

The Eastern Latvian Border: Potential for Trans-  
Frontier Co-operation with Russia

**Final report**

by

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## **Introduction**

In 1991 the former the Republics of the Soviet Union, Latvia and Russia became independent states and the internal border between the former Soviet republics turned into a frontier between sovereign states. At present it is 217 kilometres long. Once the border was in place, the political, social and economic situation on both sides of the frontier changed and contacts among the local residents were severed. The introduction of visa regime made it more complicated to visit relatives and graveyards on the other side of the border. The establishment of customs regime put an end to trade between the border areas of both states.

Since the restoration of Latvia's independence and to this very day, rhetoric has governed the relationship between the two countries, without achieving true co-operation. It is clear that co-operation could be a resource for mutual development and growth. Co-operation is particularly important for border regions, because it allows for socio-economic compensation in return for the influence of being on the periphery.

The positive influence of co-operation has been understood since the end of World War II by the border regions of European Union member states. They have been active in promoting trans-frontier co-operation and in setting up trans-frontier co-operation structures. There are several kinds of trans-frontier co-operation forms - among border region territories (known as trans-border or cross-border co-operation), among countries (trans-national) and among regions that are not necessarily adjacent to one another (interregional).

The European Union has defined trans-frontier co-operation as one of its priorities, and it has established several programmes and initiatives that provide partial financing for such activities. Latvia's border regions, too, have become involved in trans-frontier co-operation projects over the last several years.

This study was conducted with the financial support of the Ministry of Foreign Affairs of Sweden between March and September 2003, and its aim was to research cross-border co-operation opportunities and problems in Latvia's border regions - the Aluksne, Balvi and Ludza districts on the one hand, and the Pskov Region of the Russian Federation on the other. The importance of this subject is determined by the fact that Latvia will soon become a member state of the European Union, which means that Latvia's external border with Russia will become the EU's external border with that country, by the fact that this is a significant region in terms of the relationship between the Baltic Sea region and the European Union with Russia, as well as in terms of the fact that the EU provides financial and other kinds of support for such activities - something in which border regions are investing great hopes. Parallel studies were conducted in Estonia and Russia.

Researchers looked at the results of previous studies that had been conducted - there were several studies of border-related issues, which did not directly look at cross-border co-operation<sup>1</sup>. They also analysed the local press in Latvia's eastern border

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<sup>1</sup> Dzalbo, J. *Pierobežas regionu parrobežu sadarbība* (Cross-border co-operation of frontier regions), Magistra darbs (M.A. thesis), Latvijas Universitāte, Rīga, 2002; Grzibovska, E. *Latvijas*

regions - *Malienas Zinas*, *Vaduguns* and *Ludzas Zeme*, conducting analysis in relation to those three newspapers. Using a very detailed questionnaire, experts conducted interviews with local government leaders, businesspeople and NGO leaders in the border region, as well as with ministry employees, MPs and scholars in Riga - 58 interviews in all. There was also 21 informal interview, mostly with businesspeople, but also with representatives of local governments. Businesspeople also received short surveys on their experience in dealing with Russia, but there was little response to the questionnaire. Researchers analysed laws which relate to cross-border co-operation, as well as statistical data and other materials. The main focus was on cross-border co-operation between the border regions in Latvia and Russia, specifically looking at the Latvian districts and parishes which border with Russia and the corresponding local government territories on the other side of the border. One of the most important research goals was to answer this question: "Can cross-border co-operation promote the sustainable development of border regions and, if so, how?" Researchers also devoted some attention to inter-regional co-operation, particularly in terms of economic co-operation between the Pskov Region on the one hand and those Latvian economic centres which are in the relative proximity of Russia (Riga, Rezekne, Valmiera, Daugavpils) on the other.

Results of the research were presented at the conference "Peipsi Forum III. Regional Development and Cross Border Co-operation in the Estonian-Russian Border Area" in Tartu, Estonia, on August 22-23, 2003, at the conference "An Impact of European Trans-border Co-operation on Regional Economic Development" in Pskov (Russia) on October 2, 2003, as well as at the final project conference, organised on October 17, 2003, by the Latvian Institute of International Affairs in Riga with participation by Estonian and Russian participants in parallel projects, as well as Latvian officials, representatives of local governments and non-governmental organisations involved in cross-border co-operation with Russia. The project aroused interest in those districts of Latvia which were covered by the research. Information about it was published in the local press. Authors of the final report were also asked to participate in a seminar organised on October 31, 2003, in Aluksne by the Vidzeme Development Agency and the Aluksne Town Council.

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*pasvaldību starptautiskas sadarbības iespējas* (The possibilities of Latvia's local governments to engage in international co-operation), Bakalaura darbs (B.A. thesis), Latvijas universitāte, Rīga, 2002; Karnite, R., Kubulina, A., *Pierobežu pasvaldības Latvija* (Local governments in Latvia's border area), Latvijas Zinatņu akadēmijas Ekonomikas institūts, Gada gramata '99, red. Karnite, R., BO SIA "Zinatņu akadēmijas Ekonomikas institūts, 2000; *Ar mums saka Latvija?* (Latvia starts with us?), Informācija par LR Tieslietu ministrijas un Latvijas Pasvaldības savienības projektu "Izpratnes veidošana par integrācijas politikas lomu pasvaldību ilgspejīga attīstībā", Rīga, 2003; Melluma, A. *Latvijas pierobeža* (The Border Area of Latvia), Rīga, Zinatne, 2000; Varika, A., Lismanis, A., Pirags, K., Dr. ekon. Miglavs, A., *Pierobežas ietekmes izvertejums Latvijas teritoriālajā attīstībā* (Frontier influence estimate on territorial development of Latvia), Pētījuma rezultāti 6/99, Latvijas Valsts Agrārās ekonomikas institūts, Rīga, 1999; Varika, A., Lismanis, A., Dr. ekon. Miglavs, A. *ES un citu valstu pieredze pierobežas reģionu attīstības veicināšanā un tās izmantošanas iespējas Latvija* (EU and other countries experience in developing border regions and possibilities to use it in Latvia). Pētījuma rezultāti 4/99, Latvijas Valsts Agrārās ekonomikas institūts, Rīga, 1999.

## 1. The Social and Economic Development of Latvia's Border Area

The object of the present study are three districts: Aluksne, Balvi and Ludza that directly border on the Russian Federation. In these districts particular attention was attributed to civil parishes (*pagasts*), territories (*novads*) and towns that are located directly at Latvia-Russia border (see table 1).

**Table 1**

### Local authorities covered by the present study

District	Town	Pagasts or novads
Aluksne		Liepna Pededze
Balvi	Vilaka	Baltinava Briezuciems Medneva Skilbeni Vecumi Ziguri
Ludza	Karsava Zilupe	Blonti Brigi Cibla Goliseva Lidumnieki Malnava Merdzene Pasiene Zalesje

A study by geographer Aija Melluma, that was published in 2000, comprises the findings of an opinion poll of district planners carried out by the National Institute of Agrarian Economy that reflects the views and interests of the population of the entire border area of Latvia. As the main aspects of the negative effect of the proximity of the border the respondents have mentioned: 1) an outskirts factor and the long distance from Riga; 2) inconveniences related to border-crossing (to visit relatives, graves, to engage in trade, etc); 3) deterioration of the demographic situation and lack of qualified labour; 4) poor quality of roads and bus services, increase of transportation costs.<sup>2</sup>

<sup>2</sup> Melluma, A. *Latvijas pierobeza* (The Border Area of Latvia). Riga, Zinatne, 2000, p. 28. See also Varika, A., Lismanis, A., Pirags, K., Dr. ekon. Miglavs, A. *Pierobezas ietekmes izvertejums Latvijas regionalaja attistiba* (Frontier influence estimate on regional development of Latvia). Riga, 1999, pp. 49.-51.

Formal and informal interviews that were carried out in the course of the present study testify that these factors are still topical although the poor quality of roads now was mentioned more seldom. Over the recent years reconstruction and repair works of radial transportation arteries (going from Riga to the border) have been carried out and projects "The Northern String" and "The Eastern String" are being implemented, in the course of which roads of local importance that go parallel to Latvia's Northern and Eastern borders are being reconstructed. Although in many places the quality of roads still remains unsatisfactory (for example, in Aluksne district only 32% of national roads are covered with asphalt, the other 68% being covered with gravel. In the territory of civil parishes the quality of roads is much worse: hardly 5% have black surface. In Ludza district only 8% of roads are asphalted, this being the lowest indicator in the state), improvement or at least perspective can be observed.<sup>3</sup> In the last three-four years bus services have also improved in the border districts. However at the same time several railway lines have been closed, this fact being perceived as an inconvenience among the population of the border area.

Melluma mentions also results of an opinion poll of the local authorities of the border area that point to another problem: inconveniences caused by the regime of the border zone (2 km along the border). The interviews by the authors of the present study also testify that the residents of border territories regard the restrictions on traffic and economic activities in the border zone as substantial inconveniences. The Border territories also suffer difficulties caused by poor reception of radio and TV broadcasts in some places and insufficient coverage of mobile telephone network.

Speaking about the problems caused by the border, it must be taken into consideration that a large part of now actually delineated Latvia-Russia border (a part of Pēdēze civil parish and Liepna civil parish in Aluksne district and the entire territory of Balvi) has never in fact been a real state border. In the Soviet Union border between the Republics did not matter much, although location on that or other side of the border could imply differences in economic and legal status. However the population vividly remembered where the state border lay before the annexation of Latvia. In 1992 the restoration of the border in the locations where there had been border before annexation of Latvia by the Soviet Union in 1940 was perceived less painfully.

However, along territories, which in 1944 were incorporated into Russia, new situation caused more problems. The border was never clearly delineated in the Soviet time. The practical delineation of the border caused problems to many residents of the respective area, particularly those living near Punduri railway station in Balvi district, as some individuals found their farmstead being located in one state and the farmland - in another.<sup>4</sup> Relatives, who had always lived in neighbouring farmsteads and never had moved away, were suddenly separated by a state border. Residents of the border area were no longer allowed freely to visit the graves of their relatives on the other side of the border. While personally it affected relatively few people, the overall psychological impact on the residents of the border area, the citizens of Latvia was very harsh.

