

# SMALL TOWNS OF LATVIA: DISPARITIES IN REGIONAL AND URBAN DEVELOPMENT

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*The article reports on the results of an economic and sociological study conducted by the Institute of Sociology of the Russian Academy of Sciences in collaboration with Daugavpils University (Latvia) in 2020–2021. The study aimed to identify the reasons for the disparity in the development of small towns in Latvia. A comprehensive approach was taken to integrate the results of territorial, spatial and socio-economic analyses. By employing the methodology of indexing and ranking large-scale empirical data characterising the development of all small towns in Latvia, the authors attempt to identify the reasons for the disparity in the development rate of small towns in Latvia. The index of territorial development of regions, cities and rural settlements was developed and has been tested by the State Agency for Regional Development of Latvia since 2013. The data collected were then analysed taking into account the geographical location of small towns. The research showed that the main factors influencing the development of small towns are the level of business activity and the role of local authorities in the provision of public funding. The article describes prospects for the polycentric development of small towns and analyses the ways of reducing disparities in their development in terms of the working and living conditions of their residents.*

## Keywords:

regions, small towns, polycentrism, territorial development index, disparity, Latvia

## Introduction

This study is a response to the growing significance for research and practice of the polycentric approach to the spatial development of local territories to the benefit of all residents of a country. The convergence of the socio-economic performance of local territories, a brisk business environment and developed infrastructure are an important prerequisite of a country's balanced territorial and spatial development.

Recent decades have seen changing approaches to Latvia's towns, most of them well in line with the town planning programmes devised by the UN and the

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EU.<sup>1</sup> At first, a geospatial approach was employed, focused on local geographical objects performing various roles at different times. Historically, Latvia developed as an industrial-agrarian society living a less urbanised lifestyle. This encouraged the development of a dense network of self-sufficient towns, whose unique landscapes and architecture make them attractive as places of residence and tourist destinations. Then, the socio-spatial approach came to the fore, drawing attention to the practices and activities of urban social groups: authorities, businesses, civil society organisations and local communities [1, p. 10–11]. Today, these two methodologies have merged within various development programmes for EU cities to produce a geosociospatial approach spanning 12–13 aspects.<sup>2</sup>

The geosociospatial differentiation of Latvia's towns reveals disparities between them from a regional and intraregional perspective. The socio-economic situation in the country, which became more uncertain following the 2019–2021 territorial consolidation, does not ensure either equal growth of territories or sustainable and harmonised national development. In the course of the reform, the number of municipalities was reduced by a factor of 3.5, from 119 to 42; from two to nine municipalities were brought under one local government. The questionable consequences of the reform have been mentioned by experts, members of local government councils and the president of Latvia. The heavy dependence of regional towns on European structural and investment funds, as well as on other international and domestic sources of finance, complicates their development.

Yet, reasonable autonomy of local authorities, community organisations, political groups and individual citizens, the established configuration of socio-cultural interactions between residents and the preponderance of traditional lifestyles ensure the relative stability of urban society. Moreover, all these factors contribute to the adaptation of the local community to external changes, now active, now passive [2–4].

The need for a comprehensive urban policy encouraging the economic development of towns and cities has been emphasised in the literature in the European context [5].

The problem addressed in this study is measuring the degree of interconnectivity in Latvia's regional towns between the industrial and economic aspects of the life of society, on the one hand, and its non-economic dimensions, on the other, as well as examining the effect of settlement patterns on the country's economy.

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<sup>1</sup> Urban Agenda for the EU Pact of Amsterdam, 2016, Amsterdam, EK. 36 p.; Cities and urban development EU, 2022, *European Commission*, URL: [https://ec.europa.eu/info/eu-regional-and-urban-development/topics/cities-and-urban-development\\_en](https://ec.europa.eu/info/eu-regional-and-urban-development/topics/cities-and-urban-development_en) (accessed: 10.06.2022).

<sup>2</sup> Cities and urban development EU, 2022, URL: [https://ec.europa.eu/info/eu-regional-and-urban-development/topics/cities-and-urban-development\\_en](https://ec.europa.eu/info/eu-regional-and-urban-development/topics/cities-and-urban-development_en) (accessed: 10.06.2022).

The article aims to determine the level and describe the features of development disparities amongst Latvia's towns. Its key objectives are to analyse and interpret measures and rankings comprising the territorial development index for Latvian towns, parent regions taken into consideration; to identify factors in the reduction of development disparities amongst regional towns and the restoration of polycentric development trends.

