

# The post-2020 budget of the European Union: Latvia's interests and opportunities

VINETA KLEINBERGA, KARLIS BUKOVSKIS

November 2018

- The positive impact of European Union (EU) funding on Latvia's development has been substantial. Since Latvia joined the EU in May 2004, the gross domestic product (GDP) per capita of the small Baltic country has risen from 42 to 67 percent of the average of the EU.
- The structural economic importance of the EU structural funds and agricultural subsidies as a source of public investment for Latvia is undeniable. It is estimated that EU financing contributed up to 2 percent of Latvia's GDP growth during the active years of absorption.
- Latvia's position has been to support an ambitious EU budget for the Multiannual Financial Framework of 2021-2027 to meet all the bloc's challenges and necessities. In light of that, the country is ready to contribute larger sums of money to cover further EU commitments for financing cohesion, the agricultural sector, social policies, security and defence, investment in science and innovation, as well as issues such as migration and border defence and providing support to the Eastern Partnership countries.
- With Latvia approaching the average EU level of welfare, and as changes in the structure of the EU budget are looming in the coming multiannual financial frameworks, Latvia has to reorient from a traditional 'country envelope absorption' approach to becoming an active, successful and integral part of future projects of Horizon Europe, InvestEU and the Connecting Europe Facility, both on a regional and European scale.
- Latvian state and municipal institutions should continue informing and educating prospective EU project applicants to prepare more ambitious projects encompassing a greater number of administrative territories and economic entities in Latvia. Moreover, significantly more mergers and collaboration among small and medium-sized enterprises (SME) is also essential because currently the innovation capacity of Latvian SMEs and their participation in innovation partnerships is the lowest in the EU. On top of this, availability of human resources both to economic growth and absorption of EU funding remains a challenge.

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## Introduction

Latvia became a member of the EU in 2004. Since then, numerous EU funds and financial programmes have been available to Latvia – altogether these have left a highly positive impact on Latvian development. In the future, Latvia should maintain the momentum the EU funds have provided to its economic growth. Simultaneously, new opportunities should be taken on board, particularly related to increased funding in spheres such as science and innovation, or security. In the meantime, Latvia should think about ways to reduce its dependency on 'country envelopes', as at some point Latvia will presumably leave the status of being a 'less developed region' within the EU.

The aim of this paper is to investigate and conceptualise the importance of the EU budget and the EU Multiannual Financial Framework (MFF) for the period of 2021-2027 – in particular focussing on Latvia's development options in the next 10 years. The research is divided into three chapters. The first reveals the impact that EU funding has had on Latvia's socio-economic development up to 2018. The second chapter deals with the reasoning behind Latvia's negotiating position, followed by an in-depth analysis of the opportunities provided by the next EU budget for Latvia, which have been omitted from public discourse.

## The impact of the EU funding on Latvia's development

In 2003, when Latvian voters opted for Latvia's membership in the EU, they did it primarily for two reasons – to have greater security vis-à-vis the country's eastern neighbour and to reach the level of well-being of Western Europe. In 2018, 15 years later, these expectations continue to materialise. Latvia is deeply incorporated into the European economic and security space – its main trading partners are the EU member states, its economy benefits from the four freedoms of EU single market, Latvia's currency has been the euro since 2014, and the level of living for Latvian people is on a path of convergence with the country's European counterparts. Latvia has reliable allies and

its voice is heard in international affairs through a common EU foreign policy.

The post-Soviet transition of Latvian society in the 1990s was slowed by small amounts of accumulated personal capital within the population. Available money levels for domestic investment were low, and seeking foreign direct investment (FDI) became essential. As a result of EU accession, the related transposition of the EU law and standards, and political integration within the EU, the FDI increase has been substantial. Latvia's economic development during these past 15 years has been turbulent, but has demonstrated a strong trend of cohesion with other EU member states. Although Latvia still remains one of the poorest countries in the EU, with a GDP per capita in 2017 officially at the level of 13.926 euro<sup>1</sup>, the amount of catching up has been substantial. Altogether, since 2004 Latvia has reduced disparities in the standard of living with the EU by more than 20 percent – as of 2017 its GDP per capita has increased from 42<sup>2</sup> to 67 percent of the EU average<sup>3</sup>. Constant economic growth has been observed in the last six years, reaching 4.5 percent in 2017<sup>4</sup> – a pace that is twice as fast as the EU-average. The level of unemployment has reached 6.4 percent<sup>5</sup> and is the lowest since its peak of more than 20 percent in 2008-2010. The average brutto wage in Latvia reached 926 euros per month in 2017 and exceeded the 1000 euro mark in 2018.<sup>6</sup>

1. "Iekšzemes kopprodukts un kopējā pievienotā vērtība", Central Statistical Bureau of Latvia, accessed October 25, 2018, <https://www.csb.gov.lv/lv/statistika/statistikas-temas/ekonomika/ikp/galvenieraditaji/iekšzemes-kopprodukts-un-kopeja-pievienota-vertiba>

2. "GDP per capita in new Member States ranges from 42% of EU25 average in Latvia to 83% in Cyprus", Eurostat, June 3, 2004, <https://ec.europa.eu/eurostat/web/products-press-releases/-/2-03062004-AP>

3. "GDP per capita, consumption per capita and price level indices", Eurostat, June 2018, [https://ec.europa.eu/eurostat/statistics-explained/index.php/GDP\\_per\\_capita\\_consumption\\_per\\_capita\\_and\\_price\\_level\\_indices](https://ec.europa.eu/eurostat/statistics-explained/index.php/GDP_per_capita_consumption_per_capita_and_price_level_indices)

4. "National accounts and GDP", Eurostat, July 2018, [https://ec.europa.eu/eurostat/statistics-explained/index.php/National\\_accounts\\_and\\_GDP#Developments\\_in\\_GDP\\_in\\_the\\_EU\\_growth\\_since\\_2013](https://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP#Developments_in_GDP_in_the_EU_growth_since_2013)

5. "Pārskats par bezdarba situāciju valstī (jūnijs)", State Employment Agency, July 25, 2018, 3, [http://www.nva.gov.lv/docs/31\\_5b59bb45731748.63718718.pdf](http://www.nva.gov.lv/docs/31_5b59bb45731748.63718718.pdf)

6. Vidējā darba samaksa pārsniegusi 1000 eiro robežu", Central Statistical Bureau of Latvia, August 29, 2018, <https://www.csb.gov.lv/lv/statistika/statistikas-temas/socialie-procesi/darba-samaksa/meklet-tema/2385-darba-samaksas-parmainas-2018-gada-2>

It has been both private foreign capital, especially from the Scandinavian banking sector, and public investment that have been *contributing to Latvia's growth*. While recognising the importance of parallel sources of economic growth for Latvia, this article will concentrate on one of those elements – the EU budget. Much of the country's success can be attributed to the funding that has been made available to Latvia from the EU budget. Altogether, from 2004 to 2018 10.56 billion euros\* from the EU budget have been invested in the Latvian economy<sup>7</sup>, fostering growth as well as regional and socioeconomic convergence. From 2004 to 2006 Latvia received 1.05 billion euros, from 2007 to 2013 it received 5.99 billion euros, and in the current planning period of 2014–2020 almost 3.52 billion euros have been received so far. The absorption of the EU funds in the current planning period is ongoing therefore the amount of investment up to 2020 will undoubtedly increase as the allocated EU funding for Latvia over the full period is 7.46 billion euros<sup>8</sup>. Latvia has been an exemplary utiliser of funds, absorbing all of the allocated amounts for the period of 2007–2013.<sup>9</sup>

However, when calculating the amount of EU funding available to the Latvian economy, one has to take into account that Latvia not only receives money – it also pays into the EU budget. For example, from 2014 to 2017 Latvia contributed 977.1 million euros to the EU budget.<sup>10</sup> Nevertheless, by getting back 3.52 billion euros Latvia has received 3.6 times more than it contributed, and thus it is an apparent net beneficiary of the EU budget.

The support of EU funding has been particularly important during the recovery from the financial

crisis of 2008–2010, helping to speed up economic recovery after the crisis. The GDP of Latvia grew by 6.4 percent in 2011 and 4 percent in 2012<sup>11</sup>, which was the most rapid pace of economic growth at that time in the EU. Altogether, without EU funding in the previous planning period of 2007–2014, the GDP growth of Latvia would have been 0.9 percent lower.<sup>12</sup>

*Post-crisis development* has also been significantly facilitated by EU funding. In the current planning period of 2014–2020, the additional impact of EU funding on GDP growth is estimated at around 2 percent.<sup>13</sup> One can observe that there were considerable changes in GDP growth with the start of the absorption of the EU funds. While in 2016 GDP growth was 2.2 percent, in 2017 it was already 4.5 percent.<sup>14</sup> The growth continues in 2018 and is reported at 4.8 percent in the third quarter compare to 2017.<sup>15</sup> The construction sector has provided the biggest contribution to economic growth in 2018, reflecting increased activity of investment from EU funds and private investors – it grew by 35.7 percent when compared to the first quarter of 2017.<sup>16</sup> Other areas that have contributed to GDP growth include trade, real estate, and commercial services, as well as agriculture and forestry.

