

## From Central Control to Local Initiative: Regional Development in Latvia and Norway

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**Abstract.** *This article discusses the development of regional policies in two countries, Latvia and Norway. The aim is to present how these policies have evolved and can be understood with the application of complexity theory as a common theoretical framework for analysis. Even though Latvia and Norway have quite different experiences in regional development policy, both have tried to react to modern challenges of globalization and demographic changes by using general theories and concepts of economic and social development. Differences and similarities between the two countries are high-lighted by a review of studies from Latvia and Norway that describes the variety of policies that can be applied for regional development. Regional policy in both countries has coalesced around support for local initiative and entrepreneurship.*

**Key words:** *public services, regional development, Latvia, Norway, policy tools, local partnership.*

**Raktažodžiai:** *viešosios paslaugos, regioninis vystymas, Latvija, Norvegija, politikos įrankiai, vietos partnerystė.*

## **Introduction**

While practitioners (e.g. politicians) still seek to promote regional development as a distinct policy activity, Norwegian academics who used to identify with it as a sub-discipline of planning has come to dismiss it and regard regional development as another aspect of public policy and policy analysis. While in Latvia for a long time, regional development policy was not even recognized as a separate policy area. Instead it was tackled as cross-cutting issues stating “regions in all policies”.

The aim of the article is to explore current issues related to regional development policy in two countries: Latvia and Norway. The selection of these two countries may not be the usual choice for academic comparison, since on many indices, such as economic and administrative development, Latvia and Norway stand far apart. However, since the late 1980s – even before Latvian independence – the two countries have cooperated closely, economically, politically, and culturally. This cooperation has been intensified through both countries’ membership in the Baltic Sea Council, NATO, and the European Economic Area.

Thus, comparison of the countries might provide information on trends of regional policies and their possible similarities and differences across borders. In order to provide a unified framework for analysis, the theoretical frame will be developed based on contributions from current academic research. Both countries will be compared on two levels. The first level consists of the normative level where policy documents and legal acts are the units of analysis. The normative level expresses both policy intentions as well as policy tools. The second level of analysis consists of national trend studies of actual government regional development policies in each country. This secular trend analysis is supplemented with an in-depth case-study of a regional development project in Latvia, the “Balvi regional partnership” initiated in 2009 and evaluated in 2015.

The article is based on the assumption that both countries (Latvia and Norway) set their goals of regional policy as follows: to reduce regional disparities and to diversify regional economy that would benefit to decrease of employment and improved infrastructure.

## **Theoretical Considerations: Different Approaches to Regional Development Policies**

Ole Bjørn Røste (2013) in his textbook for political science students define narrow or direct policies to include employers’ contributions to social security and specific actions directed at poorly developed regions, while broad or indirect policies include sector programs (transport, health), regulations of primary industries, and the support of “corner stone” industrial projects. Benefits go to the organized few while costs are distributed among the disorganized many.

Hannu Tervo (2015) in analysing regional policy in Finland builds his categorization of development policies on Vartiainen's definition of its three main stages: the first stage was regional policy with industrial focus, while the second stage was a nation-wide regional policy that assumed that the whole country would benefit from regional policy not only particular development areas (Vanags 2005, 274). The last, third stage, is a program-based regional policy that started with the EU cohesion policy of the 1980s.

Norwegian scholar Roar Amdam (2010) has reduced Vartiainen's three stages to just two main approaches to regional development: The first, *redistribution* depends on a strong national state that sees itself as mastering market forces and depends on centralized planning. In the second approach, *innovation*, the regions must themselves take on responsibility for development through "mobilization planning." This means that planning and implementation become identical to policy analysis and leads us to discussions of political structure. Roar Amdam has followed up this line of argument in his more recent work (Amdam 2011 and 2014).

According to Jørgen Amdam and other scholars (Amdam 2011, Nielsen et al 2010), we have moved away from embracing the ideas of the regulatory state to accepting complexity theory. At present, it is difficult to talk and write of regional development as a distinct academic sub-discipline. For academics (like him), this tendency confers a sense of disillusionment or disenchantment.