The territorial development index (TDI) for regions, towns and villages, devised by the Latvian State Regional Development Agency, is an adequate measure of inequalities in the socio-economic development of the country's towns. The TDI may provide a better understanding of the structure of development disparities amongst towns, helping to make the socio-economic disparity removal policy for regions, municipalities and towns more targeted. The index will also be of use when conducting quantitative verifications and making static and dynamic evaluations for supporting polycentric trends in the development of Latvia's towns.

### **Towns and urban policy: a literature review**

Latvia's 76 cities and towns (Iecava and Koknese were accorded town status on 1 July 2021)<sup>5</sup> are home to 68% of the national population; 1438 villages, 32%. Seventy-three urban settlements have 50,000 residents or fewer and are considered towns; fewer than 3,000 people live in half of them.<sup>4</sup> Latvia has a steadily ageing and declining population: the average age increased from 26 in 1990 to 45 in 2019; the population fell from 2.668 m to 1.92 m over the same period.<sup>5</sup> Urbanisation in Latvia was characterised by migration from rural to urban areas, primarily to Riga, where 36.4% of the country's population resides (the capital and the Pierīga region account for 53% of the population). Latvia is divided into five planning regions: Riga and Pierīga, Kurzeme, Vidzeme, Zemgale and Latgale. Most Latvian towns are steadily losing population at a rate of about 12–13% every 10 years. The towns comprising the Riga agglomeration — Salaspils, Olaine, Ikšķile, Lielvārde, Baloži — are experiencing a population increase at a rate of about 6% every 10 years. Interregional migration from the periphery to the centre, to major municipal and regional towns is triggered by

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<sup>3</sup> Administratīvo teritoriju un teritoriālā iedalījuma vienību klasifikatora noteikumi, 2021, Ministru kabineta noteikumi № 379, *Latvijas republikas tiesību akti*, URL: <https://likumi.lv/ta/id/324030-administrativo-teritoriju-un-teritoriala-iedalijuma-vienibu-klasifikatora-noteikumi> (accessed 10.08. 2022).

<sup>4</sup> Population in cities, towns and counties, 2022, Official statistics of Latvia, URL: <https://stat.gov.lv/en/statistics-themes/population/population/247-population-and-population-change?themeCode=IR> (accessed 10.06. 2022).

<sup>5</sup> Statistical Yearbook of Latvia 2019, 2020, Riga, Central Statistical Bureau of Latvia, 226 p.

wide disparities in Latvia's territorial-spatial development. The centripetal trend is dominant in the country, affecting the population structure, traffic and socio-economic development. It persists despite the numerous attempts of authorities of different levels to restore the polycentric spatial development of the past, which is not touted as a goal for the future.

Until 1991, most towns had thriving local manufacturing enterprises involved in furniture, electronic appliance and garment production, precision engineering, prefabricated building, construction, and agriculture (agricultural processing, biochemical production, agricultural machinery manufacturing). There were also branches of industrial enterprises headquartered in Latvia's larger towns and cities. Their output did not only meet the demand in the internal market, but also was shipped to other Soviet republics and exported abroad. For example, glass from the factory in Līvāni was sent to Soviet republics; cheese and other dairy products from the town of Preiļi, to Leningrad and Moscow. Latvia's regional towns progressively developed in industrial and intellectual terms, enjoying a high employment rate.

Analyses of trends in the current socio-economic development of Latvia's towns link the need to embrace polycentrism with several factors: cooperation and pooling resources; complementing, not overlapping, specialisations of towns; a balanced development at a municipal and regional level.<sup>6</sup> Yet, the effect of fiscal policy on the economy is such that it complicates a balanced development of its real sector. Latvia's monetary policy is attuned to the interests of international capital. The tax system does not seek to remedy disparities in regional development: tax concessions for businesses are industry-specific and pay little attention to the peculiarities of regional development [6]. In the Latgale special economic zone (the town of Rēzekne), international investors into wood- and metalworking and the textile industry get an 80% reduction on corporate and property tax.<sup>7</sup> European studies often approach towns from the perspective of the concept of sustainable development, which looks for a balance between economic, environmental and social indicators of territorial development. Within this concept, the socio-economic development of cities does not degrade the environment but helps solve the social problems of poverty and inequality [7]. The prospects of towns relying on differentiated development strategies within local regional frameworks have been emphasised in the literature [8]. Most of such studies have practical implications and employ an interdisciplinary approach to summarise the experience of towns working towards a safe, green, socially responsible and economically developed environment, well up to the standards of EU residents.