The EU funds from an economic theory perspective have direct similarities with the 'Marshall plan' aid in post-Second World War Western Europe. Namely, public financing via structural funds plays an invaluable role as a stimulus to economic activity. From 2015 to 2017, the share of Cohesion Policy funding in public investment in Latvia was almost 60 percent, which

\* In this paper all budget figures, if not indicated otherwise, will be provided in current prices

7. Estimates of the Ministry of Finance of Latvia, provided to author

8. The number involves allocations for the Cohesion Policy, the Common Agricultural Policy and the European Maritime and Fisheries fund. At "Preallocations MFF 2014–2020", European Commission, accessed October 9, 2018, [http://ec.europa.eu/budget/mff/preallocations/index\\_en.cfm](http://ec.europa.eu/budget/mff/preallocations/index_en.cfm)

9. For the Cohesion Policy see "Finanšu rādītāji", Ministry of Finance of Latvia, accessed 25 October, 2018, <http://www.esfondi.lv/es-fondu-finansu-progress>. For the Common Agricultural Policy see "ES finansējums laukiem pilnībā apgūts", Latvian Rural Advisory and Training Centre, accessed October 25, 2018, <http://new.lkrc.lv/nozares/ekonomika/es-finansejums-laukiem-pilniba-apguts>

10. Estimates of the Ministry of Finance of Latvia

11. "National accounts and GDP", Eurostat

12. Estimates of the Ministry of Finance of Latvia

13. "Informatīvais ziņojums par Kohēzijas politikas Eiropas Savienības fondu investīciju progresu līdz 2018. gada 30. jūnijam un 2018. gada augusta ikmēneša operatīvā informācija", Ministry of Finance of Latvia, August 23, 2018, 6, [http://www.esfondi.lv/upload/00-informativie-zinojumi/fmzin\\_230818\\_es\\_fondi.pdf](http://www.esfondi.lv/upload/00-informativie-zinojumi/fmzin_230818_es_fondi.pdf)

14. "National accounts and GDP", Eurostat

15. "3. ceturksnī IKP pēc ātrā novērtējuma palielinājies par 4,8%", Central Statistical Bureau of Latvia, October 30, 2018, <https://www.csb.gov.lv/lv/statistika/statistikas-temas/ekonomika/ikp/meklet-tema/2366-ikp-atrais-novertējums-2018-gada-3-ceturksni>

16. "Informatīvais ziņojums par Kohēzijas politikas Eiropas Savienības fondu investīciju progresu līdz 2018. gada 30. jūnijam un 2018. gada augusta ikmēneša operatīvā informācija", Ministry of Finance of Latvia, 6

is the fifth-highest result in the EU.<sup>17</sup> During the financial crisis the proportion was even higher – EU funding amounted to 70 percent of public investment in Latvia, thus contributing considerably to overcoming the crisis.<sup>18</sup> The public investment has been used to compensate for a lack of resources in many spheres – including public infrastructure, energy efficiency for buildings, a renewal of the material and technical foundations of educational and health institutions, digitisation, and improving the skills and qualifications of the labour force, to name just a few.

The availability of EU funding has had an impact on *investment activity* in the country. For example, the total investment activity in Latvia in 2017 grew by 17.9 percent due to the inflow of funds<sup>19</sup>, and it is expected to increase by a similar amount in 2018. On the other hand, a reverse trend can also be observed – Latvian entrepreneurs have adjusted their investment cycles to the EU financial planning periods, as a result of which they rely very much on the accessibility of EU funding and use less funding from other sources, such as bank credits. Such dependency is reflected by economic indicators. In 2016 – when the EU funding of the period of 2017–2013 had come to an end but funding from the new EU budget of 2014–2020 was not yet available – the level of investment decreased by 15.7 percent.<sup>20</sup> Finally, in 2016, the World Economic Forum ranked Latvia 3rd (after Estonia and Denmark) in terms of entrepreneurial activity.<sup>21</sup> The Cohesion Policy investment in entrepreneurship has resulted in an increase in the number of enterprises per 1,000 inhabitants – this figure has grown from 20 enterprises in 2004 to 52

enterprises in 2016, which is more than the EU-average.<sup>22</sup>

In the previous planning period of 2007–2013, EU investment was a huge support to improving the *transport infrastructure*.<sup>23</sup> The railway infrastructure has been modernised – Latvia has 100 kilometres less of tracks where trains have to reduce their speed. Latvian motorways have been getting better over the years – the proportion of regional roads with good coverage has increased from 22.6 percent in 2006 to 30 percent in 2016; the share of bridges in bad condition has dropped by almost 15 percent. The length of regional motorways with gravel payment has been reduced from 1,323 kilometres in 2006 to 855 kilometres in 2016. As a result, traffic intensity has increased, including for cargo, the timing necessary for travel has decreased and traffic safety in populated areas has been improved, eliminating certain 'black spots'. Moreover, EU funding has helped to modernise Riga International Airport, ensuring a rise in the number of passengers to 6.1 million – an increase of 244 percent since 2006.

In the *energy sector*, the energy isolation of Latvia has been removed by implementing the Baltic Energy Market Integration Plan (BEMIP) for regional electric interconnections and integrated gas markets. It has been acknowledged that the completion of key electricity infrastructure projects such as Estlink, NordBalt and the LitPol Link has significantly improved the security of the energy supply of the Baltic States and that the Baltic States have become one of the most interconnected regions of Europe with an interconnection level of 23 percent.<sup>24</sup> Moreover, to reduce energy consumption

17. "Share of Cohesion Policy per Member State to public investment 2015-2017", European Commission, accessed September 26, 2018, <https://cohesiondata.ec.europa.eu/Country-Level/-of-cohesion-policy-funding-in-public-investment-p/7bw6-2dw3>

18. "Ieguvumi no Latvijas dalības Eiropas Savienībā", Ministry of Foreign Affairs of Latvia, accessed September 26, 2018, <http://www.mfa.gov.lv/arpolitika/eiropas-savieniba-arpolitika/sabiedribas-informesana-es-jautajumos/ieguvumi-no-latvijas-dalibas-eiropas-savieniba>

19. "Informatīvais ziņojums par Kohēzijas politikas Eiropas Savienības fondu investīciju progresu līdz 2018. gada 30. jūnijam un 2018. gada augusta ikmēneša operatīvā informācija", Ministry of Finance of Latvia, 6

20. Estimates of the Ministry of Finance of Latvia

21. "Europe's Hidden Entrepreneurs: Entrepreneurial Employee Activity and Competitiveness in Europe", World Economic Forum, December 2016, 8, [http://www3.weforum.org/docs/WEF\\_Entrepreneurship\\_in\\_Europe.pdf](http://www3.weforum.org/docs/WEF_Entrepreneurship_in_Europe.pdf)

22. "Eiropas Savienības fondu ieguldījumu izvērtēšana uzņēmējdarbības atbalstam 2007. – 2013.gada plānošanas periodā un šo ieguldījumu ietekmes noteikšana", Ernst&Young, June 2018, [http://www.esfondi.lv/upload/Petijumi\\_un\\_izvertejumi/nosleguma-izvertejuma-zinojuma-kopsavilkums-06-07-18.pdf](http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/nosleguma-izvertejuma-zinojuma-kopsavilkums-06-07-18.pdf)

23. Data in this paragraph are taken from „ES fondu ieguldījumu izvērtēšana transporta nozares attīstībā 2007.–2013. gada plānošanas periodā un šo ieguldījumu ietekmes noteikšana”, CSE COE, Eiropprojekts & TRT, June 2018, [http://www.esfondi.lv/upload/Petijumi\\_un\\_izvertejumi/nosleguma-izvertejums\\_ieguldijumu-izvertesana-transporta-nozares-attistiba-2007\\_2013.pdf](http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/nosleguma-izvertejums_ieguldijumu-izvertesana-transporta-nozares-attistiba-2007_2013.pdf)

24. "Baltic Energy Market Interconnection Plan", European Commission, accessed October 12, 2018, <https://ec.europa.eu/energy/en/topics/infrastructure/trans-european-networks-energy/baltic-energy-market-interconnection-plan>

the energy-efficient refurbishment of buildings is being implemented. Somewhat similarly, the availability of broadband internet in scarcely populated areas had been supported by the EU funding. It has been acknowledged that the quality of the connection is outstanding, and 98 percent of the homes have already been connected with 4G technology.<sup>25</sup>

Moreover, the EU funding has had a positive effect on the competitiveness of *rural farmhouses*. In the current planning period of 2014–2020, up to this point agricultural production has increased by 65 million euros, with the production per employed person increasing by 3,750 euros compared to farmhouses that have not received support.<sup>26</sup> Also, the productivity of these farmhouses, especially the smaller ones, has increased as a result of the EU support, which has helped them to modernise. It has been indicated that economically and in terms of employment and productivity, the support to small and medium-sized farms has paid off; without EU support there would have been no investment in the development of these farms.<sup>27</sup> In the fishing industry, EU funding has contributed to productivity growth by 20 percent and increase turnover by 21 percent up to this point.<sup>28</sup>

EU funds have been crucial in *fostering employment and social inclusion*. By and large, they subsidise the State Employment Agency, which consults, trains and offers stipend opportunities to the unemployed. They have supported the introduction of life-long learning in Latvia. During the MFF period of 2007–2013, including the economic crisis years in Latvia, more than 112,000 unemployed people were trained and acquired new qualifications in order to better integrate in

the labour market, more than 1,600 new work-places were established, and more than 50,000 young people received support for vocational training.<sup>29</sup> A generally positive view has been held about the so called '100 lats programme', a public works programme which resulted in 123,000 unemployed people that were no longer eligible for unemployment benefits becoming involved in the temporary public works of the local governments and receiving a monthly stipend of 100 lats (142 euros) for it.<sup>30</sup> For many households during the crisis it provided a considerable safety net, increasing their short-term incomes by 37 percent.

On top of this, EU funds have supported activities to foster an *integration of people with disabilities* into society and more socially responsible entrepreneurship. In the last planning period of 2007–2013 more than 21,000 young people with disabilities or with a risk of social exclusion received educational support and almost 10,000 people with disabilities received improved social rehabilitation.<sup>31</sup> In the current planning period of 2014–2020, a comprehensive deinstitutionalisation programme has been launched, the aim of which is to encourage people with mental and functional disabilities to live in society by establishing adequate infrastructure and ensuring professional support outside official social care institutions. Additionally, the support programme for the social entrepreneurship has been introduced.

Thus, much has been achieved in last 15 years, yet Latvia is still on its way to full economic and social convergence with the EU average. Latvia's demographic situation continues to create the dual challenges of reduced availability of labour and the sustainability of health and social security systems. Regional catching up with Riga remains a challenge. High income inequality persists, with the ratio of incomes in 2017 at 6.3 for the poorest 20 percent of households compared to the richest

25. "Country Report Latvia 2018", European Commission, April 18, 2018, 44, [https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-latvia-en\\_1.pdf](https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-latvia-en_1.pdf)

26. "LAP 2014 - 2020 novērtēšana paplašinātajam Ikgadējam Īstenošanas ziņojumam 2017", Institute of Agricultural Resources and Economy, 2017, 143, [http://www.arei.lv/sites/arei/files/files/lapas/AIR2017\\_gala\\_20062017\\_LAND\\_www.pdf](http://www.arei.lv/sites/arei/files/files/lapas/AIR2017_gala_20062017_LAND_www.pdf)

27. "Mazo un vidējo saimniecību attīstības iespējas un ieteicamie risinājumi LAP kontekstā", Institute of Agricultural Resources and Economy, December 2017, 93, [http://www.arei.lv/sites/arei/files/files/lapas/Mazo%20un%20videjo%20saimniecibu\\_attistiba\\_2017.dec\\_.pdf](http://www.arei.lv/sites/arei/files/files/lapas/Mazo%20un%20videjo%20saimniecibu_attistiba_2017.dec_.pdf)

28. Information of the Ministry of Agriculture of Latvia, provided to author

29. "Kohēzijas politika Latvijā", European Commission, March 2014, [http://www.esfondi.lv/upload/14-20\\_gads/Faktu\\_lapa\\_latvia\\_lv\\_03.2014.pdf](http://www.esfondi.lv/upload/14-20_gads/Faktu_lapa_latvia_lv_03.2014.pdf)

30. For more see Mehtabul Azam, Céline Ferré and Mohamed Ihsan Ajwad, "Did Latvia's Public Works Program Mitigate the Impact of the 2008–2010 Crisis?" The World Bank, July 2012, <http://documents.worldbank.org/curated/en/705321468265794265/pdf/WPS6144.pdf>

31. "Kohēzijas politika Latvijā", European Commission

20 percent<sup>32</sup> and the median brutto wage being more than 200 euros less than the average one, amounting to 705 euros in 2017<sup>33</sup>. A total of 22.1 percent of Latvian inhabitants live below the poverty threshold of 330 euros per month<sup>34</sup> and timely access to affordable healthcare remains a concern. Though many of these issues lie within the national sphere of competence, EU funding has helped to overcome related challenges by supporting structural reforms. It can be presumed that this has resulted in a relatively high trust in the EU compared to the national government – 49 percent of the population tend to trust the EU<sup>35</sup> compared to 27 percent who trust the government.<sup>36</sup> This aspect should not be underestimated when it comes to the negotiations about the post-2020 EU budget and Latvia's benefits from it. People have enjoyed tangible results as a result of the EU funding available for the economy and have expectations regarding them in future as well.