Although there are one or two Norwegian scholars, such as Noralv Veggeland (2010 and 2012), who dissent from this analysis, the standpoint of the influential Amdam brothers represents the prevailing view among Scandinavian scholars. This emphasis on innovation stresses the importance of initiative and entrepreneurship at the regional and local level. Typically, the current literature on "innovative rural communities" puts the accent on individual initiative by prime movers, who are seen as likely candidates for the position of social entrepreneurs (Alsos 2010, 28).

### **Norway: from Post-War Reconstruction to the Current Situation**

Regional policy as a conscious tool of economic development was a child of the ambitious planning ideals of the Norwegian Labour government of the 1950s. It fitted well with then current ideas of "Big Government" that downplayed the significance of the market economy in favour of state intervention. The focus of the early plans was the three counties of Northern Norway. During World War 2 they had suffered more than elsewhere in Norway, both during the early part of the war in 1940 and during the liberation by Soviet and allied troops in 1945. The economy of Northern Norway relied heavily on fishing and low-income farming. The first plans were devoted to the construction of physical infrastructure: roads, railways, harbours, and hydroelectric power plants.<sup>a</sup>

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<sup>a</sup> The substance of this section is based on the white paper on regional development published by the Stoltenberg II government in 2013 (Norway. Meld. St. 13 [2012-2013]).

The early 1960s saw the establishment of the Regional Development Fund. This government agency took on economic and industrial planning and distributed grants and loans for the construction of plants for fish processing, agriculture, and manufacturing. Since 2004 the Fund has become a part of Innovation Norway.

The decade from 1970 to 1980 represented the Golden Age of regional planning in Norway. Public policies sought to impose regional differentiation of investments, employers' contribution to social security, and subsidies for increased employment in industry and local government. It was a conscious effort to stem the flow of people from the countryside and smaller towns to the coastal cities in Southern Norway.

By the 1980s central planning lost its strong position in favour of management by objectives and the outsourcing of public services through competition. Innovation and entrepreneurship became the new key terms of public policy at the national level. Although regional planning was seen as a distinct policy area, it suffered from much of the same critique as central planning in general. The Golden Age of Regional Development had come to an end.

In the 2010s there has been a revived interest in regional development as an aspect of the global economy by the now defunct Red-Green coalition government of Social Democrats (Labour), Left Socialists, and Agrarians (Centre Party). Norwegian regional policy is promoted as a successful instrument for the even distribution of employment, GDP per capita, and demographics, and in reducing the risk of poverty. In practice, this has been achieved by an increase in population caused by immigration, by the improved distribution of individuals with higher education, and the establishment of leading export centres in Western Norway, preventing economic concentration in the capital. However, the outcome of these policies has created new problem areas of excessive growth in eastern and southern parts of the country. In particular, nearly all coastal urban areas have continued to grow at the expense of rural and inland communities.

Current policy on regional development emphasizes a local community context. Rather than central planning through ministerial action or Innovation Norway, government policy promotes local and individual initiative. (This may be more based on wishful thinking than on evidence). In contrast recent research reports contracted by government show the importance of enterprise funds (to provide seed grants and low-cost loans) and the need for role clarification and fixed agreements. Some of the ideas underneath national programs have a strictly limited scope, such as giving county governments the job of helping struggling municipalities with a population of less than 2 000 inhabitants, providing support for groceries in rural areas, and other low-cost but highly visible "feather-in-the-hat" projects. Perhaps more to the point: the government envisages that broad social reforms at the national level such as the improved coordination of health services also will benefit regional development.

The Stoltenberg II (Red-Green) government presented a very broad approach to regional development seeking to anchor its policies to a historical, a global and

a local-community context. In this view infrastructural development emerged as a major tool for economic development and localization decisions. Goals were listed as maintaining the current pattern of settlement and securing equality of life expectancies wherever you live. The current coalition government of Solberg (Blue-Blue) seems to have given up on the first point, encouraging the larger cities to continue their growth, although mainly by immigration from abroad rather than from domestic migration.