<sup>6</sup> Latvijas pilsētu sociāli ekonomiskās attīstības tendences, *Pārresoru koordinācijas centrs*, 2008, URL: <http://petijumi.mk.gov.lv/node/1717> (accessed 01.02.2022).

<sup>7</sup> Par Reģionālās politikas pamatnostādņēm 2021.-2027. Gadam, 2019, *Latvijas republikas tiesību akti*, URL: <https://likumi.lv/ta/id/310954-par-regionalas-politikas-pamatnostadnem-2021-2027-gadam> (accessed 01.02.2022).

The extensive historical network of Latvia's towns provides them with ample opportunities to preserve their cultural diversity and environment, whilst developing human resources, enhancing technological capabilities and embracing new practices in an ambiguous and uncertain socio-economic situation in the country and society. It is worth noting that EU membership allows Latvian towns to make independent decisions on the sources of funding for socio-economic and infrastructural projects. These sources may be the Latvian Municipal Cohesion Fund, EU structural and investment funds, etc. Territorial development disparities may require different methods for evaluating the amount of necessary assistance and ranking recipient towns depending on the level of development. When solving these problems, cumulative indicators of regional and local development are taken into account using the mechanisms of projects and business plans, which local authorities submit to the mentioned funds.<sup>8</sup> Latvia's government devised a 2030 strategy, drawing on UN and EU concepts. Its backbone is the thesis about inclusive self-sustained growth and wedding urban development goals to common European socio-economic and sociocultural values. The emphasis is placed on the role of towns in social cohesion policy within the social organisation of society, i.e. reducing regional disparities in standards of living and quality of life.<sup>9</sup>

Most Latvian publications scrutinised the national urban development policy within the socio-spatial approach in the 2010s, when various research funds supported projects aimed at a comprehensive solution to the socio-economic development problems of Latvia's cities. This was taking place against the background of the consequences of the 2008 crises and the adoption of the 2007 Leipzig Charter for sustainable European cities. In recent years, the geosociospatial approach has gained ground in the analysis of the economic differentiation of Latvia's region, including the investigation of towns as a factor in spatio-dynamic process. The literature review suggests that polycentric development requires a focus on knowledge economy (smart development) and high value-added production as a driver of the development of regional economies of towns and villages [12; 13; 14]. It has also been emphasised that a primary long-term goal of Latvia's development is the effective comprehensive involvement of weaker peripheries

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<sup>8</sup> Sustainable Development Strategy of Latvia until 2030, 2010, *Cross-Sectoral Coordination Centre Republic of Latvia*, URL: [https://www.pkc.gov.lv/sites/default/files/images-legacy/LV2030/LIAS\\_2030\\_parluks\\_en.pdf](https://www.pkc.gov.lv/sites/default/files/images-legacy/LV2030/LIAS_2030_parluks_en.pdf) (accessed 10.06.2022); Par Reģionālās politikas pamatnostādņem 2021.-2027. Gadam, 2019, *Latvijas republikas tiesību akti*, URL: <https://likumi.lv/ta/id/310954-par-regionalas-politikas-pamatnostadnem-2021-2027-gadam> (accessed 10.06.2022).

<sup>9</sup> Sustainable Development Strategy of Latvia until 2030, 2010, *Cross-Sectoral Coordination Centre Republic of Latvia*, URL: [https://www.pkc.gov.lv/sites/default/files/images-legacy/LV2030/LIAS\\_2030\\_parluks\\_en.pdf](https://www.pkc.gov.lv/sites/default/files/images-legacy/LV2030/LIAS_2030_parluks_en.pdf) (accessed 10.06.2022).

in the economy amid urbanisation and globalisation [15; 16]. Case studies have linked the capabilities and limitations of regional towns to economic stimuli and demographic problems [17].

## **Methodology and methods**

The study draws on interdisciplinary, integrated, typological territorial-spatial and socio-economic analyses. The key to the comprehensive examination of the problems of Latvia's towns from a socio-economic, territorial and spatial perspective is indexing and ranking detailed empirical measurements performed for all the towns using an index of territorial development of regions, towns and villages. The literature on the subject of the study was analysed [18–20]. Legislative and regulatory documents on the 2019 territorial reform were studied along with statistics.