### Latvia's position on the Commission's proposal

On 2 May 2018, the European Commission published its proposal on the MFF for 2021–2027<sup>37</sup>, followed by legislative proposals for certain policies and programmes. The proposal came out during a positive and stable economic situation for the

EU – in 2018 the EU has experienced an economic growth of 2.2 percent<sup>38</sup> and the EU average unemployment rate is the lowest since 2000 at 6.7 percent<sup>39</sup>. The perception of people about the EU has improved and is the best in the post-crisis period – 67 percent of EU inhabitants consider that their country has benefited from the membership in the EU<sup>40</sup>, and more than half of Europeans – 58 percent – are optimistic about the future of the EU<sup>41</sup>. However, there are internal and external challenges that should be addressed to preserve the momentum of growth and contribute to future well-being. Brexit is one of these challenges, with a financial effect of 91 billion euros on the EU budget in next seven-year period. Migration is another one, requiring more solidarity from EU members to support their counterparts in the south. Innovation, digitisation and the transition to a smart, low-carbon economy remain high on the agenda. Last but not least, security and defence will demand additional effort by Europeans themselves, as their traditional ally – the United States – is detaching itself even more from involvement in Europe.

### The total amount of budget

In the multiannual budget proposal, the Commission has tried to balance the negative effects of Brexit with the need to tackle existing and emerging challenges. Altogether, a budget of 1,279 billion euros for seven years has been offered, potentially comprising 1.11 percent of gross national income (GNI) of the EU-27. Though the budget in raw numbers seems to be bigger than the current one of 1,087 billion euros<sup>42</sup>, mostly this has been achieved by integrating the European Develop-

32. "Recommendation for a Council Recommendation on the 2018 National Reform Programme of Latvia and delivering a Council opinion on the 2018 Stability Programme of Latvia", COM(2018) 413 final, European Commission, May 23, 2018, [https://ec.europa.eu/info/sites/info/files/file\\_import/2018-european-semester-country-specific-recommendation-commission-recommendation-latvia-en.pdf](https://ec.europa.eu/info/sites/info/files/file_import/2018-european-semester-country-specific-recommendation-commission-recommendation-latvia-en.pdf)

33. "Vidējā darba samaksa pārsniegusi 1000 eiro robežu", Central Statistical Bureau of Latvia

34. "Nabadzības riskam Latvijā pakļauti 22,1 % iedzīvotāju", Central Statistical Bureau of Latvia, January 18, 2018, <https://www.csb.gov.lv/lv/statistika/statistikas-temas/socialie-procesi/nabadziba/meklet-tema/2372-monetara-nabadziba-un-ienakumu-nevienlidziba>

35. "Standard Eurobarometer 89", European Commission, June 2018, <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/STANDARD/surveyKy/2180>

36. "Special Eurobarometer 461", European Commission, June 2017, <http://ec.europa.eu/commfrontoffice/publicopinionmobile/index.cfm/Survey/getSurveyDetail/surveyKy/2173>

37. All information in this paper about the Commission's proposal, if not indicated otherwise, is taken from this document: "A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021-2027", COM(2018) 321 final, European Commission, May 2, 2018, <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=COM%3A2018%3A321%3AFIN>

38. "Flash estimate for the second quarter of 2018", Eurostat, August 14, 2018, <https://ec.europa.eu/eurostat/documents/2995521/9105264/2-14082018-BP-EN.pdf>

39. "Statistics Explained: Unemployment Statistics", Eurostat, September 2018, [https://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment\\_statistics#Recent\\_developments](https://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics#Recent_developments)

40. "Democracy on the Move. European Elections – One Year To Go", Eurobarometer Survey 89.2, European Parliament, May 2018, <http://www.europarl.europa.eu/at-your-service/files/be-heard/eurobarometer/2018/eurobarometer-2018-democracy-on-the-move/report/en-one-year-before-2019-eurobarometer-report.pdf>

41. "Standard Eurobarometer 89", European Commission

42. "Multiannual Financial Framework adjusted for 2019", European Commission, accessed October 14, 2018, [http://ec.europa.eu/budget/mff/figures/index\\_en.cfm](http://ec.europa.eu/budget/mff/figures/index_en.cfm)

ment Fund (EDF) into it. Therefore, the proposed budget is comparable to the size of the current 2014–2020 budget together with the EDF.<sup>43</sup>

Latvia is in favour of an ambitious budget<sup>44</sup> and would appreciate efforts not to reduce the total amount, taking into account the gap caused by the Brexit. However, Latvia is cautious about the proposal to integrate the EDF into the next multiannual budget as it sees several risks in that strategy. Firstly, it artificially increases the total amount of the budget, a result of which is that the share for traditional, budget-funded priorities potentially diminishes.<sup>45</sup> Secondly, there is a risk that the funding for development cooperation fuses with the funding for the European Neighbourhood policy, as the Commission proposes to merge most of the existing instruments – including the EDF and the European Neighbourhood Instrument – into one Neighbourhood, Development and International Cooperation Instrument (NDICI). Latvia insists on the importance of maintaining a separate and adequately funded European Neighbourhood Instrument, thus sending a clear signal of support to the EU's Neighbourhood Policy, within which sufficient funding to the Eastern neighbours is of particular importance to Latvia.<sup>46</sup>

It can be expected that requests to increase the amount of the total EU budget will be questioned by traditional net contributors, in particular Austria, Denmark, Finland and the Netherlands. Latvia has sent the opposite signal – it has indicated its readiness to increase its national contribution to the EU budget in order to maintain the current level of funding for traditional policies as well as to meet new ambitions.<sup>47</sup>

43. "EU budget: Commission proposes a modern budget for a Union that protects, empowers and defends", European Commission, May 2, 2018, [http://europa.eu/rapid/press-release\\_IP-18-3570\\_en.htm](http://europa.eu/rapid/press-release_IP-18-3570_en.htm)

44. Speech of Dana Reizniece-Ozola, the Minister of Finance of Latvia, at Riga Cohesion Conference, September 13, 2018, <https://cohesion.lv/en/conference/#materials>

45. Author's interview with Zanda Kalniņa-Lukaševica, parliamentary secretary of the Ministry of Foreign Affairs of Latvia, October 9, 2018

46. Zanda Kalniņa-Lukaševica: "The EU budget to ensure the external action is a tool for promoting stability, development and security", Ministry of Foreign Affairs of Latvia, September 14, 2018, <https://www.mfa.gov.lv/en/news/latest-news/61149-zanda-kalnina-lukasevica-the-eu-budget-to-ensure-the-external-action-is-a-tool-for-promoting-stability-development-and-security>

47. Letter of the Ministers of Finance of Latvia, Lithuania and Estonia about the Commission's proposal regarding the Cohesion Policy, September 13, 2018, <https://www.esfondi.lv/upload/3b-letter-signed.pdf>

## Funding for the Cohesion policy and the Common Agricultural Policy

To be able to allocate more resources to new challenges, the Commission has proposed to cut funding for certain traditional policies. It has been indicated that funding for the Cohesion Policy has been reduced by approximately 7 percent, and for the Common Agricultural Policy (CAP) by 5 percent.<sup>48</sup> Altogether, it is envisaged that the budget will allocate 374.2 billion euros for cohesion funds – namely, the Cohesion Fund (CF), the European Regional Development Fund (ERDF) and the European Social Fund+ (ESF+). Some 372.3 billion euros are planned for the CAP. These policies together use almost 60 percent of the EU budget, with the aim to reduce economic, social and regional disparities across the EU as well as to support sustainable agriculture.

Latvian politicians have underlined that the cuts for the Cohesion Policy and CAP are unacceptable, emphasizing that the aim of the multiannual budget is and should be the convergence of living standards within the EU; therefore, adequate funding for traditional policies must be ensured. Māris Kučinskis, the Prime Minister of Latvia, stressed that Latvia was not satisfied with the proposed distribution of funding, especially regarding Cohesion funds, but would be ready to work for an acceptable solution.<sup>49</sup> Edgars Rinkēvičs, the Minister of Foreign Affairs of Latvia, emphasised that a "sustainable and sufficiently financed Cohesion Policy and Common Agricultural Policy and investing in our infrastructure connectivity projects" would be crucial to further reducing the disparities in the living standard between member states, thus helping to achieve the goal of an "internally strong and united EU, which would be an influential player

48. David M. Herszenhorn, Lili Bayer, "Commission wants bigger budget for smaller EU", Politico, May 2, 2018, <https://www.politico.eu/article/european-commission-proposes-eu-budget-cap-multiannual-financial-framework-guenther-oettinger/>

49. "M. Kučinskis: Latviju neapmierina plānotais finansējuma sadalījums nākamajā ES budžeta projektā", Cabinet of Ministers of Latvia, September 14, 2018, <https://www.mk.gov.lv/lv/aktualitates/m-kucinskis-latviju-neapmierina-planotais-finansejuma-sadalijums-nakamaja-es-budzeta>

on the global stage”.<sup>50</sup> Zanda Kalniņa-Lukaševiča, Parliamentary Secretary of the Ministry of Foreign Affairs of Latvia, likewise revealed that “a budget that stimulates the convergence of living standards and reduction of socio-economic disparities between member states and regions is a precondition for an agreement”.<sup>51</sup>

Taking into account the importance of the Cohesion Policy and the CAP in Latvia’s overall stance, a more detailed position on these two is provided below.