### **Latvia: from Independence in 1991 to the Current Situation**

Regional policy in Latvia has since 1990s been characterized by many models, plans, and visions designed with no further or weak implementation (Vanags and Vilka 2005, 306). In addition to this, there was a confusion regarding regional level of governance because Latvia has only two levels – the national and the local. Thus, reforms at the local level and administrative territorial reforms were assumed to be an instrument of regional policy, since there was no regional level as such. The last wave of reforms at the municipal level occurred in 2009, when several hundred local municipalities were merged into 119 counties (*novadi*) (Latvia 1998).

The “White Paper on Regional Policy” provides a vision for regional policy in Latvia until 2019 (Latvia 2013). As many policy documents, this white paper is optimistic regarding development tendencies. However, besides a purely bureaucratic justification why Latvia needs policy documents expressing its vision on regional policy, the white paper recognizes that regional disparities exist. Thus, in the end it was recognized by the government that regional disparities in economic and social terms exist, although the issue of regional policy nominally had been on the agenda since beginning of the 1990s. This indirectly justifies weak implementation of actions tailored to decrease regional disparities and provides evidence that the previous approach of “regions in all policies” could not work out due to sector interests.

After 2000, an impressive amount of financial resources was invested in specially-tailored regional development programs as a part of pre-accession as well as after EU accession in 2004. By 2008 Latvia’s growth was above the average level in EU. However, this expansion was stopped by the economic downturn of 2008-2009 (Krueger 2011). In some ways, this setback represented a turning point in regional policy. A new set of guiding principles came forth, including serious efforts by the government to implement new ideas of regional policy.

In Latvian regional development two stages are important. The first stage ended in 2002, when two significant factors were introduced: the Law on Regional Development was approved by Saeima, and the Ministry of Regional Development and Local Municipal Issues was established. Thus, some necessary pre-conditions for successful policy implementation were created.

Before 2002, regional policy was based on a top-down approach that tailored financial aid and support to economically underdeveloped regions and territories (Latvia 2013). Such an approach assumed regions that were able to attract investment, and that populations would develop successfully based on their own initiative and locally available resources. On the other hand, regions that were located less favourably could seek government support.

After 2002, regional policy was changed in a way that took for granted that each region had its own unique strengths and weaknesses impacting on development. Thus, the use of strength to overcome weakness was not only to inject a business-like approach, but also to support some sort of motivation and equality instrument for regions (Latvia 2013).

The new regional policy approach includes several important factors. First, the new regional policy takes into account demographic and ageing society challenges (Latvia 2013, 12). Secondly, it recognizes the role of urbanization in the development of regions. Finally, the new policy assumes that bottom-up initiatives are more likely to ensure future development since they might react more rapidly to the needs of each locality than centrally-designed aid programmes (Latvia 2013, 14).

However, OECD in 2013 stated that there is lack of comprehensive research and data on how local partnerships as creators of local initiatives might impact development (OECD 2012). The data on outcomes of local partnerships does not provide the full spectrum of information related to development. However, the experience of such partnerships (both local and rural-urban) and the results achieved within certain periods are worthwhile to analyze since they together demonstrate the unique experience of local communities facing global challenges. At the same time, OECD (2012) recognized that better integration of rural and urban territories may improve socio-economic performance.

### **A Latvian Case Study on Local Partnership Development**

Since Latvia is a small country the border between rural and urban areas is hard to delineate. In the Soviet period Latvia was divided into territories each having its own centre of development – a town. Thus, already historically, Latvian rural and urban territories were closely connected with regard to economic development and access to public services.