## **Results and discussion**

The Habitat II international conference of the UN sustainable urban development programme called upon states to monitor their development with the help of integrated urban development indices.<sup>10</sup> In this vein, some countries have created urban indices based on indicators taking into account the national peculiarities of gathering statistics. The zenith of urban development indices came in the 2000s–2010s, when urban development planning received attention amid the global growth of urbanisation. There is, however, no internationally recognised measure of urban development performance. The City Prosperity Index, widely used to assess the potential of cities as regards development and prosperity, applies to large cities only. Since 2013, the Regional Development Agency has been calculating an index for assessing the development performance of Latvia's regional towns and villages. Designed for monitoring, this index focuses on the socio-economic factors of urban development, without addressing the quality of the urban environment or social infrastructure. It is limited to eight sub-indices, as is a common practice worldwide. The Territorial Development Index (TDI) characterises the level of development of Latvian regions, municipalities, districts and towns. The calculations use data from Latvia's Central Statistical Office, State Treasury, State Revenue Service, State Employment Agency, Ministry of Welfare, Ministry of the Interior and State Land Service for regions, towns and municipalities. To make the data comparable, standardised values of eight different indicators are used, each indicator weighted according to importance (Table 1).

<sup>10</sup> Global urban indicators database. Version 2. United Nations Human Settlements Programme (UN – Habitat). Nairobi, Kenya, 2001. 41 p. URL: [www.unhsp.org/guo](http://www.unhsp.org/guo) (accessed 10.06.2022).

Table 1

**TDI indicators and their weight for Latvian towns**

TDI indicator	Weight
Economically active individual entrepreneurs and businesses per 1,000 population	0.25
Unemployment rate, %	0.15
Poverty rate, %	0.1
Crimes per 1,000 population	0.05
Net natural increase per 1,000 population	0.1
Long-term net migration per 1,000 population	0.1
Post-working age population per 1,000 working age population	0.05
Income tax per capita, euros	0.2
<i>Total</i>	1.00

The indicators of a territory's development, expressed in different units (people, euros, %) are grouped into the TDI are standardised using the formula

$$t = \frac{x - \bar{x}}{S} ,$$

where  $t$  is performance on the key indicators standardised for a specific territory;

$x$  is the principal development indicator standardised for a territory, expressed in relevant measurement units;

$\bar{x}$  is the average value of the corresponding principal development indicator for a group of territories in the current year;

$s$  is the standard deviation, the indicator of variation calculated for the required year, using the formula

$$s = \sqrt{\frac{\sum (x - \bar{x})^2 f}{\sum f}} ,$$

where  $f$  is the statistical weight (the population of a territory; the working age population; area, km<sup>2</sup>; corresponding principal development indicators used).

The indicators comprising the TDI are calculated as follows: standardised indicator is multiplied by its weight according to importance. The *Appendix* to the article shows the TDI for Latvia's towns. Some avenues of development require more considerable funds than are available to the local authorities. Most towns focus on networking, with many lacking a functional specialisation.

For further analysis, let us divide Latvian towns into three approximately equal groups in descending order of TDI values, as is done in similar Russian studies [21, p. 355; 22, p. 68–70]. Using data from the Regional development indicators module for 2019, towns are ranked from the highest value of TDI to the lowest.

Group A, *more developed towns*, includes towns and neighbouring settlements with a TDI value between 1.435 and 0.042.

This group comprises towns that can benefit from their efficient production enterprises, developed social infrastructure, larger fiscal capacity, plentiful natural resources, professional specialists, and knowledge-intensive and investment resources.

Group B, *less developed towns*, brings together towns and nearby settlements with TDI values ranging between 0.033 and -0.504. Profiting from the real sector of the economy, towns in the group do not have unique specialisation. Any of them are relatively prosperous tourism centres and resorts or have major agricultural businesses and SMEs with different life cycles, engaged in mid- and low-tech manufacturing and service provision (woodworking, metalworking). Usually, such towns have a component of socio-economic development more visible than the others.

Group C, *the least developed towns*, comprises towns and neighbouring settlements with a TDI ranging between -0.512 and -1.702. This group includes, with some reservations, towns performing poorly on all components of socio-economic development. Remote from potential economic centres, they have no latent capabilities in either industry, agriculture, recreation or tourism.