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<sup>3</sup> Aluksne district and Aluksne town web-site - <http://aluksne.lv>; Ludza District Council web-site - <http://www.ludza.lv>.

<sup>4</sup> Liepina, A. "Īredniem skita, ka Punduri atrodas Krievijā" (It appeared to officials that Punduri were in Russia). *Diena*, 7 June 1994; Vizulis, L. "Abrene, abreniesi. Aizmirsisim vai atzīsim?" (Abrene and Abrenians. To forget or to admit?). *Labrit*, 24 November 1994; Egle, I. "Pundurū stacijas jautājums jāskata starpvalstu sarunās" (Problem of Punduri station must be revised at interstate negotiations). *Labrit*, 24 November 1994.

Provisional interstate agreement signed on 14 December, 1994 until October 2000 on the bases of a special list allowed the residents of the border area on religious holidays to go to the graves of their relatives and visit their living family members. The denunciation of this agreement was perceived very painfully in the border districts, although there have been measures to abate the inconveniences for the local residents, for instance, the Russian side provided visas free of charge.<sup>5</sup>

It must be mentioned though that daily inconveniences related to border-crossing and location in the border zone are specific for the territories in direct proximity of the border only. A larger proportion of the negative factors are related to the large distance from the capital and the central districts of the state.

In terms of socio-economic development the districts and civil parishes near Latvia-Russia border are in a worse situation than other Latvian districts, including those near a border; yet this situation is the result of meagre natural resources and historical circumstances. The processes of economic transformation in 1990s only increased the tendencies, which were the result of the Soviet system of economy or, in some cases even older historically determined processes. At the same time transition to market economy, location at important East-West trade arteries and new technologies have opened new opportunities, which, however, are not being adequately exhausted.

In the border districts unemployment is relatively high. (In late May 2003 the proportion of the registered unemployment in the total number of economically active individuals in Aluksne district amounted to 10.5%, while in the country in general it constituted 8.7% and in Riga 4.4%).<sup>6</sup> On this background there exist some "islands" of particularly high unemployment, for example Pededze civil parish in Aluksne district, which fact is due to the rather large distance from the district centre and lack of jobs in the civil parish itself. The same situation is characteristic also for other districts, for example, in Balvu district in May 2003 unemployment was around 15%, at the same time in Baltinava parish – more than 34%.<sup>7</sup>

Under the circumstances of high unemployment, border districts, however, often suffer from lack of qualified labour. Since in the eastern districts of Latvia average salary is considerably below that of Riga and other economically more active districts (for instance, in Aluksne district the average annual salary constituted only 70.8% of the average salary in the country. In 2001 the average monthly salary in the district was 127.41 LVL<sup>8</sup>), a large proportion of qualified labour (construction specialists in particular) on regular basis go to other places to earn money. Very widely spread is also working in EU countries, Ireland in particular, which is popular also because it gives the opportunity of earning good money also to non-qualified and low-qualified labour. Such pendulum-type migration has twofold consequences. On the one hand a large proportion of the earnings made in other districts of Latvia or abroad is spent in the places of the permanent residence, not infrequently for purchasing agricultural equipment, launching or developing businesses. On the other hand, a portion of such migrants leave their native territories for good.

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<sup>5</sup> Gabranovs, E. "Krieviju velas apmeklet biežāk" (People want to go Russia more often). *Ludzas Zeme*, 21 September 2002.

<sup>6</sup> <http://www.aluksne.lv>.

<sup>7</sup> Klanska, D., Gabranovs, E., Zinkovska, I. "Vilaka, Tilza un Baltinava vizzemaka attistiba" (In Vilaka, Tilza, and Baltinava development is the lowest). *Vaduguns*, 14 May 2003.

<sup>8</sup> <http://www.aluksne.lv>.

In all rural border territories population growth has been negative, except for Blonti civil parish in Ludza district, although in the district itself the fall in population is the highest of all three border districts. At the same time it must be taken into account that the population growth has been negative also in civil parishes which are not located at the border, and is no less striking in many other remote territories near the Lithuanian border. The density of population in the majority of border districts constitutes 9.9 persons per square kilometre or less (except for Karsava civil parish in Ludza district and two civil parishes in Balvi district). However, in this regard as well, situation near the Estonian border is similar.<sup>9</sup>

While in early 1990s the fall in population was also due to emigration to Russia; in the recent years such migration has been insignificant. The major reason for the fall in population now is migration within Latvia's territory as well as the ageing of population and death-rate exceeding birth rate.

In 1990s several regional higher educational establishments were founded: Vidzeme University College and Rezekne University College, while Daugavpils Teachers' Institute was upgraded to the status of university. In 1998 Affiliate of Riga Higher School of Pedagogics and School Management was set up in Aluksne. While regional higher educational establishments play a certain role in curbing migration of young people to Riga, migration still takes place and within the limits of the region remains on the same level. Graduates of these educational establishments for the most part settle down in regional or district centres because there are few suitable jobs in civil parishes and territories. The demand for qualified specialists with a trade school or college education is much higher in the border districts than that for specialists with higher education degrees. Regretfully there are serious shortcomings in the training of such specialists, because in many cases trade schools fail to provide education that meets modern requirements. Moreover, they yield to market pressures and offer specialities that, while being regarded as perspective at that particular moment, are not oriented at the development needs of the region. However, there are also positive tendencies. For example, Malnava Technical College within the framework of PHARE programme has obtained modern motor-diagnostics equipment and now can train motor-engineers for the repair of all types of vehicles. Within the framework of cross-border co-operation it has offered opportunities for the training of motor-engineers also for the residents of Pskov region where such equipment is not available. Malnava is located near the main East-West transit arteries, in the proximity of which there is an acute lack of modern automobile service companies. The Technical College has the prospect of becoming in the future a considerable factor in the economic development of the region.

The fall in population increases the demographic pressures, i.e. the relation between able-bodied and retired segments of the population is becoming more unfavourable. Unemployment and the decrease of the able-bodied proportion of population lessen revenue in the local budget, this being one of the main sources of revenue for the local authorities. The abolition of the system of address register, which was inherited from the USSR and the introduction of the system of declaration of the actual places of residence decrease the revenue even further, because from now on the income tax of those individuals who in fact reside and work in Riga or other largest centres but were previously registered in border districts, will go into the budget of the actual place of residence.

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<sup>9</sup> See Melluma, A. *Op.cit.*, map 6.



In Latvia there is in force a principle of solidarity of local authorities, according to which the wealthiest local authorities transfer a portion of their revenue to a Balance Fund, from which subsidies are paid to those local authorities, which have been granted the status of the region of special support. In 1997 the Ministry of Economy elaborated a table of ranks for the identification of regions of special support; the table is based on 6 criteria: 1) unemployment figures; 2) the figure of personal income tax (LVL/person); 3) demographic burden; 4) density of population; 5) the number of persons with the highest and secondary education per 1000 persons older than 18; and 6) the proportion of space used for the needs of industry, manufacturing and social infrastructure, % of the all territory.<sup>10</sup> In compliance with these criteria the status of the region of special support has been granted to entire districts of Balvi and Ludza and several civil parishes in Aluksne district, including Liepna and Pededze. According to the regulations of the Cabinet of Ministers, in 2003 Aluksne district was to receive a subsidy of 35 362 LVL, Balvi district - 50 084 LVL, and Ludza district – 39 607 LVL. Of the local authorities in the border area the smallest subsidies were allocated to Kuprava (1956 LVL), Blonti (2019) and Goliseva (2119 LVL) civil parishes, while the highest subsidies were granted to Skilbeni (6893 LVL), Baltinava (6349) and Malnava (5729) civil parishes.<sup>11</sup>

The rather widely spread assumption that the majority of the residents of civil parishes in the border area are non-Latvian and non-citizens in fact is wrong. Since olden times the ethnic composition of border territories in Latgale has been mixed. Yet there are only a few territories compactly inhabited by ethnic Russians: Pededze civil parish in Aluksne district, the vicinity of Zilupe and Golisheva civil parish in Ludza district. In all other civil parishes at the border the majority of the population are ethnic Latvians, although in Ludza district their proportion in the whole population is comparatively low – a bit more than 54%.

The proportion of non-citizens in the Eastern border area is not high; in fact it is lower than in the central areas, for example in Bauska, Jelgava and Dobele districts.<sup>12</sup> However, in Latgale in the border area many ethnic Latvians regard Russian as their mother's tongue, this being largely the result of the information and educational policy of the Soviet period, that in many places in Latgale transformed Latvian schools into schools with the Russian language of instruction. Now the number of students in the schools with the Latvian language of instruction is growing. On the other hand, the de-population of civil parishes in the border area makes the maintenance of schools into a heavy burden for local authorities. Yet the government's plans to optimise the number of schools provoke resistance in border territories, schools being among the main centres of culture and public activity.

The main fields of economy that employ the population of the border districts are agriculture, timber processing, trade and services. On the whole, entrepreneurship is underdeveloped in all three districts. Thus in the year of 2000 of 1057 enterprises and institutions registered in the Ludza district division of the State Revenue Service, only 283, i.e. 26.6% were registered as active tax-payers. In the year of 2000 business activities and transactions had taken place in 455 enterprises and institutions.<sup>13</sup> In

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<sup>10</sup> Melluma, A. *Op.cit.*, p. 71.

<sup>11</sup> 17<sup>th</sup> December 2002 Regulations no. 537 of the Cabinet of Ministers - [http://www.kurzeme.lv/files/pdf/normativie\\_akti/noteikumi/MK-Pasvaldibu%20finansesanas%20kartiba.pdf](http://www.kurzeme.lv/files/pdf/normativie_akti/noteikumi/MK-Pasvaldibu%20finansesanas%20kartiba.pdf).

<sup>12</sup> Melluma, A. *Op.cit.*, p. 51.

<sup>13</sup> <http://www.ludza.lv>.

Balvi district there were 230 economically active enterprises.<sup>14</sup> In rural border areas the number of enterprises is even lower; for the most part these are farms or small timber processing companies. In 1990s the number of enterprises in Latvia's border territories grew,<sup>15</sup> yet at the Russian border the growth was much slower.