### The Cohesion Policy

With regard to the Cohesion Policy<sup>52</sup>, Latvia has been offered a share of 4.81 billion euros.<sup>53</sup> However, it is estimated that if calculated in constant 2018 prices, the funding for the next planning period would be 4.26 billion euros, which is 13 percent less than Latvia was allocated for the period of 2014–2020.<sup>54</sup> Nevertheless, with 308 euro per capita, in constant 2018 prices, it is still the third highest allocation after Estonia and Slovakia.<sup>55</sup>

Latvia has objected such cuts, emphasising that Latvian GDP per capita is still below that of the of the EU average, and therefore cohesion funding that is at least comparable to the current one should be ensured. Besides, it has been added that Latvia is experiencing a long-term decline in its population,

which puts an additional burden on its national budget and limits the amount of resources available for investment.<sup>56</sup> Thus, Latvia highlights the demographic change in its position, arguing that the Cohesion Policy should be targeted towards countries and regions that face depopulation.

The dissatisfaction of Latvia is shared by the other Baltic States, Estonia and Lithuania, to whom the Commission envisages a reduction even higher than for Latvia – around 25 percent. On 13 September 2018, during a high-level cohesion conference in Riga, the Ministers of Finance of three Baltic States signed a common letter to their EU counterparts emphasising their common concerns.<sup>57</sup> Dana Reizniece-Ozola, the Minister of Finance of Latvia, underlined that the Cohesion Policy has been the most effective EU instrument in Latvia so far, ensuring strategic change and tangible results, and therefore more funds, more local involvement and less regulation is needed.<sup>58</sup>

In general, the Baltic states, including Latvia, support measures that improve the efficiency of the Cohesion Policy, such as a “closer link with the European Semester, fewer enabling conditions, a more coherent view on the broad thematic scope, a slimmer rulebook” as well as the possibility to make “transfers from the Cohesion Fund to the CEF”.<sup>59</sup> However, reductions in allocations have been described as “too severe”, noting that in terms of economic development the Baltic countries are “still well below the EU average”.<sup>60</sup> Politically it has been indicated that it would be wrong to reduce cohesion funding to countries that have demonstrated very swift convergence rates. According to Reizniece-Ozola, with the current level of funding 30 years would be necessary to achieve the average EU standard of living; if the funding for Cohesion Policy is reduced it would take even longer.<sup>61</sup>

50. “Foreign Minister: European Commission’s proposal on the Cohesion Policy is not acceptable, since it does not reduce inequality among EU Member States”, Ministry of Foreign Affairs of Latvia, October 16, 2018, <https://www.mfa.gov.lv/en/news/latest-news/61528-foreign-minister-european-commission-s-proposal-on-the-cohesion-policy-is-not-acceptable-since-it-does-not-reduce-inequality-among-eu-member-states>

51. “The Parliamentary Secretary insists on Latvia’s interests being considered in EU multiannual budget”, Ministry of Foreign Affairs of Latvia, September 19, 2018, <https://www.mfa.gov.lv/en/news/latest-news/61189-the-parliamentary-secretary-insists-on-latvia-s-interests-being-considered-in-eu-multiannual-budget>

52. For three funds: Cohesion Fund, European Regional Development Fund and the European Social Fund

53. “EU budget: Regional Development and Cohesion Policy beyond 2020”, European Commission, May 29, 2018, [http://europa.eu/rapid/press-release\\_IP-18-3885\\_en.htm](http://europa.eu/rapid/press-release_IP-18-3885_en.htm)

54. Estimates of the Ministry of Finance of Latvia

55. “EU budget for the future: New legislative package for Cohesion Policy 2021-2027”, European Commission, accessed September 28, 2018, [https://ec.europa.eu/lithuania/sites/lithuania/files/27062018\\_marc\\_lemaitre\\_pranesimas.pdf](https://ec.europa.eu/lithuania/sites/lithuania/files/27062018_marc_lemaitre_pranesimas.pdf)

56. “ĀM: Latvija ir gatava veikt lielākas iemaksas ES budžetā, ‘Brexit’ radītā iztrūkuma segšanai”, DELFI, March 9, 2018, <http://m.delfi.lv/business/article.php?id=49827079>

57. Letter of the Ministers of Finance of Latvia, Lithuania and Estonia

58. Speech of D.Reizniece-Ozola

59. Letter of the Ministers of Finance of Latvia, Lithuania and Estonia

60. Ibid.

61. Speech of D.Reizniece-Ozola

Further objections from the Baltic States refer to increased levels of co-financing, which the Commission has envisaged in order to improve the ownership of the EU-funded projects. For Latvia, this would reduce the intensity of funding from 85 to 70 percent and increase the level of national co-financing from 15 to 30 percent. Latvia has emphasised that national financing cannot be used to compensate for a reduction in cohesion funding. Therefore, a smoother transition would be necessary, as the beneficiaries of funds would not be able to afford to double their investment.<sup>62</sup>

### The Common Agricultural Policy

Latvia has been offered an 'envelope' of 3.09 billion euros for the CAP.<sup>63</sup> Altogether, it is estimated to be 0.11 percent more than in the current period of 2014–2020. Out of this, 821.5 million euros would be allocated for rural development – an estimated reduction of 15 percent – and 2.27 billion euros would be allocated to direct payments to farmers – an estimated increase of 7 percent.<sup>64</sup>

The agricultural sector (agriculture, forestry and fishing) is not only a significant part of Latvia's GDP, standing at 3.2 percent with about 7.7 percent of the workforce being employed in agriculture<sup>65</sup> – it is also a politically volatile issue as Eurosceptic arguments often include unequal payments to Latvian farmers.<sup>66</sup> Latvia supports the modernisation of the CAP, which would result in adequate resources being allocated both for direct payments and for rural development. However, it has been emphasised that the current proposal regarding direct payments, though it offers an increase, does not ensure an honest approach towards Lat-

vian farmers, who still receive just 56 percent of the EU-average<sup>67</sup> (or 149 euros per hectare) and will achieve the level of just 66 percent (or 179 euros per hectare) in 2020<sup>68</sup>. Though it was agreed that the direct payments to Latvian farmers would reach 75 percent of the EU-average (or 196 euros per hectare) this objective will not be achieved as the agricultural areas eligible for support have increased by 10 percent since 2009. Therefore, the current approach requires modifications as different levels of subsidies distort competition. The current proposal of the Commission for Latvia envisages an increase in direct payments of up to 77 percent of the EU-average<sup>69</sup> (or up to 202 euros per hectare) in 2027, which would add around three euros per hectare each year throughout the seven year period. It has been indicated that the real amount of direct payments received by the farmers in the period of 2021–2027 may even be smaller than the proposed one, as the agricultural areas eligible for support will presumably continue to increase.<sup>70</sup>

On 13 March 2018, the Ministers of Agriculture of Latvia, Estonia, Lithuania and Poland signed a joint declaration by which they agreed to have a common position in protecting the interests of the respective countries regarding direct payments in the budget negotiations. In the declaration, the three Baltic States and Poland call for "fairness and equality between member states" and urge "to complete the process of full convergence of direct payments between member states", emphasising that all EU farmers have the same challenges and have to comply with the same standards and requirements.<sup>71</sup> The ministers underlined that environmental concerns and climate objectives

62. Letter of the Ministers of Finance of Latvia, Lithuania and Estonia

63. For two funds: European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development

64. Estimates of the Ministry of Agriculture of Latvia, provided to author

65. "Latvia: CAP in your country", European Commission, June 2017, [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/by-country/documents/cap-in-your-country-lv\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/by-country/documents/cap-in-your-country-lv_en.pdf)

66. For more see Aldis Austers "The Case of Latvia: Popular Euroscepticism in Impasse", in Euroscepticism in small EU Member States, ed. Karlis Bukovskis (Riga: Latvian Institute of International Affairs, 2016), 85-107, [http://liia.lv/en/publications/euroscepticism-in-small-eu-member-states-546?get\\_file=1](http://liia.lv/en/publications/euroscepticism-in-small-eu-member-states-546?get_file=1)

67. EU-average was 260 euros per hectare, when the funds of the current planning period were allocated. At: "Priorities of Latvia of the Common Agricultural Policy (CAP) after 2020", Ministry of Agriculture of Latvia, accessed October 26, 2018, <https://www.zm.gov.lv/statiskas-lapas/lv-position-on-cap-after-2020?id=12487#jump>

68. Estimates of the Ministry of Agriculture of Latvia

69. EU-average for the next planning period of 2021-2027 will be 263 euros per hectare. At: "Priorities of Latvia of the Common Agricultural Policy (CAP) after 2020", Ministry of Agriculture of Latvia

70. Information of the Ministry of Agriculture of Latvia

71. Joint declaration of the Ministers of Agriculture of Estonia, Latvia, Lithuania and Poland on the Commission Communication on The Future of Food and Farming, March, 13, 2018, <https://www.zm.gov.lv/public/ck/files/CAP%202020+%20declaration.pdf>

remain important on the agenda; however, those results can be proportional with the funding available and equal contribution from member states can only be requested following a full convergence of direct payments.

Latvia has also objected to cuts in funding for rural development.<sup>72</sup> In the above-mentioned declaration, it is emphasised that the EU budget's support for rural development has enhanced the member states' possibilities to increase competitiveness, effective and sustainable economies, and the development of rural areas. Besides this, CAP funding is seen to be essential to deal with issues such as depopulation, unemployment, poverty, and fostering of social inclusion; therefore, the funding for rural development should be strengthened substantially. With regards to the necessity to improve knowledge transfer and a bigger role for research, innovation and new technologies in rural production, the need to support young farmers and small and medium-sized farms, whose opportunities to use technological innovations are less than those of large bigger farms, has been underlined.

#### Funding for other issues

To deal with existing and new challenges, the Commission has offered increased funding in the MFF for priorities such as:

- research, innovation and digitisation – one and a half fold (102.6 billion euros);
- migration and border management – more than two and a half fold (34.9 billion euros);
- security and defence – almost two fold (27.5 billion euros). Within this priority, funding for the European Defence Fund, the aim of which is to strengthen research and production in the military sphere, has been increased by 22 fold, comprising 13 billion euros.