To develop under market conditions, towns need a conducive business environment creating points of growth and ensuring employment rather than contributing to population increase. For example, this is the case in Russia [20, p. 812]. As a case study of Latvian towns suggests [13], another significant factor in the development of towns and adjacent villages is human capital assets, which are essential for regional specialisation. The significance of a brisk business environment is evidenced by the values of corresponding TDI sub-indices. However, most companies in Latvian towns, financed by local capital (usually, up to 20,000 euros) cannot switch to high-value-added production, which requires considerable investment (over 100,000 euros) and outlets abroad as a prerequisite for employees' high salaries. Therefore, the lack of external investors, internal financial savings, and top specialists leads to the preponderance of mid- and low-tech enterprises in regional towns. Most of such businesses, involved in construction, metalworking, woodworking, maintenance and services, generate low value added and cannot provide high salaries to their employees. Only the towns of the Riga agglomeration, have sufficient resources for an innovative economy (companies with a registered capital upwards of 100,000 euros) and ensure sustainable development and sufficiently comfortable life for their residents. These towns act as a buffer between the 'centre' and the 'periphery'. In some towns of other regions — Ventspils, Valmiera, Līvāni, Cēsis and others — a favourable business environment has translated into a relatively high quality of life. The business environment in these towns has several common features: a past industrial ex-



perience with extant infrastructure, a developed multimodal transport network, professional labour, attractiveness to international investors and the efficient use of EU structural and investment funds [23].

Table 2 shows Latvia's towns grouped according to TDI values.<sup>11</sup>

Table 2

**Latvian towns grouped according to TDI values, by region, 2019**

Group A		Group B		Group C	
Town	Index value	Town	Index value	Town	Index value
<i>Riga and Pierīga planning regions</i>					
Baloži	1.435	—	—	—	—
Ikšķile	1.295	—	—	—	—
Sigulda	0.994	—	—	—	—
Saulkrasti	0.913	—	—	—	—
Salaspils	0.714	—	—	—	—
Olaine	0.584	—	—	—	—
Baldone	0.539	—	—	—	—
Jūrmala	0.484	—	—	—	—
Ogre	0.437	—	—	—	—
Ķegums	0.301	—	—	—	—
Lielvārde	0.279	—	—	—	—
Vangaži	0.123	—	—	—	—
Ainaži	0.085	—	—	—	—
Salacgrīva	0.085	—	—	—	—
Tukums	0.042	—	—	—	—
<i>Kurzeme planning region</i>					
—	—	Roja	-0.010	Priekule	-0.580
—	—	Brocēni	-0.022	Skrunda	-0.846
—	—	Grobiņa	0.033	—	—
—	—	Sabīle	-0.121	—	—
—	—	Stende	-0.121	—	—
—	—	Talsi	-0.121	—	—
—	—	Saldus	-0.122	—	—
—	—	Valdemārpils	-0.123	—	—

<sup>11</sup> The author of the article is grateful to Dr Vadim Krasko of the Daugavpils University for processing and grouping data in Tables 2 and 3.

The end of Table 2

—	—	Pāvilosta	-0.125	—	—
—	—	Piltene	-0.180	—	—
—	—	Kuldīga	-0.193	—	—
—	—	Durbe	-0.211	—	—
—	—	Kandava	-0.278	—	—
—	—	Aizpute	-0.503	—	—
<i>Woodsmen planning region</i>					
Cēsis	0.541	Aizkraukle	-0.113	Ape	-0.512
Valmiera	0.328	Gulbene	-0.248	Alūksne	-0.530
Līgatne	0.205	Mazsalaca	-0.295	Lubāna	-0.623
Limbaži	0.155	Madona	-0.360	Aloja	-0.658
Smiltene	0.144	Rūjiena	-0.438	Auce	-0.681
—	—	Valka	-0.504	Pļaviņas	-0.694
—	—	—	—	Staicele	-0.658
—	—	—	—	Cesvaine	-0.757
—	—	—	—	Strenči	-0.879
—	—	—	—	Seda	-0.879
—	—	—	—	—	—
<i>Zemgale planning region</i>					
Iecava	0.172	Dobele	-0.073	Jaunjelgava	-0.578
—	—	Bauska	-0.207	—	—
—	—	Koknese	-0.207	—	—
—	—	Aknīste	-0.246	—	—
—	—	Viesīte	-0.485	—	—
<i>Latgale planning region</i>					
—	—	—	—	Varakļāni	-0.657
—	—	—	—	Preiļi	-0.663
—	—	—	—	Līvāni	-0.674
—	—	—	—	Subate	-0.846
—	—	—	—	Ilūkste	-0.919
—	—	—	—	Balvi	-0.929
—	—	—	—	Viļaka	-1.224
—	—	—	—	Ludza	-1.271
—	—	—	—	Kārsava	-1.302
—	—	—	—	Rēzekne	-1.335
—	—	—	—	Dagda	-1.439
—	—	—	—	Viļāni	-1.460
—	—	—	—	Krāslava	-1.472
—	—	—	—	Zilupe	-1.702