In the border districts there is rather strong stratification in agriculture and in other fields. There are farms that successfully produce for market, with the support of SAPARD and other programmes purchase agricultural equipment and modernise production. In Aluksne district the largest amount of subsidies go into the production of milk. Head of Business Support Centre of Pededze civil parish Nikolaj Irtishov remarked in an interview that the fluctuation of purchasing prices of milk and meat hampers successful development of a part of farms, however in a situation of favourable conjuncture at least some farms in the parish would be ready to expand production.<sup>16</sup> However, the majority of farmsteads produce the minimum amount of products for the needs of the owners. One of the main reasons for the unprofitableness of agricultural production is lack of market and low purchasing prices for meat and milk. Poor soil and relatively harsh climate does not allow switching over to the cultivation of more profitable grain and sugar-beets. Thus many farmers in the border districts look for opportunities to go into untraditional branches of agriculture, such as growing of fruit and berries, e.g. cranberries and the large-type of blue-berries, oyster-mushrooms, breeding of fur-bearing animals, bee-keeping, as well as biological agriculture.

A large proportion of timber-processing enterprises are small companies that cover the first phase of timber processing only. They are not modernised and are thus unable to manufacture products with high added value. In parallel, there are companies that make products with higher added value, use Western European and Scandinavian equipment and technologies and produce for European (mostly Scandinavian) markets, although there is also a trend for the production of high-quality timber for the local market to grow. The economic development of this field in the future is related to deeper treatment of timber and sustainable forestry that promises predictable and more stable income.

Another branch, on which the population of the border district lays great hope, is rural tourism. While in 1990s it was hampered by lack of funds for the development of adequate infrastructure, in the last two years SAPARD programme has invested greatly in the development of rural tourism. In 2002 out of 62 projects adopted under Measure 3. "Development and Diversification of Economic Activities Providing for Multiple Activities and Alternative Income" 37 were directed at the development of rural tourism<sup>17</sup> with special focus on the construction of tourist lodgings, and results are already evident, particularly in Ludza district. The earlier mentioned projects "The Northern String" and "The Eastern String" also imply prospect for the development of tourism. Investors from the central districts of Latvia and from abroad have also began to appreciate the perspective of the development of tourism. Probably it is one

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<sup>14</sup> Latgale Development Agency web-site - [http://www.latgale.lv/pasv/pasv\\_balvi.html](http://www.latgale.lv/pasv/pasv_balvi.html).

<sup>15</sup> Melluma, A. *Op.cit.*, p. 55.

<sup>16</sup> Interview no. 58, with Daiga Vitola, Deputy Chairman of the Local Council, Antonina Girs, Manager of the Community House and Nikolaj Irtishov, Head of Business Support Centre of Pededze civil parish and the Local Council Deputy on 25 July 2003 in Pededze.

<sup>17</sup> Jakovica, A. *Valsts un Eiropas Savienības atbalsts lauku turisma attīstībai Latvijā. Informatīvs pārskaits* (Support of the state and European Union to the development of rural tourism. Informative survey). - [http://www.country.holidays.lv/prof2\\_lv.html](http://www.country.holidays.lv/prof2_lv.html).

of the factors, that have set in motion the market of land in the Eastern border area, although many people associate it also with speculative hope that after the accession to the European Union and liberalisation of land market, the price of land will grow in all places of Latvia.

In West-East direction the territory of all three districts is crossed by several roads of international significance. In Aluksne district it is road E-77 or A2 Riga-Sigulda - Veclaicene (Pskov-St.Petersburg). It must also be noted that Aluksne is linked with direct bus traffic not only with Latvian cities, but also with Pskov region in the Russian Federation by routes "Aluksne-Lavri-Pechori" and "Aluksne-Lavri-Pskov", on the bases of parity between Latvian and Russian transportation companies.

Balvi district is crossed by road Riga-Gulbene-Pskov. This road is intensively used for cargo transportation in the direction of Russia.

The territory of Ludza district is crossed by two roads that are part of East-West corridor: Jekabpils–Rezekne–Ludza–Russian border (A 12) and Daugavpils–Rezekne–Russian border (A 13). Moreover, through the district there also go two important railway transit corridors: Moscow–Zilupe–Rezekne–Ventspils and St. Petersburg–Rezekne–Daugavpils–Warsaw.

It must be remarked that border regions also take part in cargo transportation. Thus in Aluksne district international cargo transportation services are offered by companies: "Zelta balodis", Ltd. (The Golden Pigeon), "Aluksnes meza transports", Ltd. (Aluksne Forest Transportation), "Remo", Ltd. The rural border territories so far have little used the opportunities that the service of transit and the development of road transportation could offer for the development of entrepreneurship. For example, in 2000 was described a situation considered rather typical for many border areas in Brigi civil parish in Ludza district, where nothing has been done to use the fact that the Riga-Moscow road crosses the civil parish – there were no motels, cafes, gas stations, and there were no attempts by local population to use economic opportunities offered by transit service.<sup>18</sup>

However, it must be noted, that border-crossing points contribute very significantly to the economy of the adjacent territories and the population and management of the border district are well aware of the fact. Work in the borderguard and customs gives means of subsistence to the residents of these districts, the salaries, moreover being rather high for this particular region. Aluksne and Balvi districts are also interested in establishing a customs point in Pededze and continued operation of the existing one in Vientuli, because it would allow local entrepreneurs to transport cargoes faster and cheaper. Transit roads and border-crossing points develop into centres of economic activity, around which the activities of the residents of the border are bound to concentrate more and more in the future. Thus the border is becoming a part of the region's economy. To a lesser extent, the economic situation of the border districts and local authorities can benefit from the export of the local products to Pskov region or the import of goods from that region, first and foremost because of the compatible economic structures on both sides of the border and also because goods that the manufacturers in the border area are oriented at, has much more advantageous market at the West. Great hopes are also laid on the development of rural tourism. If it were made part of international tourism, the prospects for Latvia's border districts would be

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<sup>18</sup> Bondarenko, E. "Brigu pagasts ir tipiski regresivs" (Brigi civil parish is typically regressive). *Ludzas Zeme*, 18 April 2000.

even much better. However, there are rather good prospects for the development of tourism even if the creation of joint tourist routes with Russia fails, because it is possible to expand co-operation with Estonia and Lithuania in this field.

## **2. Cross-Border Co-operation in the European Union**

### **2.1. The role of cross-border co-operation in the economic development of border regions**

In their vast majority border regions are politically, economically and socio-culturally less developed than the central regions of each respective country. The main problems of border regions are: low level of economic activities, poorly developed infrastructure, lower social and cultural activity, greater distance from the centre of the respective state, the psychological discomfort of the population caused by the proximity of the border, etc. It encourages the outflow of human resources from the border region that further aggravates the situation.

Enterprises in border regions suffer from problems caused by their peripheral location in national economy, by lack of human resources and infrastructure, by difficulties in adaptation to technological development, in introduction of innovations and in research, by weak cross-border communications and contacts and by restrictions on trade that hamper development of activities, and not only those directed towards the centre of the respective state. These restrictions are different administrative and regulating rules and customs. If on the other side of the border socio-economic conditions are different, shadow economy emerges. Experience has shown that the proximity of a border leaves a negative impact on the development of border regions. Cross-border co-operation among border regions is one of the most efficient measures for the decreasing of the negative impact. One of the goals of cross-border co-operation programmes is the development of entrepreneurship and small and medium enterprises. The handbook<sup>19</sup> published by the Association of European Border Regions (AEBR) in 2000 mentions several successful cross-border economic co-operation projects in the European Union, the results of which demonstrate economic growth achieved thanks to cross-border activities. Projects in the fields of transportation and infrastructure, tourism, environment, education, training, development of labour market, health-care, social services, agriculture and rural development also contribute considerably to the development of local economy. By successfully exploiting the existing momentum and opportunities, cross-border co-operation can be turned into an excellent instrument for economic development of border regions also in Latvia.

### **2.2. The most important EU programmes for cross-border co-operation**

In the field of cross-border co-operation there are four major EU programmes and initiatives: PHARE CREDO, PHARE CBC, TACIS CBC and INTERREG.

PHARE CREDO programme existed from 1996 to 2000. It was intended for co-operation among border regions of Central and Eastern European states (CEE) as well

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<sup>19</sup> *Practical Guide to Cross-Border Co-operation*, 3rd ed., AEBR, European Commission, 2000.

as among those of CEE states and the Commonwealth of Independent States (CIS) as an INTERREG A-type programme. PHARE CREDO financed small-scale projects.

PHARE Cross-Border Co-operation (CBC) programme PHARE CBC was launched in 1994 in order to encourage dialogue and co-operation among the border regions of the EU and CEE states. This programme was modelled after INTERREG initiative. In view of the fact that from the very outset PHARE CBC and INTERREG were intended to co-operate but in practice there were no jointly implemented projects, in 2001 a *Joint Programming Document* was elaborated, on the basis of which CBC funds are allocated starting from this year. The commitment to draw these two programmes as close to each other as possible is related to the EU enlargement process: in the near future the respective territories will move from PHARE CBC sphere of influence to INTERREG zone.

TACIS CBC (as of 1996) is intended for the support of cross-border co-operation at the borders between CIS and CEE states and CIS and EU member states and this programme is also meant to be maximally co-ordinated with INTERREG.

The most important cross-border co-operation-supporting programme is the EU Community's initiative INTERREG. It was launched in 1990 as INTERREG I. The programme operated until 1993 and justified its existence, therefore the Council of Europe set cross-border co-operation as the Community's priority initiative for the next period of structural funds (1994-1999). The new programme was named INTERREG II (with sub-programmes IIA, IIB, IIC).

INTERREG III is the largest-in-scale Community's initiative for structural funds, being allocated 4.875 millions EUR for the period between 2000 and 2006.<sup>20</sup> Partners of the EU member states are eligible to receive financing for co-operation needs from PHARE CBC, the national PHARE programme, from programmes ISPA and SAPARD in conjunction with TACIS and MEDA programmes<sup>21</sup>. INTERREG III initiative includes also three branches or sub-programmes. INTERREG IIIA is aimed at the promotion of cross-border co-operation with the goal of encouraging integrated regional development in border regions. 50-80% of the financing for the entire programme is intended for this branch of the programme.<sup>22</sup> INTERREG IIIB is targeted at promotion of trans-national co-operation with the goal of achieving a higher level of integration within larger European regions. This branch is entitled to 14-44% of the total funds.<sup>23</sup> INTERREG IIIC is intended for inter-regional co-operation between the EU as a whole and its neighbours in order to improve regional development and cohesion. This programme is allocated 6% of the fixed budget.<sup>24</sup>

To make cross-border co-operation projects easier to implement, it is intended between 2004 and 2006 to improve the co-ordination of the existing instruments of cross-border co-operation: INTERREG, PHARE CBC, TACIS CBC, as well as programmes such as Cards and Meda, through new *Neighbourhood Programmes*, the creation of which shall begin in 2004. After 2007 a single *New Neighbourhood*

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<sup>20</sup> The EU official web-site, [http://europa.eu.int/comm/regional\\_policy/interreg3/finan/finan\\_en.htm](http://europa.eu.int/comm/regional_policy/interreg3/finan/finan_en.htm).