Latvia has welcomed the proposal to increase EU funding for research and innovation, the Erasmus+ programme, as well as the Connecting Europe Fa-

cility (CEF), within which support for the railway infrastructure project 'Rail Baltica' is of utmost importance.<sup>73</sup> It is the Horizon Europe financing that Latvia has expressed an increasing interest in and support for. Namely, Latvia has requested more inclusive conditions to facilitate the participation of Latvian scientists and researchers in EU-wide research and innovation initiatives, among others noting the necessity to remove barriers and unproportioned costs for participation in partnerships such as "amount of financial contribution or co-financing, restricted calls, required organizational or industrial capacity, administrative burden".<sup>74</sup>

Finally, Latvia appreciates the efforts to increase funding for EU security. The necessity of tackling novel challenges such as migration, security and defence, as well as the long-term objectives of mitigating climate change and strengthening of the EU external border, are not being questioned. The small Baltic country has emphasised that the European Defence Fund should be available not just to the biggest industrial producers; the distribution of funding should be fair and should involve also SMEs as well as new producers.<sup>75</sup> Moreover, both the necessity of strengthening basic infrastructure to be able to use it for military purposes as well as unified rules to regulate military mobility is being underlined.<sup>76</sup>

The first two chapters of this analysis demonstrate that Latvia has a substantial invested interest in preserving EU funding and that the country has been preparing for the post-2020 MFF negotiations. The MFF negotiations are considered to be some of the most complicated bargaining at the EU level and countries allocate diplomatic and political resources for the purpose well in advance. The structural economic importance of

72. "Priorities of Latvia of the Common Agricultural Policy (CAP) after 2020", Ministry of Agriculture of Latvia

73. "On the European Commission's proposal concerning the European Union budget for 2021–2027", Ministry of Foreign Affairs of Latvia, May 2, 2018, <http://www.mfa.gov.lv/en/news/latest-news/59920-on-the-european-commission-s-proposal-concerning-the-european-union-budget-for-2021-2027>

74. "Preliminary position of Latvia on the next Framework Programme for research and Innovation ("FP9")", Ministry of Education and Science of Latvia, April 17, 2018, [http://www.izm.gov.lv/images/aktualitates/LV\\_onFP9\\_-20.04.2018\\_final.pdf](http://www.izm.gov.lv/images/aktualitates/LV_onFP9_-20.04.2018_final.pdf)

75. "ĀM: Latvija ir gatava veikt lielākas iemaksas ES budžetā „Brexit” radītā iztrūkuma segšanai”, DELFI

76. Author's interview with Z.Kalniņa-Lukaševica

the EU structural funds and agricultural subsidies as a source of public investment for Latvia is undeniable. Hence, a struggle for the most beneficial outcome is a matter of the country's economic development for the next seven years. For this reason, Latvia has stressed timely decisions to avoid growth-hampering hurdles to investment<sup>77</sup>, to prevent the undermining of sufficient funding for Latvia's priorities in the areas of economy, agriculture, support for innovation, transport connections, and security,<sup>78</sup> as well as to avoid unnecessarily hurting Latvian businesses dependent on EU financing. The final part of this research will deal with the opportunities in the next MFF that have not been a visible part of the public debate in the country but are nevertheless important

### The post-2020 EU budget: Opportunities for Latvia

"Money has never made man happy, nor will it; there is nothing in its nature to produce happiness. The more of it one has the more one wants,"<sup>79</sup> said Benjamin Franklin. Indeed, dissatisfaction with the offer is an embedded characteristic of all budget negotiations, be it local, national or supra-national. The multiannual budget of the EU will not be an exception – all EU member states will work hard to convince each other of their necessities, be they real or imagined ones.

Latvia asks for more funding for the Cohesion Policy and the CAP, which is fair when taking into account the objectives of economic, social and territorial cohesion that are enshrined in the founding treaties of the EU, and the undeniable fact that many farmers in the EU still receive much more than Latvian ones, thus making those farmers more competitive and well-off. On the other hand, Latvia has developed over the years and its GDP

per capita now is much higher than it used to be 15 years ago. Latvia is very much on the track of not being a 'less developed region' in less than a decade. Hopefully, in the planning period of 2028–2035 the Latvian GDP per capita will be over 75 percent of the EU-average. It will make Latvia less eligible for the EU cohesion funding; yet it should create a base decent enough to go further in a more independent way.

Presuming that the next planning period of 2021–2027 will be the last one in which relatively large cohesion funds are available to Latvia, the most natural scenario for Latvia would be to get the maximum amount of funds now. For that, it would be particularly important to reach an EU-wide agreement on the multiannual budget as fast as possible, as the Latvian economy is growing and with that the statistics are changing. Hence, if Latvia with its Baltic allies succeeds in convincing its EU counterparts about the necessity to increase the total volume of the budget, and if it manages to reduce by 1, 5 or 7 percent the currently proposed reduction of 13 percent for the Cohesion Policy, then this would be a considerable victory of the Latvian negotiators – especially taking into account that the proposed cuts for many countries like the Visegrad group countries of Poland, Slovakia, the Czech Republic and Hungary, as well as Estonia and Lithuania are much higher, as is their dissatisfaction.

However, the most desirable scenario for Latvia would not just include getting the maximum amount of nationally pre-allocated EU funds. It would also be about improving the country's performance in its participation in direct EU programmes, such as Horizon Europe, the Single Market or Digital Europe programmes to name just few. Indeed, it has been estimated that around 92 percent of the EU funding for Latvia comes from the Cohesion Policy and the CAP, and just 8 percent from other funds and programmes, including the direct ones.<sup>80</sup> Moreover, a well-targeted national information and education strategy would be needed to get the maximum return from the funds and to equip people and businesses with the tools

77. "ĀM: Latvija ir gatava veikt lielākas iemaksas ES budžetā „Brexit” radītā iztrūkuma segšanai”, DELFI

78. "The Parliamentary Secretary insists on Latvia's interests being considered in EU multiannual budget", Ministry of Foreign Affairs of Latvia

79. Samuel Austin Allibone, comp. In *Prose Quotations from Socrates to Macaulay* (Philadelphia: J. B. Lippincott & Co., 1880), published on-line June 2011 by Bartleby.com, <https://www.bartleby.com/349/authors/77.html>

80. Estimates of the Ministry of Finance of Latvia

needed to operate in an environment where the funds will no longer be available in such amounts. For that, a change in mindset would also be necessary, as dependency on EU funds has become an inherent feature of both national and business-planning strategies. As a result, a short-term project-to-project approach to development takes precedence over a more comprehensive, longer term view. Besides the above-mentioned factors, new opportunities within the EU multiannual budget should be taken on board, including increased funding for defence and security, as well as competitiveness and climate change.

#### Furthering economic and social convergence

Latvia should no doubt continue its efforts to get more funding for the Cohesion Policy. Nevertheless, nothing catastrophic would presumably happen if the amount of the funding stays as it is offered. According to Morten Hansen, Head of the Economics Department at the Stockholm School of Economics in Riga, EU funds have been important to the Latvian economy but they are not a “live or die” question.<sup>81</sup> Even if the economy speeds up when the absorption of EU funds starts, Latvia will not go into bankruptcy just because of reduced levels of funding. Its economy is sufficiently large and has the potential to develop following its own dynamics.

Yet 4.81 billion euros for the Cohesion Policy is equivalent to more than half of Latvia’s budget expenditures for 2018<sup>82</sup>. It is a decent amount of money and – if wisely invested – should help to foster Latvia’s further development. It has been indicated that the availability of money has not always resulted in the most necessary projects for economy<sup>83</sup> – therefore, in the next planning period an emphasis should be put on projects that ensure long-term returns, not ones that have lots of

visibility but not much value added, such as biking paths or watchtowers.

What would be the challenges in the next planning period then? One could argue that human capital is the main resource Latvia has and the main challenge to its future development. According to Hansen, with currently stable macroeconomic indicators and growing economy the labour force constitutes the biggest risk for Latvia in short and medium term.<sup>84</sup> Indeed, with outward migration and decreasing unemployment rates, there may soon be no available people for economic growth. This will have an impact on the absorption of EU funds as well: therefore, one side of the coin is to get more money from the EU budget, and the other side is to have enough people who are able to utilize that money.

Latvian strategic documents recognise the necessity to strengthen the *human capital* of Latvia. “Putting people first” is a concept embedded in Latvia’s growth model.<sup>85</sup> “Leave no one behind” is envisaged in Latvia’s long-term strategic planning document *Latvia 2030*. In the report about Latvia’s implementation of sustainable development goals<sup>86</sup>, creating an innovative and eco-efficient economy and reducing income and opportunity inequality are identified as two basic sustainable development challenges in the long term. The objectives of the medium-term planning document *The National Development Plan of Latvia for 2021-2027*, currently in the process of elaboration, proposes stable growth and improved quality of life for everyone.<sup>87</sup> It envisages achieving this through a symbiosis of state and personal priorities, which, for example, would improve the material well-being and living conditions of people through the development of an overall economy or ensure

81. Author’s interview with Morten Hansen, Head of Economics Department at the Stockholm School of Economics in Riga, October 11, 2018

82. Approved budget expenditure for 2018 is 8,95 billion euros. At: “Prezidents izsludinājis 2018.gada budžetu”, LSM, December 6, 2017, <https://www.lsm.lv/raksts/zinas/ekonomika/prezidents-izsludinajis-2018.gada-budzetu.a259900/>

83. Author’s interview with M.Hansen

84. Ibid.

85. “Par konceptuālā dokumenta apstiprināšanu”, Parliament of the Republic of Latvia, October 26, 2005, <https://likumi.lv/doc.php?id=217923>

86. “Latvia: Implementation of the Sustainable Development Goals”, Cross-Sectoral Coordination Centre, 2018, [https://www.pkc.gov.lv/sites/default/files/inline-files/Latvia%20Implementation%20of%20the%20SDGs\\_0.pdf](https://www.pkc.gov.lv/sites/default/files/inline-files/Latvia%20Implementation%20of%20the%20SDGs_0.pdf)

87. “NAP 2021 – 2027: Konceptuāls piedāvājums”, Cross-Sectoral Coordination Centre & Bureau of the Prime Minister, accessed October 10, 2018, <https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027.pdf>

an increase in Latvian human capital through activities that foster longer life expectancy, better knowledge and skills, more available housing, affordable culture and adequate rest.

It is clear that human capital and its availability to the economy should become a major focus for Latvia in the next planning period. The aim of having more economically active people in the economy involves many dimensions, each of which qualifies for investment. The funds may be necessary for improved business conditions, innovation and high-income jobs in the regions in order to foster re-emigration and internal mobility. Modern education and adequate life-long learning programmes are essential to improving creativity and productivity and preventing a skills mismatch in the labour market. Support for the regions and municipalities that lag behind and have relatively high unemployment and poverty rates can happen via public investment in projects with sustainable commercial capacity. Finally, EU-funded projects for improvements in the healthcare system to have more healthy and fit people in the labour market are of prime importance for a small country that has a scarce labour force.