As Table 2 shows, only in the Rīga and Pierīga regions, all towns belong to group A comprising the most developed Latvian territories. The town of Baloži, located 10 km away from Rīga, has one of the highest TDI values in the country

(1.435). Its population is 6,642 people (2019), 4,526 of whom are pensioners receiving about 407 euros a month (2019).<sup>12</sup> The unemployment rate in the town is 3.2 %; net salary in private companies is 1,126 euros/month; in public and municipal organisations, 735 euros/month (2020). This happy situation owes much to the town's history of peat production and the manufacturing of peat harvesting equipment. Latvia's largest peat substrate company Pindstrup Latvia, a branch of a Danish business, opened a new factory in Baloži in 2016. The new facility exports wood fibre to over 100 countries for the needs of plant nurseries. The company has created about 500 high-paying jobs.<sup>13</sup>

Group B includes most of the towns skirting the north-western Kurzeme planning region. The town of Ventspils is the lowest performer in the group (-1.117), which is due to economic reasons: the sanctions imposed on Russia sharply reduced the turnover of the town's seaport. Two-thirds (67 %) of small towns in the north-east of Vidzeme also fall into this group. In the Zemgale planning region, most towns (60 %) and their environs belong to group B; 40 %, to group C.

Group C includes almost all towns of the Latgale planning region, where the unemployment rate is twice-thrice as high as the national average, and income per capita is 51 % of the average salary in Latvia.<sup>14</sup> Yet, Latgale also has towns with relatively high TDI values, compared to other areas in the regions. These are Varakļāni (-0.657) with a population of 1,764 residents (2019), where a flax mill was repurposed for manufacturing environmentally friendly solid fuel — wood pellets and briquettes — from woodchips. A single investor from Austria put 1.7 m euros into the project in 2016. Employing 50 people, the enterprise exports its products mostly to Denmark and Sweden. It is worth noting that Latvia boasts 3 m ha of forests, over half of them privately owned. The largest owners are international companies and banks.<sup>15</sup>

It can be cautiously assumed that investors put money into regional towns with a track record of industrial excellence, appropriate infrastructure, adequate communications and multi-modal transport networks. In doing so they, repurpose the infrastructure to work in highly profitable industries, taking the net value

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<sup>12</sup> Regional development indicators module, 2019, RAIM.gov.lv, URL: <https://raim.gov.lv/ru/node/37> (accessed 26.08. 2022).

<sup>13</sup> Artemenko, V., Jermakova-Zaikovska, J, Baloži opens a woody fiber factory, 2016, Latvijas Sabiedriskie Mediji, URL: <https://lr4.lsm.lv/lv/raksts/den-za-dnem/v-balozhi-otkrili-zavod-po-proizvodstvu-drevesnogo-volokna.a74318/> (accessed 10.03.2022).

<sup>14</sup> Par Reģionālās politikas pamatnostādnēm 2021.-2027. Gadam, 2019, Latvijas republikas tiesību akti, URL: <https://likumi.lv/ta/id/310954-par-reģionalas-politikas-pamatnostadnem-2021-2027-gadam> (accessed 10.06.2022).

<sup>15</sup> Lursoft: Latvian forests belong to foreigners almost completely, 2021, SPUTNIK Latvia, URL: <https://lv.sputniknews.ru/20210925/-lursoft-latviyskie-lesa-pochti-vse-prinadlezhat-inostrantsam-18571178.html> (accessed 26.06.2022).

added out of the country. The towns that were never industrial wonders fly below the radar of international investors and opt for construction, maintenance, and services with low profits and no outlets outside the region. One of such towns is Zilupe (-1.702) in the Latgale region, which borders Russia; it has the lowest TDI both in the region and nationwide.

The most developed Latvian towns are situated in the Riga region and Pierīga planning regions (Group A). Less developed regional towns are situated in Kurzeme, Vidzeme and Zemgale (Group B). The least developed towns are found in Latgale (Group C). Overall, most Latvian towns belong to Group B in terms of their social and economic performance (Table 3).