<sup>21</sup> TACIS – Technical Assistance for the Commonwealth of Independent States; MEDA – Mediterranean development assistance; SAPARD – Special Assistance programme for agriculture and rural development; ISPA – Instrument for Structural Policies for Pre-Accession.

<sup>22</sup> [http://europa.eu.int/comm/regional\\_policy/interreg3/abc/voleta\\_en.htm](http://europa.eu.int/comm/regional_policy/interreg3/abc/voleta_en.htm).

<sup>23</sup> The EU official web-site, <http://europa.eu.int>.

<sup>24</sup> <http://europa.eu.int>.

*Instrument* will probably be developed.<sup>25</sup> In 2004 the existing PHARE countries will become eligible for INTERREG funds, no longer as partners, but as administrators. Already at the beginning of this year elaboration of two INTERREG sub-programmes was launched in Latvia. These sub-programmes will determine the types of projects eligible for financing and fix the scheme and the procedure of financing. One programme covers Latvia-Lithuania-Belarus, the other refers to Latvia-Estonia-Russia. Latvia is planned to receive about 9 millions EUR within INTERREG programme in the course of the next 3 years.<sup>26</sup> There is a commitment to continue INTERREG programme beyond the year of 2007.

Among cross-border co-operation supporting programmes one can also mention the EU programmes ECOS Overture, RECITE, CARDS, MEDA etc, as well as the initiatives of individual states, for example projects financed by Swedish International Development Agency (SIDA) and activities of the governments of Norway, Denmark and Germany.

### 2.3. Cross-border co-operation and support structures

Along with the growing commitment to intensify cross-border co-operation, a need for structures of cross-border co-operation arises. The structure is the cornerstone of successful, long-term and well-considered cross-border co-operation. The most widespread form of such structure is the Euroregion.

Euroregions and other structures of cross-border co-operation do not form new governments on cross-border level. They do not hold political power and their work is contained within the framework of the competencies of local or regional authorities. A Euroregion has fixed geographical territory and is intended for cross-border co-operation among local and regional authorities with the goal of promoting common interests and improving the living standards for the population of border regions.<sup>27</sup>

Euroregions are referred to in different ways: as Euregio, Euregion, Euroregion, Europaregion, Grand Region, Regio, Council.<sup>28</sup> The EU Euroregions are the key administrators and consumers of INTERREG funds. Co-operation structures existing on the borders of the EU and CEE states (Germany/Poland, Germany/the Czech Republic) take an active part in INTERREG and PHARE CBC programmes. Several Euroregions have emerged on the border between the EU candidate states and other countries, for example, Latvia/Russia/Estonia, Latvia/Belarus/Lithuania, Poland/Ukraine/Belarus, Poland/Lithuania/Belarus/Russia, etc. These Euroregions operate within the framework of the EU PHARE CBC and EU TACIS CBC programmes. The structure of the Euroregion usually consists of an elected council, a secretariat, an executive body and working groups. Each Euroregion has a strategy and an action plan of its own. According to AEBR, in Europe there currently are 115 active organisations of border-regions (most of them operating under the name

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<sup>25</sup> The European Commission's report *Communication from the Commission. Paving the Way for a New Neighbouring Instrument*, Brussels, 1 July 2003 - <http://europa.eu.int>.

<sup>26</sup> Interview no. 7 with Liga Viksne, Director of RAPLM Programmes Dpt. 30 April 2003.

<sup>27</sup> The web-site of the European Commission - <http://www.coe.int>.

<sup>28</sup> <http://www.coe.int>.

Euroregion), of which 82 are members of the Association of Border Regions.<sup>29</sup> And their number steadily increases.

A range of organisations have assumed the responsibility for the uniting of regions, representing them on the highest level (EU), helping them to develop, promoting the creation of new regions of cross-border co-operation, attracting financing for projects and programmes, etc, for example the Council of Europe (CE), which has developed fundamental documents such as *The European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities* (1980), *the European Charter of Regional/ Territorial Planning* (1993) and *the European Charter of Environment* (1993), The Nordic Council, Council of Baltic Sea States (CBCC), and EastWest Institute. However, the European Association of Border-Regions (AEBR) is the most important institution which has been supporting cross-border co-operation among European border regions and advocating their interests since 1971. The membership in the Association is open for border and cross-border regions of the EU and CE and entitles them to use AEBR services and programmes.

#### 2.4. The legal status of cross-border co-operation

In Western Europe in 1960s there were different views as to whether the cross-border co-operation of local authorities belonged to the sphere of intergovernmental relations and whether it broke out of the framework of national sovereignty and interests. Experts discussed whether cross-border co-operation had to be contained in the framework of interstate or local legislation. The final declaration of a symposium held by the European Commission in Spain in 1987 provided a direct answer to this question. The declaration stated that cross-border co-operation was not subject of international law but fell under the competence of local legislation.<sup>30</sup>

A general framework for cross-border co-operation is provided by the *European Charter of Border and Cross-Border Regions*, which was adopted in 1981 and amended in 1995. The rest of the legal basis falls into the following categories: multilateral agreements, bilateral or trilateral agreements and regional and local level agreements. Important document in this regard is the Madrid Convention of 1980 or the *European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities*.<sup>31</sup> The Convention serves as a fundamental document that sets general rules for cross-border co-operation.

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<sup>29</sup> Web-site of the Association of European Border-Regions - <http://www.aebr.net/>.

<sup>30</sup> *Report on the current state of the administrative and legal framework of transfrontier co-operation in Europe (2002)*, prepared by the Directorate of Co-operation for Local and Regional Democracy Directorate General I - Legal Affairs, Committee of Experts on Transfrontier Co-operation (LR-CT), Council of Europe, Strasbourg, 11 October 2002 - <http://www.coe.int>.

<sup>31</sup> *Practical Guide to Cross-Border Co-operation*.



### **3. Cross-border co-operation in Latvia**

#### **3.1. The legal basis of cross-border co-operation in Latvia**

The legal basis of cross-border co-operation consists of the national legislation and interstate agreements. The national legislation comprises laws and regulations that directly concern border regions as such and mention cross-border co-operation as well as those that affect cross-border co-operation indirectly. Here one should mention also different development plans and strategies. Interstate agreements may deal with cross-border co-operation in general or with some specific fields of the co-operation.

##### **3.1.1. National legislation**

Subjects of cross-border co-operation usually are regional or local authorities or organisations established by them. In Latvia the work of local authorities is regulated by the Law "On Local Authorities". According to it, in Latvia there are two levels of local authorities: those of towns, regions and civil parishes and those of districts. Local authorities are subjects of public rights that act independently within the framework of their competence and law. According to article 97 of the Law "local authorities and public organisations that they have established may co-operate with local authorities and their associations in other states, provided that such co-operation is not contrary to the legislation of the countries of co-operation and complies with the existing interstate treaties between the respective states". In 1996 Latvia joined the European Charter of Local Authorities.<sup>34</sup>

In 1998 Latvia joined the Madrid Convention and it has facilitated the concluding of several interstate co-operation documents on cross-border co-operation that are based on this convention.

Thus only these two Latvian Laws: on the accession to the Charter and the Convention refer to cross-border co-operation directly; however, there are many various laws and regulations that indirectly influence the opportunities of cross-border co-operation, affecting the work of the structures involved in cross-border co-operation, administrative division, economic and financial situation in border regions and the movement of goods and people across the border.

One of the most important pieces of legislation in this regard is the "Law on Regional Development"<sup>35</sup> passed in 2002 that envisages the creation of 5 planning regions: Riga, Vidzeme, Latgale, Kurzeme and Zemgale.<sup>36</sup> According to the Law, long-term

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<sup>34</sup> "Law On the 15<sup>th</sup> October 1985 European Charter of Local Authorities", in force as of 28 February 1996, *LR Saeimas un Ministru Kabineta Zinotajs*, No. 7, 4 April 1996.

<sup>35</sup> "Law On Regional Development", in force as of 23 April 2002, *Latvijas Vestnesis*, 9 April 2002.

<sup>36</sup> "Cabinet of Ministers Regulations on the Territories of Planning Regions", in force as of 29 March 2003, *Latvijas Vestnesis*, 28 March 2003.

(at least 10 years) fundamental position on regional policy must be elaborated. It should be noted that for a long period work was going on in Latvia on "Strategy for the Development of Border Area". Nobody mentions it any longer and these efforts have been suspended. However, border regions will be highlighted as problem-regions in the new document of fundamental position on regional policy that will also comprise an action plan for dealing with the problems of these regions.

In accordance with the Law, the Cabinet of Ministers has to form a National Council of Regional Development for the co-ordination of regional development and territorial planning in Latvia.<sup>37</sup> "Law on Regional Development" is important for cross-border co-operation in the aspect that it envisages the development of new structures, which may be subjects of cross-border co-operation. On the basis of this piece of national legislation are elaborated development programmes of national, regional and local authorities that may either comprise cross-border co-operation or in the framework of which cross-border co-operation can serve as one of development-promoting aspects.

The Development Plan elaborated by the Regional Policy and Planning Department at the Ministry of Finance in September 2002 that serves as a draft of the *Joint Programming Document* and draft amendment to the Programme of the Development Plan should also be mentioned. The Development Plan defines the Government's strategy and concrete priorities in the field of regional policy for the period from 2004 to 2006. The Development Plan is approved by the Cabinet of Ministers and will become a programme after the approval of the European Commission. It will probably happen in early 2004.