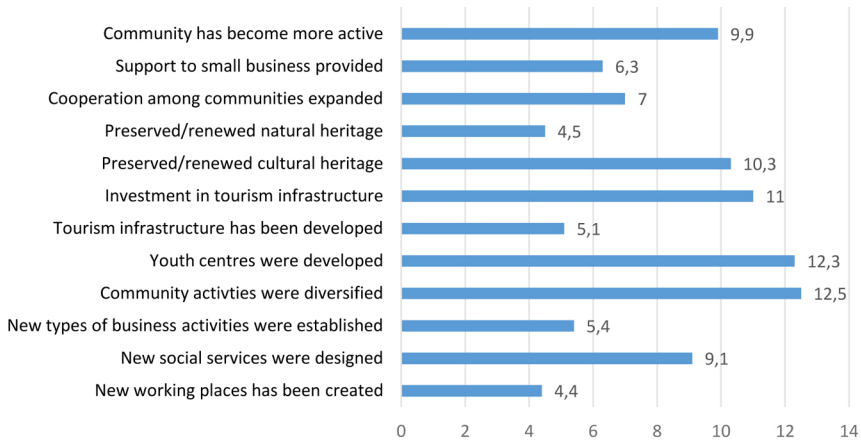
The object of the case study is the “Balvi regional partnership” located in northeast Latvia, close to the border with Russia. The partnership was established in 2003 as a local initiative group that joined together local NGOs, local municipalities and businesses. The territory of 2381 km<sup>2</sup> covered by the partnership have 22 000 inhabitants (CSP 2015). For the last ten years, the territory of the partnership faced demographic challenges with a sharply decreasing population. Since 2004

the territory lost 22 percent of its population despite specially-tailored state aid programmes (Reinholde et al. 2015).

A grant programme served as the main instrument for impacting socio-economic development. The partnership prepared a strategy pointing out the main directions, and grants were distributed based on this strategy. Thus, during 2009-2013, the partnership defined six directions relevant for the territory. These directions were: 1) development of social services; 2) small business development; 3) capacity development of the local initiative group; 4) development of youth centres; 5) development of sport, tourism and leisure infrastructure; 6) preservation of cultural and natural heritage (Reinholde et al. 2015). At the same time, local municipalities that were members of the partnership devised their own local development strategies according to the law. The goal of administrative reform was to establish administrative territories capable of developing economically and to ensure public services of high quality (Latvia 1998). In order to achieve this goal, the law obliged all municipalities to prepare a local development strategy taking into account the size of the municipality as well as the number and density of population and the accessibility to public services.

The largest number of projects financed by EU was submitted under the directions “Preservation of cultural and natural heritage” and “Development of sport, tourism and leisure infrastructure” (Reinholde et al. 2015). The number of projects submitted and most recently funded shows that two categories of actors – local NGO’s and local municipalities – had acquired sufficient administrative capacity to apply for grants.

The “Balvi regional partnership” conducted a public opinion survey in May 2015. The public opinion data shows a clear tendency: the most beneficial activities were related to an increase of the community activity level, development of youth centres, and the preservation of cultural heritage. As an outcome, the number of youth centres created is easy to identify. However, social skills and community development skills that youngsters acquire at the youth centres are hard to measure. An activated social community is another intangible outcome. At the same time, factors such as an active local community, social skills, and cooperation skills are key elements for further business development. Thus, within a few years the local community acquired multiple starting points for further activities, such as business development. If the next development strategy designed by the partnership should be tailored to business development activities, then the territory of the “Balvi regional partnership” has a potential for economic growth.



**Figure 1. The main benefits from the activities performed by the partnership and grants available (N=264 respondents, percentages calculated from the total number of responses)**

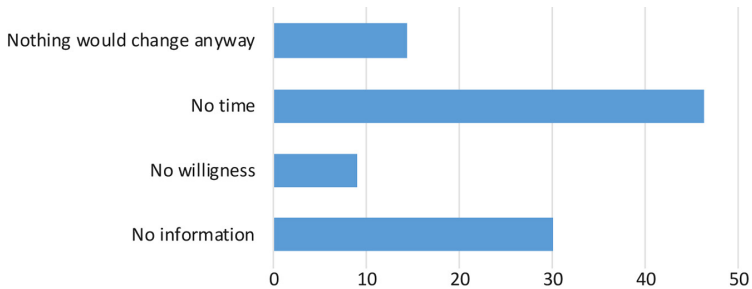
*Source:* Reinholde et al. 2015, 31.