Table 3

**Average TDI values for Latvian towns, by region**

Region (number of towns)	Average TDI	Group
Riga and Pierīga (15)	0.554	A
Kurzeme (16)	-0.22	B
Vidzeme (21)	-0.355	B
Zemgale (7)	-0.232	B
Latgale (14)	-1.352	C
Latvian total (73)	-0.277	B

The history of Latvia's socio-economic development, moulded by the country's transit function and strong agriculture, produced four models for towns with sufficient development resources: a satellite town (within 50–60 km from a city) with innovative development opportunities; an industrial town with a focus on mid and low-tech; an agro-industrial town; a resort with folk craft traditions.

The analysis showed that Latvia is characterised by an extremely unbalanced socio-economic development. Thus, it is hard to agree with the authors who believe that local territories can survive and develop against the background of the current differentiation. In their opinion, the differentiation of Latvia's inland regions according to the 'successful growth' indicator corresponds to the Gaussian distribution based on the regional Human Development Index [24]. Perhaps, this understanding indicates a departure from multi-factoriality as a methodological principle of analysing socio-economic processes within interdisciplinary studies. There are two poles distinguished according to a territory's economic potential: the 'centre' (Riga and Pierīga) and the 'periphery' (all the other regions and their towns). The former accounts for two-thirds of the country's economic potential

and from half to two-thirds of national economic activity. This skew complicates the development of towns, creating a development hierarchy and affecting local economic profiles.<sup>16</sup> Some larger towns perform better economically but lag behind their counterparts as regards local development rates. Such towns are Valmiera, home to 23,000 people in 2018 with a per capita GRP of 16,700 euros, and Ventspils with 35,000 people, 13,800 euros. Some towns have a pronounced economic profile and specialisation. For Ventspils, it is container shipping; for Krāslava, the garment industry and woodworking; for Preiļi, the food industry.

Latvia's towns have not yet become local centres for innovation, with very few exceptions. These are optical glass fibre production in Līvāni, Latgale; Madara natural cosmetics in Mārupe and a chemical-pharmaceutical factory in Olaine, both in the Riga region. So far, the other towns have not met the local innovative development criterion, which is a locally created knowledge-intensive production technology. This is achieved if the local economy is effective and GRP per capita is upwards and exceeds 16,000 euros. Amongst Latvian towns, Valmiera, Ventspils and Salaspils practically meet this criterion. All other regional towns meet the local investment development criterion: the use of available knowledge-intensive technologies in production. This criterion is linked to the local level of economic efficiency, where GRP per capita is between 7,000 and 16,000 euros. These towns can manufacture specialised goods and provide specialised services, expanding off-season and all-season activities to employ as many economically active residents as possible [25].

Branches of companies from Riga, different EU states and third countries dominate in some of the towns. Individual traders, small-batch producers, human-scale farms, and car and appliance repair shops prevail in the other towns, along with public and municipal organisations. Local governments are important employers in sparsely populated areas, smaller regional towns and rural areas. In 2020, traditional and intermediary services accounted for 73 % of Latvia's economy; agriculture, for 4.6 %; manufacturing, for 22.4 %.<sup>17</sup> Central to the real sector are forestry, food production, the garment industry, the chemical industry, mechanical engineering), woodworking, metalworking and agriculture. Their operations expanded in 2019, yet remained insufficient to beat unemployment. The economy is still dominated by mid- and low-tech production. High- and

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<sup>16</sup> Par Reģionālās politikas pamatnostādņēm 2021.-2027. Gadam, 2019, Latvijas Republikas tiesību akti, URL: <https://likumi.lv/ta/id/310954-par-regionalas-politikas-pamatnostadnem-2021-2027-gadam> (accessed 15.08.2022).

<sup>17</sup> Statistical Yearbook of Latvia 2021. Central Statistical Bureau of Latvia, Riga, 2022, p. 138, URL: [https://business.gov.lv/sites/default/files/202201/Nr\\_01\\_Latvijas\\_statistikas\\_gadagramata\\_2021\\_Statistical%20Yearbook%20of%20Latvia\\_%2821\\_00%29\\_LV\\_EN.pdf](https://business.gov.lv/sites/default/files/202201/Nr_01_Latvijas_statistikas_gadagramata_2021_Statistical%20Yearbook%20of%20Latvia_%2821_00%29_LV_EN.pdf) (accessed 10.09.2022).

mid-tech comprise 6.8 % (biotechnology and pharmaceuticals, ICT equipment) and 33.2 % (mechanical engineering) of the total output, respectively; low-tech products (timber processing, the garment industry, food production, etc.), 60 %.<sup>18</sup> Therefore, in the towns of the 'periphery' dominated by mid- and low-tech production, local governments increasingly seek to attract tourists in order to create jobs and replenish municipal budgets. Despite the available financial assistance tools, tourism is experiencing immense pressure in the aftermath of the COVID-19 pandemic and the sanctions imposed on Russia in response to its special operation in Ukraine.