"Law on the State Border of the Republic of Latvia" (1994) and "Regulations on the Regime in the Border Area and the Border Zone of the Republic of Latvia" of the Cabinet of Ministers regulate the legal status of the border and the border area. The border area was fixed at 15 km and the border zone at 2 km from the borderline. On 1<sup>st</sup> January 2003 there came in force the new Regulations no. 499 of the Cabinet of Ministers "Regulations on the Regime in the Border Area and the Border Zone of the Republic of Latvia" according to which to enter the zone (2 km), a special pass will be required, except for those persons, who have declared the border zone as their place of residence, use the roads crossing the respective territory or fulfil their official duties there. This rule is aimed at increasing the control over Latvia's eastern border, which on 1<sup>st</sup> May 2004 will become the external border of the EU. In 1997 the Law "On Specially Supportable Regions"<sup>38</sup> was passed in Latvia, envisaging the establishment of especially supportable regions, allocation of funds for regional development and creation of the Council of Regional Development and Regional Fund. An especially supportable region is a region with long-term negative economic and social tendencies that entitle the region to apply instruments of regional development. Such regions receive assistance from the Regional Fund in the form of state investments in infrastructure, special credit policy, subsidies, single-payments to enterprises and local authorities, economic training, etc. This Law was invalidated by the coming into force of the "Regional Development Law". Currently regulations on the procedure of granting and withdrawal of the status of an especially supportable territory are in the

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<sup>37</sup> The Council convened for the first time in August 2003. Thus the practical contribution of the Council cannot yet be appraised in the present study. The Council consists of 7 ministers and chairmen of the councils of planning regions or their appointed representatives.

<sup>38</sup> "Law On Specially Supportable Regions", adopted by the Saeima on 22 May 1997, *Latvijas Vestnesis*, 10 June 1997.

process of being elaborated. Allocation of funds to especially supportable territories are intended to come under the charge of respective planning regions that comprise the respective territories rather than the Council of Regional development. In the proximity of the border of Russia and Belarus all local authorities have received the status of especially supportable regions.

The Law "On Budgets of Local Authorities"<sup>39</sup> fixes the procedure of the elaboration and implementation of local authority budgets. Tax on real estate is the only tax administrated by local authorities, all other taxes being administrated by the State Revenue Service (SRS). Not a single tax qualifies as the tax of local authority. Local authorities are entitled to 100% of the revenue from the tax on real estate, 71.6% of the income taxes of local population, 20% of the tax on lotteries and gambling, a portion of the excise tax on oil products and 60% of the natural resources tax. In interviews with heads of local authorities in border regions, opinion was voiced that local authorities would be in a better position to collect taxes themselves, provided that the revenue from the taxes remains in the budget of the respective local authority.

Border crossing and customs procedures in practice already comply with the EU legislation. Customs procedures are still regulated by the 1997 "Customs Law". Several taxes are collected on the border from the imported and exported goods: customs tax, value-added tax, excise tax on oil, tobacco and alcohol and natural resources tax. After Latvia's accession to the EU only customs tax will be collected on the internal borders, while on the Russian and Belarusian border all the above-mentioned taxes will be applicable. After the accession to the EU Latvia will apply the external tariff of the EU import duty to the third countries. In several fields it will be higher than the existing tariff that may raise the purchasing prices of raw materials, which fact in turn may leave a negative impact on Latvia's enterprises. Concerning some agricultural products that are subject to the EU Common Agricultural Policy, the increase of prices may be substantial. While Russia's trade regime towards Latvia will not change, it will no longer have the right to apply a double tariff of taxes to some goods.

On 1<sup>st</sup> May 2003 the new "Immigration Law"<sup>40</sup> came in force in Latvia, replacing the Law "On the Entrance and Stay of Foreigners and Apatrides in the Republic of Latvia". The new Law has been harmonised with the EU legislation. The amendment in the legislation has in turn introduced changes in many regulations concerning visa procedures, travelling documents for tourists, residence permits etc. The earlier agreements with Russia and Belarus, that allowed visa-free travelling, were denounced as being contrary to the EU legislation. Although in March 2003 Latvia's Ministry of Foreign Affairs submitted to Russia draft regulations on simplified visa and border-crossing procedures for residents of border areas, no response has been received from Russia yet. The respective agreement with Belarus is in force as of January 2003. Such agreement gives the residents of the border area a range of privileges concerning visa procedures, the main of them being the provision according to which the requirement to produce an invitation from the host country approved by the Citizenship and Immigration Department will not apply to persons whose names

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<sup>39</sup> "Law On Budgets of Local Authorities" - in force as of 29 March 1995.

<sup>40</sup> "Immigration Law", in force as of 1 May 2003, *Latvijas Vestnesis*, 20 November 2002.

are on the lists approved by the respective local authority, and they will be issued a visa free of charge.<sup>41</sup>

### 3.1.2. Interstate agreements

Cross-border co-operation with Pskov region and economic co-operation, in particular, is influenced considerably by interstate relations, that during the last decade predominantly have been “politically strained and unfriendly”.<sup>42</sup> Negative influence of the Latvian Russian relations on cross-border co-operation was admitted by majority of the experts. 17.5% were of opinion that impact is very negative, 49,1% - that it is rather negative. Most of them (79%) partly or fully agree that after Latvia’s accession to the EU Russia will have greater interest in cross-border co-operation, but respondents were more pessimistic when it came to the issue of whether Russia will be less likely to place economic and political pressure against Latvia (60% of respondents).

Andrey Makarychev has admitted that relations between the federal bodies and Pskov regional bodies in development of international relations can be characterised as consensus and communication.<sup>43</sup> On one hand, despite obvious interest in development of economic relations, Pskov region administration is taking into account Moscow actual policies towards the Baltic States. Perhaps, this is one reason why trans-border co-operation with Latvia develops unevenly. On the other hand, lack of a number of agreements influences possibilities of cross-border co-operation as well as co-operation between administrative bodies of different levels across the border.

Cross-border co-operation with Russia concerns a range of interstate agreements. Regretfully the border agreement has not been signed yet, although its elaboration was finished already on 8 December 1998.<sup>44</sup> The borderline has been delineated on the site but has not been officially approved. Agreement on cross-border co-operation is also missing with Russia. It should be noted that the respective agreement with Belarus is in place.

Agreements on environment and environmental protection are also relevant for cross-border co-operation. Agreement on environmental protection with Russia was drafted as early as 1993 but to this very day the process has not moved further. Draft interstate agreement on co-operation in the field of tourism between the Republic of Latvia and Russian Federation has been approved by the Cabinet of Ministers already in 1997; however the agreement has not been signed yet. Negotiations have started with Russian concerning the need for an agreement of mutual assistance in case of large-scale disasters. Experts of the National Institute of Agrarian Economy of Latvia

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<sup>41</sup> Web-site of the RL Ministry of Foreign Affairs <http://www.mk.gov.lv>, Draft "Regulations Concerning the Agreement between the governments of the Republic of Latvia and Russian Federation on Simplified Visa and Border-Crossing Procedures for Residents of Border Areas" that were submitted at the meeting of the Secretaries of State. 20 March 2003.

<sup>42</sup> Spruds, A. *Political Priorities and Economic Interests in Russian-Latvian Relations*. NUPI Working Paper No. 620, December 2001, p. 1.

<sup>43</sup> Makarychev, A.S. *Islands of Globalization: Regional Russia and the Outside World*. Centre for Security Studies and Conflict Research.: Zurich. Working Paper No. 2, August 2000, p. 30.

<sup>44</sup> *Diena*, 11 March 1999.

in their 2002 study<sup>45</sup> have come to the conclusion that the legal environment in the field of economy between Latvia and Russia presents restrictions to external trade of both states and thus does not stimulate the development of the trade.

Although in 1992 agreement was concluded with Russia on co-operation in trade and economy (the Russian side has still not ratified it, however the article that provides for the mutual application of most-favoured nation's regime is in the status of temporary application as of 2<sup>nd</sup> June 1993)<sup>46</sup>, convention on the prevention of double taxation and tax-evasion has not been signed with Russia yet, same as the agreement on promotion and protection of investments. On 22<sup>nd</sup> April 2002 "Agreement on Co-operation and Mutual Assistance in Customs Affairs" was concluded with Russia. After Latvia's accession to the EU the Agreement with Russia on co-operation in trade and economy will be denounced. Latvia would join the Partnership and Co-operation Agreement between the EU and Russia that was signed in 1994 and ratified in 1997.

As concerns Latvia's legal basis of cross-border co-operation, there clearly are no restrictions for cross-border co-operation in Latvia's legislation; in practically all fields Latvia's legislation has been or is being harmonised with the EU norms, Latvia has joined the European Outline Convention on Trans-frontier Co-operation between Territorial Communities or Authorities and its additional protocol. As concerns inter-governmental agreements, the legal basis of the relations with Russia is clearly insufficient. A range of documents, which would make communication easier, has been drafted and are awaiting signature. However, due to different reasons the following documents have not been signed yet: border agreement, agreement on cross-border co-operation, agreement on simplified border-crossing procedures for the residents of the border areas, agreement on co-operation in the prevention of disasters and other extraordinary happenings, agreement on environmental protection, agreement on tourism and others. By comparison, co-operation with Belarus has been much more successful: agreements both on cross-border co-operation, on assistance in the case of disasters, in the fields of environment, tourism, economic co-operation etc, are in place.

### 3.2. The existing structures for the co-ordination and implementation of cross-border co-operation and their efficiency

Günter Verheugen and Michel Barnier in their introductory remarks to the Practical Guide to Cross-Border Co-operation issued in the year 2000 by Association of European Border Regions wrote: In order to take full advantage of the new opportunities, it will be necessary to boost absorption capacities in candidate countries, including the border regions. Enhancing the capacity of implementing agencies, of local and regional authorities, and of other players of civil society in the border regions, will be a key prerequisite for successful co-operation. In this context, much, of course, depends on the candidate countries themselves in the effort to

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<sup>45</sup> *The influence of the liberalisation of the trade of agricultural goods carried out during the accession process of WTO candidates Russia, the Ukraine, Kazakhstan and Belarus on Latvia's external trade and its balance*, Division of Agricultural Development and Economic relations of the National Institute of Agrarian Economy of Latvia, Manager of the study: Dr. oec. Danute Jasjko, Riga, 2002.