More generally, the human capital issues in Latvia will have a structural effect in long term. Low birth rates, workforce shortages and depopulation will continue to provide the biggest economic challenge for Latvia's economic growth and are trends to be reckoned with. An emigration wave has added to the severity of the problem, yet the freedom to move and to work across the EU is one of the fundamental freedoms of the EU single market and has been perceived as one of the most tangible benefits of the EU. Depopulation has been used by Latvian officials as an argument for receiving more cohesion funding, yet the importance of EU funds in stopping it is overstated.<sup>88</sup> Moreover, the depopulation aspect is exaggerated as it merely mirrors the general trends in modern economies caused by technological development and 'economies of scale'. Subsidizing regions and businesses incapable of integrating into national or global markets is becoming increasingly a luxury. There-

fore, the cohesion funding should continue to be used to improve the economic and social conditions in Latvia, stimulating the emigrant workforce to return back to Latvia, establishing decent and sustainable employment opportunities, as well as integrating underdeveloped regions in national-level economic processes.

The above-mentioned issues fall well within the scope of the *three funds of the Cohesion Policy*: CF, EARDF and ESF+. The CF and the EARDF will continue to support innovation, small businesses, digital technologies and industrial modernisation, as well as the shift towards a low-carbon, circular economy and the mitigation of climate change.<sup>89</sup> Altogether, 273 billion euros have been earmarked for both funds. With its proposal, the Commission intends to strengthen the social dimension<sup>90</sup> of the EU by merging several current instruments into the ESF+<sup>91</sup> and providing 101.2 billion euros for it. It will focus on employment, appropriate skills, social inclusion and healthcare – the main challenges identified during the process of the European Semester and by the European Pillar of Social Rights. By pooling resources it offers member states the possibility to provide more integrated and targeted support to their social and labour market challenges. To tackle poverty and exclusion and support marginalised and deprived people, at least 25 percent of the ESF+ will have to be assigned to social inclusion. Besides this, there is a proposal to reinforce the out-of-budget instrument, the European Globalisation Adjustment Fund (EGAF), by providing 1.6 billion euros for it and making it more flexible in order to respond to new needs. Under the new rules, support will be available to workers who have lost jobs for more reasons than changing trade patterns or the consequences of the financial and economic crisis – for example, automation or digitization will qualify as well. Moreover, the threshold of dismissed

88. Author's interview with M.Hansen

89. "EU budget: Regional Development and Cohesion Policy beyond 2020", European Commission

90. "EU budget: A new Social Fund, Globalisation Adjustment Fund and Justice, Rights and Values Fund, European Commission", European Commission, May 30, 2018, [http://europa.eu/rapid/press-release\\_IP-18-3923\\_en.htm](http://europa.eu/rapid/press-release_IP-18-3923_en.htm)

91. Such as the European Social Fund, the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the EU Programme for Employment and Social Innovation, the EU Health Programme

workers will be lowered from the current 500 to 250. These changes are favourable to Latvia as up to now Latvia has never used the EGAF – basically because none of the potential enterprises has met the threshold of workers.

The Commission has proposed additional instruments to complement the structural reforms carried out within the Cohesion Policy – a newly founded Reform Support Programme of 25.1 billion euros envisages a certain amount of funding for each member state if structural reforms in accordance with the country-specific recommendations of the European Semester are implemented. It has been proposed to support the reforms that strengthen domestic economies, including reforms in such areas as commodity, labour and capital markets, education, tax systems, business environment, human capital and public administration.<sup>92</sup> In this programme, Latvia would be eligible to 94 million euros.<sup>93</sup>

Besides this, there are direct programmes in the EU budget that support entrepreneurship – for example, the Single Market Programme, including the current Programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME). The Commission has intended to strengthen support for small businesses in order to encourage their growth and expansion. So far, thousands of Latvian SMEs have benefited from the COSME by being able to borrow funds with more favourable conditions. It has been suggested that the number of enterprises in Latvia is reasonable enough that business start-up support may not be a priority for the future.<sup>94</sup> Instead, more attention should be devoted to their distribution per certain sectors or regions, as well as the innovation and research and development capacity of SMEs.

92. EU Budget: A Reform Support Programme and an Investment Stabilisation Function to strengthen Europe's Economic and Monetary Union, European Commission, May 31, 2018, [http://europa.eu/rapid/press-release\\_IP-18-3972\\_en.htm](http://europa.eu/rapid/press-release_IP-18-3972_en.htm)

93. "Proposal for a Regulation of the European Parliament and of the Council on the establishment of the Reform Support Programme", COM(2018)391final, European Commission, May 31, 2018, <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM%3A2018%3A391%3AFIN>

94. Eiropas Savienības fondu ieguldījumu izvērtēšana uzņēmējdarbības atbalstam 2007. – 2013.gada plānošanas periodā un šo ieguldījumu ietekmes noteikšana, Ernst & Young

Moreover, the Commission proposal envisages strengthening support for financial instruments that offer guarantees in order to attract private investment. It has allocated 14.7 billion euros for a new, fully integrated investment fund named InvestEU, which is the successor of the European Fund for Strategic Investments (EFSI). It has been revealed that Latvia is becoming more active in using the EFSI – up to October 2018, the financing volume of operations under the EFSI reached 212 million euros, which has the potential to facilitate a total amount of private and public investment of 892 million euros.<sup>95</sup> Altogether, 15 projects have been approved in Latvia with EFSI backing, financed either by the European Investment Bank, intermediary banks, or funds financed by European Investment Fund. Hence, Latvia should not hesitate to use the InvestEU, which is intended for investment in four policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium-sized businesses; and social investment and skills.<sup>96</sup>

#### Encouraging research and innovation

The EU budget provides numerous opportunities to attract funding by applying in a direct way. Contrary to national allocations for Cohesion Policy direct EU programmes, though they may be modified, will not wither away in future, and therefore Latvia should get prepared to absorb the kind of funding where applicants compete with each other directly at the European level. For that, active cooperation with other EU member states is of particular importance. Depending on the programme, there may be national co-financing necessary for certain projects. To foster Latvian involvement in direct EU programmes, this could be the support government provides to the academic and private sector.

Horizon Europe is one of direct programmes that bears the potential for additional funding – overall, the Commission has envisaged spending 97.6 bil-

95. "Investment Plan: Latvia", European Commission, accessed October 21, 2018, [https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results/investment-plan-latvia\\_en](https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results/investment-plan-latvia_en)

96. "EU Budget: InvestEU Programme to support jobs, growth and innovation in Europe", European Commission, June 6, 2018, [http://europa.eu/rapid/press-release\\_IP-18-4008\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4008_en.htm)

lion euros for it. By supporting research and innovation, it helps the member states to modernise their economies. It has been acknowledged that Latvia still lags behind the EU average in terms of innovation. In the current planning period of 2014–2020, Latvia is in 26th place among EU member states in attracting funds from the research and innovation programme Horizon2020.<sup>97</sup> Up to January 2018, Latvian representatives had submitted 1,453 project proposals to Horizon2020; out of those, 188 have been approved for a total amount of 46.58 million euros.<sup>98</sup>

On the European Innovation Scoreboard<sup>99</sup>, Latvia has recently been recognised as a moderate innovator – the country is in 24th place in the EU-28, ahead of Poland, Croatia, Bulgaria and Romania. Yet since 2010 the country's innovation performance has increased by 11.6 percent, with strong performance increases in 2014 and 2015, which is a positive sign that it is on the way to a more innovative economy. Latvia shows good results in terms of having an innovation-friendly environment, which basically means that broadband penetration – with almost 119 percent in 2017 – is above the EU-average. The finance and support dimension has improved since 2010 by more than 70 percent and at 99 percent has almost reached the average level of the EU. However, this mostly has been ensured by an increase in venture capital expenditures, which are 168 percent of the EU average, rather than an increase in research and development (R&D) expenditure in the public sector, which was just 32 percent of the EU average in 2017. Indeed, Latvia's R&D expenditure has always been tiny, and Latvia's research and innovation system has depended very much on the EU funds. Latvia's budget expenditure for R&D was just 0.44 percent of the GDP in 2016<sup>100</sup> – still very

far from the EU target of 3 percent of GDP. Besides this, Latvia is still considered weak in terms of firm investments, whereby business R&D and non-R&D innovation investment is at 33.5 percent of the EU average. With only 14.7 percent of the SMEs considered innovative Latvia also lags behind the EU-average in terms of innovators.

However, for innovation to bear fruit, one needs to have manufacturing. In the EU countries with big manufacturing sectors it is the manufacturers who drive the innovation process.<sup>101</sup> In Latvia, the manufacturing sector is relatively small – more business is done in services. A majority of the enterprises in Latvia are small and medium-sized and their private R&D investment is among the lowest in the EU. As well, the innovation capacity of Latvian SMEs and their participation in innovation partnerships is the lowest in the EU.<sup>102</sup> It has been indicated that the turnover share of large enterprises in the Latvian economy is just 22 percent, compared to the 44 percent that is the EU average; yet the share of SMEs is 51 percent compared to the EU average of 38 percent.<sup>103</sup> This clearly means that the Latvian business sector lacks mergers and acquisition among SMEs to reduce administration costs and increase efficiency and competitiveness.