EU structural and investment funds contribute to the survival of these towns by supporting local SME projects and investing in infrastructure. This assistance, however, is not sufficient for stimulating development, i.e. creating new jobs or launching mid- and high-tech businesses within the national and international division of labour. There is a need for targeted public investment in the form of private-public partnership and giving the towns, as well as municipal and regional authorities, greater autonomy and flexibility as regards town planning and looking for new integrated forms of cooperation between neighbouring regional towns.

The level of development of regional towns depends on the business environment, support from EU funds and municipal tax collections (this concerns most of income and property taxes). Other important sources of revenue are the national cohesion funds and transfers from the state budget meant for implementing public functions in education and transport. Paid-for services, fees, property lease and other municipal functions account for a less significant part of budget revenues. Yet, the municipalities' fiscal decentralisation index is only 16 out of 100, compared to the self-rule index of 67 out of 100 [26]. Therefore, municipalities make a substantial contribution to the financial sector of public administration. In Lithuania, local governments' revenues account for one-third of the central government's budget [27]. Exploiting available resources, municipalities maintain and develop local infrastructure, and ensure access to healthcare and education, from pre-school to secondary level, and other services. Other major factors in the development of towns are the improvement of transport accessibility and greater mobility of residents; stimulating economic activity and creating new jobs, including in new fields; measures to increase fertility rates; encouraging the young and active population to stay in town by providing them with education, healthcare, career and housing opportunities. At the same time, Latvia's towns

<sup>18</sup> Centrālās statistikas pārvalde datu bāze. Uzņēmumu uzņēmējdarbības rādītāji apstrādes rūpniecībā pēc tehnoloģiskās intensitātes, 2019, *Centrālās statistikas Portāls Latvijas oficiālā statistika*, URL: [https://data1.csb.gov.lv/pxweb/lv/uzn/uzn\\_\\_uzndarb/SBG040.px](https://data1.csb.gov.lv/pxweb/lv/uzn/uzn__uzndarb/SBG040.px) (accessed 15.08.2022).

are environmentally sustainable, boasting human-scale urban spaces, as well as moderate housing and general prices. With these clear advantages, they comprise the spatial and intellectual backbone of the country.<sup>19</sup>

## **Conclusions**

The study has revealed significant disparities in the development of Latvia's towns. These inequalities have a distinct regional angle accounted for by the features of the country's spatial centre-periphery evolution. The proposed index method for assessing the development of regional towns is a conclusive proof thereof. Another factor in the disparities is the track record of industrial and agricultural production. The typical cases analysed above confirm this conclusion.

On the whole, most Latvia's towns (44 out of 73) fall into the average performance group (B), having no real sector specialisation and being predestined to limited profits. These towns do not have large international and national businesses or their branches. The further 'cultivation' of Latvia's local territories by international big business for its own benefit is a likely prospect. Moderate business activity in Latvia's peripheral towns causes the quality of the business environment to grow very slowly. As a rule, regional towns have one relatively developed component: SMEs engaged in agriculture, woodworking or manufacturing; agricultural processing by farmers, crafts, tourism, services, etc. These competitive advantages stimulate the socio-economic development of towns and their urban environments within the limits of available resources.

The small share of innovative businesses and the crucial role EU structural and investment funds have in the development of the towns testify to the significant dependence of the latter on external resources. The prospects of Latvia's towns look rather optimistic as they are able to attract such funds, which are essential to the survival of towns, supporting SME projects and infrastructure development. Yet, they are not sufficient for the sustainable development of towns in Latvia. The role of towns in the development and reproduction of public life in Latvia goes far beyond their economic functions: towns contribute to the reproduction of the lifestyle and traditional values of Latvian society and thus require support from the state for education, healthcare and culture.

Latvia's extensive historical network of towns, many of whose spaces have the status of protected natural areas, provides the country with sustainable opportunities to preserve cultural diversity and natural environment, develop human resources, enhance technology and embrace new practices amid the ambiguous and uncertain socio-economic situation in the country and society.

<sup>19</sup> Pašvaldību 2020. gada publiskie pārskati, 2021, Vides aizsardzības un reģionālās attīstības ministrija, URL: <https://www.varam.gov.lv/lv/pasvaldibu-2020-gada-publiskie-parskati> (accessed 15.04.2022).

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