<sup>46</sup> "The EU economic relations with CIS", the web-site of the LR Ministry of Economy <http://www.lem.gov.lv>.

enhance management capacities, and to ensure that decentralised management becomes a reality both in general and in the new cross-border co-operation programmes in particular.<sup>47</sup> Thus the success of cross-border co-operation depends on the capacities of and co-operation among national, regional and local level institutions.

### 3.2.1. Supervisors of cross-border co-operation

In Latvia there are several levels of institutions responsible for cross-border co-operation: governmental (ministries), regional and local authority levels.

Ministries are the institutions that administer regional policy, including cross-border co-operation as one of its components, on national level. A special ministry has been set up in Latvia for the implementation of regional policy: Ministry for Regional Development and Local Authorities (MRDLA). The Ministry ensures the operation of the National Council for Regional Development and the organisation responsible for the European Commission's INTERREG initiative. It is in MRDLA that two new sub-programmes to the Baltic Sea Region INTERREG IIIB programme are currently being elaborated. Two new cross-border steering groups, each in charge of a concrete priority are to be set up. It is these working groups that after Latvia's accession to the EU will supervise INTERREG funds in Latvia. The Ministry of Finance is the chief institution for Structural Funds. To this Ministry is subordinated the Central Finances and Contracts Unit, which acts as an intermediary in the influx of finances from Structural funds. The Ministry of Foreign Affairs also takes an active part in cross-border co-operation by dealing with issues pertaining to cross-border co-operation on inter-state level, developing the overall legal environment and promoting inter-state contacts; in the actual process of cross-border co-operation the Ministry of Foreign Affairs acts as an observer that controls the conformity of concluded agreements to legal framework. In the framework of their spheres of competence the Ministry of Environmental Protection and the Ministry of the Interior are also engaged in cross-border co-operation.

Ministerial officials support the wish of local and regional authorities to co-operate with foreign partners, recognising that initiative must come from local authorities. Latvia's towns, districts, regions and civil parishes have been rather active in this field already since early 1990s. The vast majority of Latvia's local authorities have looked for co-operation partners in the Baltic Sea region, i.e. in Scandinavian countries. Many co-operation partners have also been found in Germany and the neighbouring states of Estonia and Lithuania. Yet Latvia's local authorities cannot boast of numerous contacts with local authorities in Russia and Belarus.

Among subjects of cross-border co-operation there are also planning regions although currently they do not quite fit into NUTS III level. The planning region is under the charge of a Development Council of Planning Regions. Project proposals aimed at state support for regional development submitted by local authorities, legal entities

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<sup>47</sup> *Practical Guide to Cross-Border Co-operation.*

<sup>49</sup> From personal observations we should say that a certain proportion of replies "modest contribution" and "medium-scale contribution" in fact mean "difficult to measure". It shows that the experts whom we questioned were not informed about the contribution of planning regions to cross-border co-operation.

and physical persons are assessed by development agencies set up by development councils.

Agencies elaborate all documents related to regional planning, search for co-operation partners and assist regional authorities in attracting financing. They deal with the elaboration and implementation of regional projects and try to initiate different activities. The first such institution to be set up was the Development Council and Agency of Latgale region that was established in 1998 and in its development strategy (2000) has given a detailed description of priorities and measures of cross-border co-operation (being the only institution to date to have done it). The Agency takes an active part in the work and events of Euroregion "Country of Lakes" and the Council of Co-operation of Border Regions of the Republic of Latvia, Russian Federation and Republic of Estonia. Vidzeme Planning Region has been active lately, demonstrating the wish to develop a co-operation structure with Pskov Region in Russia. The same can be said about Zemgale and Kurzeme Planning Regions. Riga Planning Region has special opportunities to engage in big projects in view of the financial potential of its centre, Riga city. However, as the majority of questioned experts admit, the contribution of planning regions to the development of cross-is bound to increase in the future. (See table 2).<sup>49</sup>

**Table 2**

**The achievements of planning regions in developing cross-border co-operation**

What has been the contribution of regional development agencies to development of cross-border co-operation ?		
	No. of respondents	%
No contribution	10	18
Modest contribution	21	37
Medium-scale contribution	16	28
Great contribution	3	5
Difficult to measure	7	12
TOTAL	57	100

**3.2.2. The existing structures of cross-border co-operation**

Successful and long-term cross-border co-operation needs a common institution which co-ordinates co-operation and administers funds of support programmes. Euroregions are regarded as the most successful structure in the European Union. To date Latvia is engaged in four Euroregions:

- Euroregion "Baltic", which embraces towns and regions of 6 states: Lithuania (Klaipeda district), Latvia (Kurzeme Planning Region and before that Liepaja city and district); Poland (Pomerania region, Warmia – Masurian region, Association of Polish Communes), Sweden (Regional Council of Kalmar district, Regional Council of Blekinge district, Association of Local Authorities of Kroneberg District, Council of

Kroneberg District), Denmark (Bornholm region) and Russia (Association of Local Authorities of Kaliningrad Region).

- Euroregion "Saule", which was established in 1999 as a follow-up of four bilateral (Latvia-Lithuania) PHARE Credo projects. Four states are represented in this Euroregion: Lithuania (Siauliai and Taurage districts encompassing altogether 12 local authorities of different levels), Latvia (Zemgale Planning Region and before February 2003 Jelgava town and Jelgava district), Russian Federation (Nemana and Slavsk district of Kaliningrad region and Sovetsk city) and Sweden (Skone district).

- Euroregion "Bartuva"/"Bartava" which covers a small territory: the local authorities in Latvia and Lithuania which are located at the Barta/Bartuva river. On the Latvian side these are 7 civil parishes in Liepaja district that have come together under the name *Open Public Centre of environmental Administration „Bartava”*<sup>50</sup>; On the Lithuanian side the region includes 3 local authorities.

- Euroregion "Country of Lakes", which encompasses: on the Latvian side Daugavpils, Rezekne, Preili and Kraslava districts and Daugavpils and Rezekne cities, on the Belarussian side Braslava, Glubokoje, Miori, Postava and Verhnedvinsk districts and on the Lithuanian side Ignalina, Svencionys, Utena and Zarasai districts and Visaginas city.

Latvia's local authorities are involved in the Co-operation Council of Border Regions of the Republic of Latvia, Russian Federation and the Republic of Estonia that considers becoming a Euroregion. The territory of activities of the Co-operation Council of Border Regions is in the focus of the present study and therefore needs to be examined closer. On the Latvian side the Council embraces 3 districts located near the Russian border: Aluksne, Balvi and Ludza and one district near the Estonian border: Valka district. On the Russian side the Council consists of Pskov, Pitalovo, Palkino, Pechori and Sebez regions and on the Estonian side: Võru, Põlva and Valga districts.

The decision to launch cross-border co-operation and to develop a structure according to the Euroregion model was voiced by representatives of Aluksne, Võru, Põlva and Pskov delegations in the CBSS conference held in Karlskrona (Sweden) in March 1996. In June the Co-operation Council was set up and its statutes were adopted. In December a Declaration was signed that set the long-term objectives of the Council: to promote economic, social and cultural progress. Within 2 years the membership of the Council has increased to 12. The Regulations of the Council that were passed in 1996 fixed the tasks of the Council:

- elaboration of co-operation priorities;
- organisation of co-operation among frontier regions in the elaboration and implementation of joint projects and programmes;
- representation of the Council's proposals and the interests of its members in the state institutions of the Republic of Latvia, Russian Federation and the Republic of Estonia and in international institutions;
- efficient utilisation of the opportunities opened by the geographic location of the Council's members.

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<sup>50</sup> Web-site of the Open Public Centre of Environmental Administration „Bartava” - <http://bartava.a4.lv>.



As was mentioned before, the Council's structure was developed following the model of Euroregion, according to which the Council serves as a decision-making body, the Secretariat - as an executive body with each partner being represented by 2 administrative personnel and 3 executive directors acting as co-ordinators in each state, and working groups are established for the fields of finances, transportation and transit, information, culture, and tourism, local authorities, regional planning, support of entrepreneurship and environmental protection. In the year 2000 the structure was changed in order to improve the Council's quality and efficiency. According to the new structure the Council consists of 12 political leaders who meet 1-2 times per year to make strategic decisions, and a board of 3 politicians and 3 executive directors that meet almost monthly to discuss issues on the agenda. The institution of the Secretariat was abolished. However, a year later the Secretariat was re-established. In the year of 2001 public organisation *Across Borders* was set up on the Latvian side. The status of a public organisation entitles it to receive additional financing as well as to submit project proposals for NGO support programmes. *Across Borders* represents Latvia's districts in the Co-operation Council, ensures the execution of the Council's decisions and represents the Council in relations with state and international institutions.

Already in the autumn of 1996 the drafting of projects began and working groups were set up for the elaboration of region's maps, information booklets and a joint data base, for the study of historical and cultural heritage and for the attraction of funds necessary for the organisation of the Council's work. In 1997 a project proposal pertaining to the elaboration of development strategy of the co-operation region *VISION 2010* was for the first time submitted to the EU PHARE CREDO programme. It was endorsed and allocated financing only after it had been submitted for the second time in the summer of 1998 together with 5 other projects (see table 2)

Great hopes were laid on the elaborated strategy for sustainable development and preservation of diversity *VISION 2010*, according to which an institution/ structure was to be set up that would support extensive partnership among regional and local authorities, NGOs, state institutions, entrepreneurs etc, in order to facilitate exchange of information and co-ordinate the elaboration of regional strategic plan among Latvia, Estonia, Russia and the EU members, or in other words, develop Euroregion Pskov-Livonia. Treaty and statutes of the Euroregion were drafted. However, due to objections from the part of the administration of Pskov region, the Council was not named and registered as an Euroregion and thus is not a member of AEBRD. Consequently the strategy does not work in practice.