To foster innovation the newly-established Digital Europe Programme<sup>104</sup> should also be considered. It has been acknowledged that the integration of digital technologies is a challenge to Latvian businesses – a very small share of Latvian SMEs does business online. Moreover, there is a lack of highly skilled information and communication technologies (ICT) professionals, which has been recognised as an obstacle for investment and innovation. Moreover, digital skills in Latvia are

97. "Latvija Eiropas Savienības pētniecības un inovāciju pamatprogrammā "Apvārsnis 2020", State Education Development Agency, 2018, [http://www.viaa.gov.lv/library/files/original/H2020\\_2014\\_2018\\_28032018.pdf](http://www.viaa.gov.lv/library/files/original/H2020_2014_2018_28032018.pdf)

98. The most successful has been the Institute of the Solid State Physics of the University of Latvia, which has attracted one fourth of the sum – 11,29 million euros

99. Data in this paragraph are taken from the "European Innovation Scoreboard 2018: Latvia", European Commission, June 2018, <https://ec.europa.eu/docsroom/documents/30689>

100. "Latvia. Statistics in brief 2018", Central Statistical Bureau of Latvia, 2018, 50, [https://www.csb.gov.lv/sites/default/files/publication/2018-05/Nr%2003%20Latvia\\_Statistics%20in%20Brief%202018%202818\\_00%29%20EN.pdf](https://www.csb.gov.lv/sites/default/files/publication/2018-05/Nr%2003%20Latvia_Statistics%20in%20Brief%202018%202818_00%29%20EN.pdf)

101. Author's interview with M.Hansen

102. "2007. – 2013. gada ES fondu plānošanas perioda darbības programmu "Cilvēkresursi un nodarbinātība" un "Uzņēmējdarbība un inovācijas" ieguldījumu zinātnes, pētniecības un inovāciju atbalstam izvērtējums", PS FIDEA Technopolis, November 2017, [http://www.esfondi.lv/upload/Petijumi\\_un\\_izvertejumi/izvertejumazinojums\\_22122017.pdf](http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/izvertejumazinojums_22122017.pdf)

103. European Innovation Scoreboard 2018: Latvia, European Commission

104. "EU budget: Commission proposes €9.2 billion investment in first ever digital programme", European Commission, June 6, 2018, [http://europa.eu/rapid/press-release\\_IP-18-4043\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4043_en.htm)

below the EU average – half of the population lacks basic digital skills and there is an even bigger gap regarding advanced skills.<sup>105</sup> Within the Digital Europe Programme, 700 million euros are planned to support the acquisition of advanced digital skills through long- and short-term training courses and on-the-job traineeships, regardless of the applicant's member state. Besides this, 1.3 billion euros will be allocated to ensure the digital transformation of public administrations and improve access to technology and know-how for all businesses, especially SMEs. In particular, the Digital Innovation Hubs, three of which have been established in Latvia<sup>106</sup>, will be supported to carry out targeted programmes for SMEs and public administrations.

In order to get more direct funding for *research* and innovation, several aspects are worth considering. Latvia has already raised the issue of the criteria that would support the inclusion of relatively small universities and research institutes with lesser administrative and human resources in European-wide projects. On top of this, the issue of human resources in science is as pressing as it is in the economy as a whole – it would not much help to increase funding for R&D and the level of participation in European projects if there are no people to do the research. Indeed, there is still a huge generation gap between Latvian scientists – a majority of them are either over 55, or young scientists (25–34 years) who have recently acquired their doctoral degrees. It has been acknowledged that EU funding has helped to diminish the emigration of young scientists in 2010 and to employ them in Latvian scientific institutions, resulting in an increase in the number of internationally cited publications.<sup>107</sup> However, in Latvia, almost non-existent in science is the generation of researchers from 35–55 years old,

which overall in the world take the leading posts, build institutional networks and find contracts.<sup>108</sup> For the purposes of Horizon Europe – but not only for it – therefore it would be fundamentally important to fill in the generational gap in research and science.

Another issue is the excellence level of research. Unfortunately, Latvia is in last place in Europe regarding all indicators – the number of scientific institutions in the list of best universities and institutes of the world, the number of grants assigned by the European Research Council, patent applications, and citations of publications.<sup>109</sup> Yet there are sectors that have been identified in the Smart Specialisation strategy of Latvia which have innovation potential and where the capacity of Latvian scientific institutions should be further supported – these include knowledge-intensive bio-economics; biomedicine, medical technologies, bio-pharmacy and biotechnologies; smart materials, technologies and engineering systems; smart energetics; and ICT.<sup>110</sup>

#### Improving national and regional infrastructure

Infrastructure, in spite of recent improvements, still remains a challenge to be tackled by the next period of cohesion funding as well as the CEF. It has been indicated that the quality of roads still hampers the competitiveness of Latvia<sup>111</sup>; the energy infrastructure still needs to be integrated with the rest of Europe<sup>112</sup>; and the railway infrastructure

105. "Country Report Latvia 2018", European Commission, 44

106. "Digital Innovation Hubs", European Commission, accessed October 20, 2018, [http://s3platform.jrc.ec.europa.eu/digital-innovation-hubs-tool/?p\\_p\\_id=digitalinnovationhub\\_WAR\\_digitalinnovationhubportlet&p\\_p\\_lifecycle=0&p\\_p\\_state=normal&p\\_p\\_mode=view&p\\_p\\_col\\_id=column-1&p\\_p\\_col\\_count=1&formDate=1540163603678&freeSearch=&countries=13&evolStages=1&evolStages=3](http://s3platform.jrc.ec.europa.eu/digital-innovation-hubs-tool/?p_p_id=digitalinnovationhub_WAR_digitalinnovationhubportlet&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-1&p_p_col_count=1&formDate=1540163603678&freeSearch=&countries=13&evolStages=1&evolStages=3)

107. "2007. – 2013. gada ES fondu plānošanas perioda darbības programmu "Cilvēkresursi un nodarbinātība" un "Uzņēmējdarbība un inovācijas" ieguldījumu zinātnes, pētniecības un inovāciju atbalstam izvērtējums", PS FIDEA Technopolis, November 2017

108. Ibid.

109. Agnese Rutkovska, "Neērtais temats: ieguldījumi Latvijas zinātnē un pētniecībā", December 16, 2014, <https://www.makroekonomika.lv/neertais-temats-ieguldijumi-latvijas-zinatne-un-petnieciba>

110. Viedās specializācijas stratēģija, Ministry of Education and Science, 2013, [http://www.izm.gov.lv/images/zinatne/IZM\\_Viedas\\_Specializ\\_strategija\\_2013.pdf](http://www.izm.gov.lv/images/zinatne/IZM_Viedas_Specializ_strategija_2013.pdf)

111. In the Global Competitiveness index the road quality in Latvia has been assessed as bad, putting Latvia in the 92nd place. At: "Jaunākais konkurētspējas indekss: Latvija aiz pārējām Baltijas valstīm", DELFI, October 17, 2018, <http://www.delfi.lv/business/pasaule/jaunakais-konkuretspejas-indekss-latvija-aiz-parejam-baltijas-valstim.d?id=50496037>

112. "EK briest Baltijas valstu atslēgšanai no postpadomju energotīkliem", DELFI, October 15, 2018, <http://www.delfi.lv/news/arzemes/ek-briest-baltijas-valstu-atslegsana-no-postpadomju-energotikliem.d?id=50489677>

still waits for its potential to be unleashed by implementing the long awaited 'Rail Baltica' project. The Commission has envisaged an increased funding of 42.3 billion euros for the CEF out of which almost 30.6 billion euros will be allocated to transport<sup>113</sup>, 8.7 billion euros to energy, and 3 billion euros to digital infrastructure.<sup>114</sup>

The CEF so far has been particularly favourable to large-scale projects in all three Baltic States – this should not be undermined in future. For instance, the *railway* infrastructure project 'Rail Baltica' remains the most important project for Latvia in terms of scale. This project would ensure the integration of the Baltic States in the European rail network and, in Riga, the integration of the railway with the airport, thus fostering the mobility of people thanks to more integrated transport opportunities. It is estimated to cost around 5.8 billion euros for all three Baltic States, out of which Latvia's share would be 1.96 billion euros.<sup>115</sup> It is expected that the national co-financing would amount to 393 million euros, while the biggest share of the funding would come from EU funds.

In the *energy* sector, Latvia and its Baltic neighbours will have the chance to use CEF for further building interconnections with Western Europe, thus reducing its dependency on Russia. In a joint letter to Donald Tusk, the President of the European Council, the Heads of the State and Government of three Baltic States emphasised the necessity for the EU budget to envisage adequate funds to "connect Europe with modern energy and transport links and ensure funding for

strategic projects, including the synchronization of power grids and Rail Baltica".<sup>116</sup>

#### Enhancing rural economy

With the next MFF, new opportunities should be taken on board to invest in rural activities that produce more added value in the long term. Climate change is inevitable, and it has been indicated that humanity will face dramatic consequences in 12 years if no action is taken to reduce emissions of greenhouse gases, limiting global warming to 1.5 percent instead of the currently agreed 2 percent compared to pre-industrial levels.<sup>117</sup> Rural farming offers many opportunities in helping to achieve this aim, for example, by developing bioeconomy. The Commission has already proposed certain mandatory and incentive-based measures in the CAP to encourage environment- and climate-friendly practices in rural farming – for example, a conditionality of the direct payments regarding enhanced environmental and climate requirements, a 30 percent cap for environmental and climate measures in the national envelope for rural development, and national eco-schemes to support farmers that go beyond the mandatory requirements in the environmental and climate spheres.<sup>118</sup> It has been argued that the conditions in the Baltic States are particularly favourable for bioeconomy as they still possess unexploited reserves of biomass, including organic and industrial waste; long coastal areas, which have the potential for a blue bioeconomy; and comparatively vast forest resources.<sup>119</sup> The bioeconomy has

113. It includes funding for the general envelope at the EU level of 12,8 billion euros, cohesion funding of 11,3 billion euros and funding for military mobility of 6,5 billion euros. At: "Proposal for a Regulation of the European Parliament and of the Council establishing the Connecting Europe Facility and repealing Regulations (EU) No 1316/2013 and (EU) No 283/2014", COM(2018) 438 final, European Commission, June 6, 2018, [https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-cef-regulation\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-cef-regulation_en.pdf)

114. "EU Budget: Commission proposes increased funding to invest in connecting Europeans with high-performance infrastructure", European Commission, June 6, 2018, [http://europa.eu/rapid/press-release\\_IP-18-4029\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4029_en.htm)

115. "Rail Baltica" kopējās izmaksas Baltijas valstīs sasniegšot 5,8 miljardus eiro", LSM, April 24, 2017, <https://www.lsm.lv/raksts/zinas/ekonomika/rail-baltica-kopejas-izmaksas-baltijas-valstis-sasniesot-58-miljardus-eiro.a233947/>

116. "Dalia Grybauskaitė will hand a joint letter from the Baltic states' leaders to the President of the European Council", Press Service of the Lithuanian President, February 15, 2018, <https://www.lrp.lt/en/press-centre/press-releases/dalia-grybauskaitė-will-hand-a-joint-letter-from-the-baltic-states-leaders-to-the-president-of-the-european-council/29412>

117. "Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments", Intergovernmental Panel on Climate Change, October 8, 2018, [http://www.ipcc.ch/pdf/session48/pr\\_181008\\_P48\\_spm\\_en.pdf](http://www.ipcc.ch/pdf/session48/pr_181008_P48_spm_en.pdf)

118. "EU budget: the Common Agricultural Policy beyond 2020", European Commission, June 1, 2018, [http://europa.eu/rapid/press-release\\_IP-18-3985\\_en.htm](http://europa.eu/rapid/press-release_IP-18-3985_en.htm)

119. Christian Paternmann, "The biobased Economy in Europe – Hype or reality? Perspectives for the Baltic regions", presentation at Riga Bioeconomy Forum *Towards a Sustainable and Innovative Bioeconomy*, March 9, 2017, <https://www.zm.gov.lv/public/ck/files/Christian%20Paternmann.pdf>

been identified as one of Latvia's priority areas in its Smart Specialisation strategy; and the Latvian Bioeconomy Strategy 2030 has been approved. This is definitely a sphere where Latvia can benefit from Horizon Europe, which envisages 10 billion euros<sup>120</sup> for research and innovation in food agriculture, rural development and the bioeconomy.

