitants (water supply; sewerage; heating; household waste disposal);



- maintain its administrative territory (construction, reconstruction and maintenance of streets, roads and squares; provision of lighting for streets, squares and other public areas; collection and disposal of industrial waste; establishment and maintenance of cemeteries);
- regulate the use of public forests and waters;
- provide education and promote culture (the registration of children of compulsory school age and administration of educational institutions; establishment and maintenance of institutions to support extracurricular activities; protection of the right of access to primary and secondary education; provision of resources and maintenance of museums and local cultural monuments; establishment and maintenance of public libraries);
- provide health care ;
- ensure social assistance for underprivileged families and socially unprotected persons (families with many children, orphans, abandoned children, former political prisoners, the disabled, pensioners, the unemployed, etc.);
- oversee adoption and guardianship issues;
- establish and maintain an accommodation fund and render assistance to inhabitants concerning accommodation issues;
- promote entrepreneurial activity in the administrative territory (restricting monopolies and promoting competition, issuing permits and licenses for entrepreneurial activities, etc.);
- take measures to prevent unemployment;
- maintain public order;
- manage construction in accordance with the master plan of the administrative territory.

At present, it may be argued that the functions of district self-governments are

too narrow, and they have no stable revenue base.

The compulsory functions of district self-governments, according to the law "On Local Governments" (1994) are:

- organization of civil protection (together with local governments);
- management of public transportation services;
- representation of the district self-government in district health insurance foundation;
- organization of the continuing professional development of teachers.

6. Local finance and management

6.1. Local government incomes

Formally, only state taxes are collected in Latvia. Income from tax sharing in local budgets last years forms 55-60%.

Personal income tax in 2008 is shared 80/20 between local and central government. Over the last few years the local share of personal income tax has increased - in 2007 it was 79%, in 2006 – 75%, in 2005 – 73%, before 2005 – 71.6%. Personal income tax is the main source of revenue of local government - 45 % in 2006. Only in three large cities – Riga, Ventspils and Liepaja – local governments administer collection of personal income tax. In other cases it is collected by the State Revenue Service. The rate of personal income tax in Latvia is 25 percent.

Today only real estate tax is exclusively local (100% share goes to local budget). Real estate accounts for 6% of all local revenues.

Dedicated or earmarked state grants account for a high proportion of local budgets - in 2006 it was 27%. There is



very direct transfer of general grants from the centre to local government. General grants for local budgets are allocated from the Local Government Finance Equalization Fund. The system of local government financial equalization was introduced in 1995 based on recommendations of the European Council and on the Danish experience. The goal of this equalization system is to provide financial resources that ensure approximately equal opportunities to meet the needs of all residents. The fund relies heavily (90%) on contributions from local authorities, and only 10% (in 2006) in terms of funding from central government.

The largest local government expenditure is education – 45%. Local government administrative expenditure is 10%.

According to the law "On Budget and Finance Management" passed on 24 March 1994, local governments have the right to draft and approve their budgets independently and to raise budget revenue privately in order to ensure a permanent and secure financial base. Furthermore, the law "On Local Government Budgets" of 29 March 1995 grants local governments the right to adjust tax exemptions for payments to local budgets as well as to impose local government duties and determine their rates in accordance with the law "On Taxes and Fees." Municipalities have the right to impose duties on:

- local government services;
- entertainment in public places;
- tourism;
- trade in public places;
- keeping certain animals;
- transportation across special zones;
- advertisement in public places;
- ownership of boats, motorboats and yachts;
- use of the local government symbol (On Taxes and Fees, 1995).

6.2. Local government personnel and management

There are big differences in administrative capacity, including qualification of personnel in large and small municipalities.

The results of survey of the views of heads of local governments in 2007 show the following:

- 72% of leaders consider that the number of employees in local government administration is sufficient, 25% – that it is too small, and only 1% - that number of employees are too large;
- 2% of the respondents consider that quality of activities made in scope of "Administration" is very good, 61% - that it is good. Not a single local government leader considers that quality of local government administration as bad or very bad. In some, especially smaller local governments, there is a shortage of qualified managers, economists, lawyers, land use planners.

Unfortunately, in duration of the 2007 three chairmen of local government council were dismissed from their positions – as being charged for corruption. 20% of local governments have no adopted territory plan that could be reason for corruption. Today only seven local governments have codes of ethics for deputies and staff.

Management culture in Latvia's public administration, including local authorities, combines traditional Weberian bureaucracy with New Public Management. In large local governments some principles of business management are implemented. In some local governments the ISO 9000 quality standard and some principles of Total Quality Management have been introduced.



In big cities and towns “one stop shops” have been established, and strategies for city marketing have been prepared.

The process of democratization and decentralization of state administration has been going on in Latvia for the last fifteen years. Under current national legislation the range of functions of local governments in Latvia is quite wide, but the revenues of local governments are insufficient for fulfilling the mandatory functions.

The core of local government reforms is administrative–territorial reorganization at local level. There has been an attempt to implement this in a politically more sensitive and democratic way. It was carried out in two stages. The first stage promoted voluntary amalgamations relying largely on local government initiatives. The second stage proposes compulsory amalgamation of local governments.

Today in Latvia district self-governments have some essential shortcomings. They are:

- politically weak (since 1997 there are no direct elections of district councils, but they are formed by heads of local governments);
- functionally weak (district self-governments have only four compulsory permanent functions);
- economically weak (since 1996 district self-governments have not permanent tax base);
- too small (small district self-governments cannot ensure balanced and sustainable development and take over the use of EU and other international funds).

These shortcomings could be averted in the process of regional reform by creating bigger directly elected regional self-governments with wider functions (by decentralization of some state functions) and with own permanent taxes.

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