This perhaps, was one of the reasons why in the wake of the initial activity and enthusiasm the momentum has weakened in the work of the Co-operation Council. Since the year of 2000 co-operation for the most part has been limited to seminars, meeting and conferences with no real projects being practically implemented. It has found an expression also in experts' assessment (see table 3)

### **Table 3**

#### **Assessment of cross-border co-operation**

How would you in general assess the existing cross-border co-operation between Aluksne, Balvi and Ludza districts and Pskov region in the Russian Federation?
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	No. of responses	%
Completely successful	2	4
Rather successful	13	23
Both successful and unsuccessful	20	35
Rather unsuccessful	12	21
Completely unsuccessful	2	4
Difficult to estimate	8	14
TOTAL	57	100

The co-operation was hampered also by the existing difficulties in the co-ordination of EU PHARE and TACIS programmes. Intensification of co-operation may be expected after Latvia and Estonia gains access to INTERREG funds, i.e. as of the year 2004. While none of the questioned experts denies that from the part of Pskov interest in co-operation steadily increases, many experts, both from the border regions and from Riga, insist that blame for the slackening of activity of the Co-operation Council lies on the Russian side, arguing that it is difficult to co-operate with them because Pskov region districts have problems with financing and co-financing and with covering the expenses of a visa to Latvia in order to come here and take part in working groups; that although the Russian districts have formal decision-making rights, they are frequently afraid to apply them and wait for a positive reaction from the territorial administration.<sup>51</sup>

Pskov region is also reproached of inconsistency: within the recent months desire has been voiced from the part of Pskov to develop a Euroregion on the basis of the Co-operation Council or with Vidzeme Planning Region or on the basis of the Co-operation Council engaging also more remote and economically better developed cities of Rezekne and Valmiera or with the Latvian and Estonian sides separately. It has caused confusion and concern about the future of the Co-operation Council. Director of Latgale Region Development Agency Inga Goldberga believes that the administration of Pskov region wants to play the leading role in the emerging Euroregion<sup>52</sup>, ignoring the existing successful co-operation among frontier regions.

Lately hopes for the activation of co-operation are being laid on the establishment of an Euroregion. Although the Latvian and Estonian sides of the Co-operation Council consider that the Euroregion has in fact existed for 7 years already and the only thing that is left to be done is the elaboration of its structure and documentation, in June this year the administration of Pskov region drafted its own project of an Euroregion and submitted it to the Ministry of Foreign Affairs of the Russian Federation. In compliance with this project the Euroregion would embrace both border regions and larger administrative centres: Pskov (Russia), Aluksne, Balvi, Valmiera, Rezekne

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<sup>51</sup> It was admitted also by some respondents interviewed by us that district officials from the Russian side are becoming more active and interested in development of cross-border co-operation. Increase of interest on part of local authorities of Pskov region districts as well as of their counterparts on Latvian side was admitted also by Deputy director of the East-West Institute Alexei Ignatyev on 31 May 2003. – <http://informpskov.ru>.

<sup>52</sup> Interview no. 54, with Inga Goldberga, Director of Latgale Development Agency, 7 August 2003.

(Latvia), Põlva and Mustvea (Estonia) and probably others in the future. According to Vice Governor of Pskov region Dmitry Shakhov, the Euroregion will deal not only with the acquisition of funds from the EU (which was the initial intention), but also with social, economic and politico-administrative issues<sup>53</sup>. The questioned Latvian experts also believe that in the future Euroregion could be the most successful form of co-operation: Euroregion as one of the options was mentioned by 36 out of 57 respondents. Furthermore, as table 3 demonstrated, 64% of these 36 experts regard it as the best solution. It was the largest support that any of the options received.

**Table 4**

**Euroregion as a successful structure of future cross-border co-operation**

Which of the forms of cross-border co-operation could be most successful - Euroregion?		
	No. of responses	%
The first of the mentioned forms	23	64
The second of the mentioned forms	9	25
The third of the mentioned forms	4	11
TOTAL	36	100

As table 4 shows, the work of the Co-operation Council is assessed as both successful and unsuccessful, with the negative estimation referring to the last 2-3 years. It must be noted, however, that so far the Co-operation Council has been more successful than Euroregions “Saule”, “Baltic” and “Bartuva”, both in terms of the implemented projects and other activities. Obviously the responses have been affected by the respondents’ insufficient knowledge of the work of these Euroregions. Approximately 80% of respondents (both from Riga and border regions) find it difficult to compare the work of these Euroregions with that of the Co-operation Council, admitting being insufficiently informed about these Euroregions. The respondents were better informed about the Euroregion “Country of Lakes”, which fact found expression in their responses (see table 5).

**Table 5**

**Comparison of Euroregion “Country of Lakes”**

How the Euroregion “Country of Lakes” is developing?		
	No. of responses	%
More successfully than the Co-operation Council	26	46

<sup>53</sup> Euroregion will comprise not only border regions, but also cities of Latvia, Estonia and Pskov region. See: <http://informpskov.ru/news/8524.html>

Less successfully than the Co-operation Council	4	7
Difficult to measure	27	47
TOTAL	57	100

Experts believe that the work of the Euroregion “Country of Lakes” currently is more successful. It must be noted that this opinion is confirmed also by the many projects that have been implemented in the brief period of the existence of this Euroregion. Different reasons can be found to explain why co-operation is more successful with Belarus than with Russia. Firstly, already in 1998 an agreement on the basic principles of cross-border co-operation was concluded between Latvia and Belarus, followed by a range of other agreements, the counterparts of which have not been signed with Russia; interstate relations are also better with Belarus than with Russia. Secondly, the Euroregion “Country of Lakes” from the Latvian side includes stronger local authorities as well as two of Latvia’s largest cities, Rezekne and Daugavpils. But the most important factor seems to be the existence of full of initiative, creative and active personalities that shape co-operation processes. According to 2<sup>nd</sup> Secretary of Russia and CIS Department at the Ministry of Foreign Affairs of Latvia Katarina Platere Euroregion “Country of Lakes” operates successfully because “both on the Latvian and Lithuanian sides there are two enterprising and competent personalities who have good personal contacts and who push the co-operation on”<sup>54</sup>. On the Latvian side it is Ilze Stabulniece, Head of the Latvian Directorate of Euroregion “Country of Lakes”. Thus, in spite of the fact that the Euroregion “Country of Lakes” emerged later, that situation here is similar to that on Latvia-Russia frontier and problems here are about the same, so far there is a reason to regard cross-border co-operation here as more successful.

However, as concerns the Co-operation Council, no doubt a successful co-operation platform has been created, good personal contacts and experience in the implementation of joint projects are in place and there are ideas for future projects. Currently the Council stands on the threshold of reforms: it can become an Euroregion or a part of a larger Euroregion, its structure, personnel and goals may change. However the already accumulated experience of co-operation is a good foundation for further development of cross-border co-operation notwithstanding the particular form it would take.

### 3.3. Administrative territorial reforms and their effect on the socio-economic development of border regions and on cross-border co-operation

In April 1991, the Law on Civil Parish Local Government reinstated the word *pagasts* (civil parish) as the name for the lowest level of local government in the country. The boundaries of civil parishes as they had existed until 1940, however, were not restored. Instead the government applied the word to village councils that had been set up in 1945 and covered smaller territorial units than the former civil parishes. Neither did the government reinstate the second level of local government - the districts that had previously been known as *aprinki* and were renamed *rajoni* in Soviet times. The

<sup>54</sup> Interview no. 1, with Director of Russia and CIS Department at the LR Ministry of Foreign Affairs Kaspars Ozolins and 2nd Secretary of the Department Katarina Platere, 15 April 2003.

*rajoni* (also known now as districts) also are smaller in territorial terms than were the former *aprinki* .

Since the full restoration of Latvia's independence in August 1991, the functions and responsibilities of local governments have changed and become more extensive, but the administrative structure of the country has not changed - 26 districts plus seven republic-level cities (the second level), as well as more than 550 local governments (the first level). That is why work has been proceeding since 1992 on the drafting of a new structure. Among other things, it speaks to the merger of local government units.

In 1998, the government approved a Law on Administrative Territorial Reform, and it took force on October 30 of that year. The law provided for two levels of local government - 1) local ones in sub-districts to be known as *novadi*, as well as in towns and civil parishes, as well as 2) regional ones in districts to be known again as *aprinki*. The establishment of the *aprinki* was supposed to be based on a special law, while the 1998 law regulated only the reforms that affected the first level of local government.

The law provided for reforms that were to be implemented by November 30, 2004, in two phases. The first phase involved local government initiative until December 31, 2003, and then plans drafted by the Ministry for Environmental Protection and Regional Development after January 1, 2004. The reforms provided for the merger or co-operation of civil parishes and towns (without providing a more precise definition of what the concept of "co-operation" meant in this case). It set out the following criteria in evaluating the need for reforms: 1) sustainable development of the local government's territory; 2) the structure of financial income; 3) the infrastructure for conducting the functions of a local government; 4) population numbers; 5) the economic, geographic and historical unity of the local governments; 6) the accessibility of local government services; 7) other factors, as determined by the local district council.

The law also included regulations on the councils of the newly formed *novadi* (sub-districts), specifying that the decision making institution for the district would be the council. After the merger and until the next local government election, the district council would include all of the deputies that had been elected previously in the relevant administrative territory, while the authority of the old parish or town councils would expire after the merger. In a merged territory, the chairman of the new council would be elected from amongst the existing deputies.

The law said that the Cabinet of Ministers must prepare proposals on the division of the country's territory into *aprinki* and on the functions of regional and local governments, submitting these for the consideration of local governments by December 31, 2000. The country would be divided up into *aprinki* so as to ensure 1) the handling of regional local government functions; 2) the handling of the regional functions of the national government; 3) regional planning and development; 4) co-operation and co-ordination amongst regional local governments and the institutions of national government. In dividing up functions between national institutions, *aprinki* local governments and lower level local governments, the principle of subsidiary was to be observed - the higher level institution handles only those functions which cannot be handled by the lower level institution.