By organizing a public opinion survey and public discussion, the local partnership wanted to identify the main tendencies regarding investments for the next seven years starting from 2016. In average, residents supported more investments in business development and business infrastructure emphasizing that business development would increase incomes of local community. The next two budget lines for investments were ear-marked in support of cultural heritage and youth. These three investment priorities clearly show some changes in the mindset of local community. Before 2015, the local community wanted to develop the general infrastructure, social services, and youth services and activate community in general. Then for the new period from 2016, the preferences of local community were more tailored to cultural heritage and services to young people as part of business development actions.

Income growth and decrease of regional disparities both depend on tailored aid programs and the willingness of the community to change local conditions. 77.3% of respondents said that they are willing to participate in local activities (Reinholde et al. 2015). However, many of respondents expressed a positive attitude and psychological support for activities lead by someone else. Such a passive position requires active local leaders and active NGOs to succeed. In detail, personal input for local growth is divided into several groups: communication with a local community, project management, capacity building activities, business development, and activities tailored to improve local public areas. Residents were ready to activate their neighbours to participate in the events, to be mediators for social problems,



to write projects for attracting funding, to share knowledge and experience they have, to help in campaigns and action, if someone will take on leadership roles. (Reinholde et al. 2015).



**Figure 2. Reasons why residents are not participating in the community activities (N=166 respondents, percentages calculated from the total number of responses)**

At the same time, those respondents who did not want to participate in community actions, mostly justified themselves by lack of time, information, or results. It appears that lack of tangible results from the activities performed by the local community might be a crucial negative factor to activate and motivate the local community for an action to change the environment. Low trust in the actions of the local community and to some extent also personal feelings of helplessness, discourage people from engagement in the implementation of local development strategy.

## Conclusions

1. This review of the development of regional policy in two countries, Latvia and Norway, shows that complexity theory helps to explain the radical changes that have taken place as organizational adaptations to changes in the policy environment of both countries. National policies, emphasizing local entrepreneurship, have been introduced better to cope with conditions of uncertainty.
2. The Latvian experience shows that regional development policy designed at the national level and development strategies produced locally are planned in isolation and implemented at different speeds. This experience demonstrates a pattern of path-dependency where historical pre-conditions and organisational culture play an important role as pointed out by Peters and Pierre (1998, 224). To some extent local development strategies reflect the overconfidence of policy makers assuming that once the strategy has been written there should not be any further problems related to implementation (Hood 2004, 277). However, during the implementation

of the local development strategies both local policy makers and local activists should be ready to invest efforts for encouraging, motivating and explaining added value of local development in the long term.

3. In comparison, Norway and Latvia, both countries have over time moved away from centralized planning of regional development to a policy designed to encourage local initiative and entrepreneurship. While the Norwegian approach at the moment appears to encourage single-actor projects, the Latvian case from Balvi shows an emphasis on the formation of networks and collective initiatives.

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**Nuo centrinės kontrolės link vietinės iniciatyvos:  
regionų vystymas Latvijoje ir Norvegijoje**

Anotacija

Šiame straipsnyje analizuojamos dviejų šalių, Latvijos ir Norvegijos regioninių politikų vystymas. Tikslas – pristatyti šių politikų raidą ir supratimą kompleksiskumo teorijos, kaip analizės teorinio pagrindo, kontekste. Nors Latvija ir Norvegija turi gana skirtingą regioninės politikos vystymo patirtį, tačiau šioms valstybėms tenka reaguoti į šiuolaikinius globalizacijos iššūkius ir demografinius pokyčius, naudojant bendras teorijas bei ekonominio ir socialinio vystymo gaires. Dviejų šalių skirtumai ir panašumai yra išskiriami atlikus Latvijos ir Norvegijos analizę, kurioje apibūdinama politikos, taikomos regioniniam vystymui, įvairovė. Regioninė politika šiose šalyse vystoma remiantis vietinio iniciatyvumo ir verslumo skatinimu.

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