In the next planning period there is an opportunity to provide more support to small and medium-sized farms. Indeed, in Latvia it has been observed that in the current planning period big farmhouses have been in a more favourable situation than small ones regarding access to EU funding.<sup>121</sup> Yet small and medium-sized farmhouses form the majority of Latvian rural farms. The Commission proposes a higher level of support per hectare to small and medium-sized farms, as well as limitations which will kick in if 60,000 euros per farm are received, whereby support will be restricted up to 100,000 euros per farm.<sup>122</sup> It is estimated that the proposed limitations to big farms could affect just 0.8 percent of Latvian big farms.<sup>123</sup> Moreover, there is an opportunity for young farmers (up to 40 years old) to start a rural business, as the Commission proposes directing 2 percent of the national allocations for direct payments to young farmers.

#### Advancing on security

Taking into account Latvia's geographical location, historical experiences and current security situation, the Baltic country is seeking additional safety instruments. Therefore, the budget proposal to allocate more resources for common defence and security as well as for the protection of the EU external border is a good sign for Latvia. With

its commitment to pay more into the EU budget, Latvia sends a clear signal to its EU partners that it is ready not just to receive but also to contribute in solidarity with other countries to tackle new challenges that face the EU.

All Commission proposals in the sphere of security and defence provide opportunities for Latvia. For example, additional funding at the EU level has been allocated to *digital challenges*. The Digital Europe Programme envisages support for high-performance computing, artificial intelligence, cybersecurity and advanced digital skills. Cybersecurity is part of Latvia's national security strategy<sup>124</sup>, and therefore the potential of the programme should be explored in order to participate in projects with the aim of strengthening Latvia's cybersecurity. Additionally, 6.5 billion euros have been allocated to military mobility within the transport dimension of the CEF, which provides Latvia with the opportunity to apply for these funds in order to improve its transport infrastructure, be it road or railway, also for military purposes.

In the area of *defence* there is a proposal to increase defence capabilities by providing more funding to the European Defence Fund. Latvian enterprises should be encouraged to look for co-operation partners in the EU in order to apply directly for funding, which can help to develop and produce innovative products in the defence industry, in particular regarding electronics, metamaterials, encrypted software, or robotics. It has been indicated that out of 13 billion euros, 4.1 billion euros will be assigned to direct grants for collaborative research projects, involving at least three participants from three member states. Higher financing rates are to be ensured for cross-border projects that involve SMEs.

As Latvia's border is part of the *external border* of the EU it will have an opportunity to benefit from increased funding for EU border management. For example, the Commission proposes to create a new standing corps of around 10,000 border guards within the European Border and Coast

120. "EU budget: the Common Agricultural Policy beyond 2020", European Commission

121. "LAP 2014 - 2020 novērtēšana paplašinātajam Ikgadējam īstenošanas ziņojumam 2017", Institute of Agricultural Resources and Economy, 59

122. "EU budget: the Common Agricultural Policy beyond 2020", European Commission

123. "Nākamajā daudzgadu budžetā sola lielāku atbalstu jauniem lauksaimniekiem un mazām saimniecībām", Latvijas mediji, June 8, 2018, <http://laukos.lv/nakamaja-dauzgdadu-budzeta-sola-lielaku-atbalstu-jauniem-lauksaimniekiem-un-mazam-saimniecibam>

124. "Par Nacionālās drošības koncepcijas apstiprināšanu", Parliament of the Republic of Latvia, November 26, 2015, <https://likumi.lv/ta/id/278107-par-nacionalas-drosibas-koncepcijas-apstiprinasanu>

Guard Agency. Additionally, a new Integrated Border Management Fund of 9.3 billion euros will be created, which will support border management measures and the visa policy (4.8 billion euros) as well as provide help to the member states to improve their customs control equipment (1.3 billion euros), such as “scanners, automated number plate detection systems, teams of sniffer dogs and mobile laboratories for sample analysis”.<sup>125</sup> It is planned that from this fund each member state will be allocated a fixed sum of 5 million euros, while other funds will be distributed depending on the workload, pressure and the threat level at external land and sea borders, airports and consular offices.

Though Latvia is not the most popular destination for migrants, from the peak of the migration crisis in 2015 up to 2017 Latvia has received applications from 1,073 asylum seekers – 92 of whom have been assigned refugee status and 389 assigned an alternative status. Altogether, 367 persons have been displaced to Latvia within the EU resettlement programme.<sup>126</sup> The Commission proposes to increase funding for migration up to 10.4 billion euros under the renewed Asylum and Migration Fund. It will support member states in areas such as asylum, legal migration and integration, and countering irregular migration and returns. In the same way as for border management, this fund envisages a fixed sum of 5 million euros for each member state while the remainder will be assigned based on an assessment of the pressures faced and taking into account proportions in the area of asylum, activities regarding legal migration and integration, and necessities in countering irregular migration and returns.<sup>127</sup>

Latvia’s security is inseparable from the security outside its borders, therefore Latvia has always been a firm advocate of the Eastern Partnership at the EU level. The Commission has intended

125. “EU budget: Commission proposes major funding increase for stronger borders and migration”, European Commission, June 12, 2018, [http://europa.eu/rapid/press-release\\_IP-18-4106\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4106_en.htm)

126. “Patvēruma meklētāji”, The Office of Citizenship and Migration Affairs, accessed October 19, 2018, <https://www.pmlp.gov.lv/lv/sakums/statistika/patveruma-mekletaji.html>

127. “EU budget: Commission proposes major funding increase for stronger borders and migration”, European Commission

to strengthen the external dimension of the EU by providing 123 billion euros to it. Most of the budget – 89.5 billion euros – is allocated to the NDICI, which also involves support for the EU’s Eastern neighbours, and which Latvia should be carefully following. 10.5 billion euros will be available to new out-of-the-budget funding mechanism for the objectives of the Common Security and Defence Policy (namely, the European Peace Facility).<sup>128</sup>

## Conclusion

Latvia has developed considerably since it joined the EU in 2004, and EU funding should be attributed a great deal of gratitude for that. Though it is still catching up with the EU average in terms of economic, social and territorial cohesion, Latvia now is doing much better than many states in the world, and during the next planning period of 2021–2027 it will presumably reach the status of an EU transition region – a status which is applied to EU regions and countries with a GDP per capita between 75 and 90 percent of the EU average. EU funding for the Cohesion Policy and the CAP will continue to provide an essential input in achieving this goal. However, Latvia should not end up with it. Besides the cohesion and CAP funds, there are other EU funding opportunities in areas such as research and innovation, infrastructure, security and defence, and the mitigation of climate change, which should all be more actively explored. These could potentially offset the proposed reduction of funding for traditional policies and reduce the sense of dependency on pre-allocated funds from a longer term perspective.

It may be argued that human capital is and will remain the most serious challenge to the further development of Latvia. EU funding, if wisely invested, should complement national level policies that are targeted towards labour shortages. In the short and medium term this involves activities that foster re-emigration, integrate the unemployed, young people and people with disabilities

128. “EU budget: Making the EU fit for its role as strong global actor”, European Commission, June 14, 2018, [http://europa.eu/rapid/press-release\\_IP-18-4086\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4086_en.htm)

in the labour market, improve productivity, support re-qualification and the acquisition of new skills, strengthen the health of economically active people, and ensure housing. In doing this, support for the regions would be of particular importance. In the long term, this includes reforms in the education system, research and manufacturing to release the potential of an innovative, high-tech, dynamic and creative economy. However, the paradox one faces is that EU funding may help to deal with shortages in labour force, yet the absorption of funds and the country's participation in direct EU programmes may themselves be stymied by a lack of human resources. Therefore, a well-balanced approach towards priorities and a focus on added value

would be necessary in the next planning period of the EU multiannual budget in order to have the greatest return from the funding versus a limited capacity of human resources.

However, though undoubtedly important, EU funding is just one part of Latvia's growth story. The underlying necessities of Latvia's long-term development – such as empowered and creative individuals, modern basic and higher education, sophisticated industry, a reliable health system and social security nets – are its national responsibility. Therefore, any debate about Latvia's further development and weight in the EU should not be restrained to only the acquisition and absorption of EU funding, but should go far beyond that.

## About the authors

**Vineta Kleinberga** is a researcher at the Latvian Institute of International Affairs. She has previous work experience at the Ministry of Foreign Affairs of Latvia, where she dealt with issues of institutional and economic reforms of the European Union, its future and its budget. As the Deputy Head of the Secretariat of the Latvian Presidency of the Council of the European Union, she was responsible for the Presidency work programme and meetings in Riga. She acquired a master's degree at the Central European University in Budapest and has studied at the Copenhagen Business School. She also has previous work experience in Transparency International Latvia (Sabiedrība par atklātību – Delna), the Riga Graduate School of Law, Rīga Stradiņš University, and the Institute of Economics of the Latvian Academy of Sciences.

**Karlis Bukovskis** is the Deputy Director and a researcher at the Latvian Institute of International Affairs, the author of numerous articles, and the scientific editor of several books. Bukovskis is also a lecturer on global political economy, international financial system and the EU integration at Riga Graduate School of Law and Riga Stradins University. He acquired master's degrees from the University of Latvia and the University of Helsinki, and currently is a PhD candidate. Bukovskis has dealt with European Union institutional, political and economic developments while serving at the Ministry of Foreign Affairs of Latvia, the Secretariat of the Latvian Presidency of the Council of the European Union (where he developed the Presidency's six-month work program), and also at the Ministry of Finance of Latvia.

## Imprint

Friedrich-Ebert-Stiftung | Riga Office  
37-64 Dzirnavu iela | Riga, LV-1010

Responsible:  
Dr. Tobias Mörschel | Director of the FES in the Baltic States  
Tel.: +371 6783 05 39  
<https://www.fes-baltic.org>  
<https://www.facebook.com/FES.BalticStates>

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The current focus of the work of the Friedrich Ebert Foundation in Estonia, Latvia and Lithuania is:

- strengthening democracy and active civil society
- supporting the European integration process
- contributing to the development of a common European foreign and security policy
- promoting a fair and sustainable development of economic and social policies in the Baltic States and in the EU

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ISBN 978-9934-8794-2-5