The term *pasvaldiba* (local government), when applied to the *aprinki* , suggests that initially the plan was to have elected institutions at their head. The law on the

establishment and functions of the *aprinki*, however, was quite vague. Although Andris Skele government in 1999 most attention devoted to the second level, pressing partition of the country into 9 administrative regions, this idea was abandoned due to resistance of local municipalities. It was envisaged that newly established planning regions will undertake part of the functions of the second level units. Later, the first level of local government was once again put on the front burner. The question of the second tier of local governments remains unresolved. In July 2003, Prime Minister Einars Repse suggested that the government might not set up second level local governments after all. Minister for Regional Development and Local Government Ivars Gaters, for his part, said that “on the basis of models that exist elsewhere in the world, the second level local governments could be established on the basis of the existing districts, appointing national governors for the territorial units or establishing regional assemblies to deal with co-operation among the various local governments.”<sup>55</sup>

There have been several proposals, which would have divided up the country into 33, 40, 77, 102 and 109 first level local government territories respectively. In July 2003, the Ministry for Regional Development and Local Government Affairs found that 154 local governments supported the model of 102 *novadi*, 237 supported other models, while 137 called for a preservation of existing boundaries.<sup>56</sup> According to an advisor to the Union of Local and Regional Governments of Latvia, Maris Pukis, studies had suggested that there is a need for between 160 and 170 local government territories.<sup>57</sup> Discussions since 1998 show that local governments and population are against too radical merging of civil parishes. Thus up to 2003 model of 102 local governments was considered the most reasonable. It must be noted that this model opened up greater opportunities for small towns which could hope to become the centres of the *novadi* (Ape, Vilaka, Zilupe and others are examples). However, there were objections from the Association of Larger Cities, arguing that the model of 102 local governments would dilute the influence of the country’s major urban areas.

In 2003, the government determined that by July 1, local governments had to take a final decision on the desired reform model and that they must submit proposals on ways in which the establishment of their local *novadi* could be supported. At the same time the government quite abruptly rejected the model of 102 local governments. Instead the government proposed four new models - 109, 82, 40 and 33 *novadi*. The governing party, New Era, in July 2003. The party announced that the desired model would be the one with 33 *novadi* (the 26 existing *districts* plus the country’s seven major cities). That would have meant that the *novadi* would have been set up on the basis of the existing district boundaries and the existing cities. Many local governments complained about this plan, most often arguing that if the *novadi* are established around a major development centre, then other potential development centres would suffer deterioration.

As a compromise, New Era then came up with the idea of 40 *novadi* (26 districts, seven major cities, other cities with more than 25,000 residents, as well as the existing development centres). This proposal did not satisfy local governments either. The idea of 33 *novadi* was criticised particularly harshly, with officials from lower-level and

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<sup>55</sup> Lulle, B. “Novadu robežas nospraudis lidz novembrim” (*Novadi* borders to be determined by November), *Neatkarīga Rita Avīze*, 7 August 2003.

<sup>56</sup> Lulle, B. “33 novadu veidosana - politiski nepamatota” (Establishing 33 *novadi* - unjustified in political terms), *Neatkarīga Rita Avīze*, 11 July 2003.

<sup>57</sup> *Ibid.*

medium-to-large local governments perceiving it as irrational and undemocratic. The Latvian Association of Civil Parishes threatened a demonstration of civil parish deputies on September 5. The board of the Alliance of Latvian Towns (which represents 70 cities and towns) voted in support of the 102-*novadi* model on August 15, adding that “there may be adjustments to the model in accordance with local government decisions.”<sup>58</sup> The board of the Union of Local and Regional Governments, meanwhile, announced on August 5 that it did not support any of the five models that had been proposed by the Ministry for Regional Development and Local Government Affairs, arguing that the proposals did not take into account the suggestions which local governments had submitted to the ministry.<sup>59</sup>

The government yielded. At the beginning of 2004, Ivars Gaters affirmed that he would not make use of his legal right to force local governments to merge. By the end of January, the minister promised, he would submit a new draft law on the establishment of the *novadi* to the government.<sup>60</sup>

The idea of merging civil parishes so far didn't give too much of a practical result at all. Since 1998, a total of 15 *novadi* have been established, two of them in the regions that are being considered in this report (both of them in the Ludza District). From the beginning the government has emphasised that in larger administrative units, the quality and extent of services will increase, as will economic activity. Political parties will be able to activate their work in the country's various regions to a greater degree. More recently, it has also been stressed that larger units will find it easier to receive EU structural funding.

When we review administrative territorial reform, we must remember that the stated goal is to “ensure equal development of all of Latvia's regions and to guarantee that each resident of Latvia can receive all local government services that are set out by law, no matter in which part of Latvia the individual lives.”<sup>61</sup> It cannot be denied that administrative territorial reforms are necessary, because the existing structure includes many tiny local governments with inadequate financing to provide for such services as schools, medical institutions and social aid institutions. It is also clear that small local governments will not be able to make use of the European Union's structural funds, because they will have problems in finding the necessary co-financing. Economic problems are particularly rife in the eastern border region of Latvia, where there is a dearth of economic activity with resulting depopulation.

People who live in these various territories, however, are worried about the possibility that administrative centres will be further away from peripheral regions, with services thus less accessible to them. They fear that former civil parish centres will sink into obscurity, removing the development stimuli which in many cases are already not particularly significant. People are also worried about inadequate infrastructure development. Town residents are unhappy about the elimination of their local governments when the *novadi* are established. This means a disappearance of

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<sup>58</sup> Egle, I. “Pilsetu savieniba atbalsta 102 novadu modeli” (Association of Cities supports the model of 102 *novadi*), *Diena*, 16 August 2003.

<sup>59</sup> Egle, I. “Pasvaldibas pretojas JL iecerem” (Local governments oppose New Era intentions), *Diena*, 6 August 2003.

<sup>60</sup> Egle, I. “Ministrs sola neizmanto likuma paredzeto pasvaldibu piespiedu apvienosanu” (Minister promises not to use legal right to force local governments to merge), *Diena*, 5 January 2004.

<sup>61</sup> Gaters, I, Minister for Regional Development and Local governments. “Novadu veidosanas butiba - visu Latvijas reģionu attīstība” (The essence for establishing the *novadi* - the development of all of Latvia's regions), *Diena*, 8 September 2003.

economic and political sovereignty of towns. Civil parish residents, on their part, are concerned that cities and towns will “eat up” all of the *novadi* resources and dominate the entire process. People have no clear sense of the way in which the *novadi* will take over the functions of the *rajoni* districts if second level local government structures are to be eliminated altogether. Perhaps the greatest fears focus on the possibility that former civil parish centres will become degraded in terms of their existence as centres for culture and public life. The government has claimed that civil parish centres will be preserved as service provision centres with executive directors, but this has produced more questions than answers.

Over the course of five years, discussions about administrative territorial reforms have demonstrated that local residents are afraid of the establishment of larger *novadi*, also because they think that this will dilute their ability to influence the process of decision making. There are fears that development of larger administrative units could diminish local democracy and would not provide every individual, group of individuals or non-governmental organisation the greatest opportunities to influence the way in which decisions are prepared and taken by local authorities.

On the eastern frontier of Latvia, the problem of civic participation is particularly acute. Border civil parishes are often quite distant from district centres, and there are problems with the population’s age structure, too - in many places elderly people who have not had any chance to develop civic participation skills are dominant. In smaller parishes they have greater opportunities to oversee the activities of their local government, because they are personally acquainted in many cases with candidates for office and with local deputies. In larger *novadi*, these opportunities will significantly recede. Power will become more impersonal, and it will move further away from many local residents, both in physical and in psychological terms.

However, assessment of the problem by experts show that there is a considerable disparity of views (see table 6). Most part of experts were of opinion that establishment of bigger administrative units could help to make cross-border co-operation more effective, but there is disagreement over economic and social consequences of the reform.

**Table 6**

**Opinions of experts on impact of territorial reform on cross-border co-operation**

	Do you agree that bigger territorial units would have greater possibilities to develop cross-border co-operation with bordering districts of the RF?	Do you agree that Russians would have a greater interest in co-operation with bigger territorial units?	Do you agree that in the result of the territorial reform resources would concentrate at the centre of the new administrative unit?
Does not agree	15	14	20
Agrees	38	35	25
Difficult to say	4	8	12



Regional and territorial reform plans have not had much of an effect on cross-border co-operation so far, but it must be kept in mind that this will not always be true. Territorial and regional reform plans that have been considered in Latvia (local governments at one or two levels, the size and authority of first-level local governments, etc.) may well have a positive and/or a negative effect on cross-border co-operation. The most important thing right now is that there is no clear sense of the subjects of future cross-border co-operation in Latvia. In the course of regional and territorial reform, consideration must be given to the ability of newly established administrative structures to work effectively in the area of cross-border co-operation projects.

#### 3.4. Role of non-governmental organisations in cross-border co-operation

Cross-border co-operation can be truly efficient if it involves not only local authorities and official institutions, but also the population of the border area. NGOs are one such form of involvement. As pointed out in a survey made by the NGO Centre of Latvia in 2002, the NGO sector is situated between the governmental and the profit-gaining, or the private sector. NGOs provide various services outside the interests of the business sector, which are not profitable for business structures, and they often are not included in the standard services guaranteed by the state. Besides, the services rendered by the sector can be more effective and cheaper, as NGOs apply resources that are usually unavailable both for the state and the private sector – voluntary work, donations, and subsidies from foundations.<sup>62</sup> The NGO sector can contribute significantly to the development of cross-border economic co-operation, firstly, by stimulating contacts between the populations of the border districts and creating a co-operation-oriented environment; secondly, by helping to attract financing to co-operation projects; thirdly, by providing their members or customers with training, information, consultations, financing or other type of support; and fourthly, by providing a link between the sector and the institutions of state administration.

The majority of NGOs are based in Riga and Riga district (according to the 2002 study of the NGO Centre, approximately 60%), the rest of NGOs also being concentrated in the largest cities. The number of NGOs is the smallest in the eastern part of Latvia (except for Daugavpils city and district), however, even there the situation differs from place to place. Aluksne, Balvi and Ludza districts stand out among the other locations in terms of the number of NGOs. According to the Company Register, between 1<sup>st</sup> January 1991 and 16<sup>th</sup> October 2003 in Aluksne district there were registered 63 public organisations and one association of public organisations. In Balvi district the numbers are respectively 38 and 1 and in Ludza district there are 14 public organisations and no associations,<sup>63</sup> this being the lowest figure in Latvia. As of January 1998 in Aluksne there is an NGO Centre, in which in the year of 2003 there were registered 69 public organisations and 17 informal groups.<sup>64</sup> It should be noted that in 1998 in the Centre there were registered only 20

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<sup>62</sup> *NGO sector in Latvia. 2000/2001.* - [http://www.ngo.org.lv/files/6074\\_ngo\\_sector\\_2000-2001.doc](http://www.ngo.org.lv/files/6074_ngo_sector_2000-2001.doc).

<sup>63</sup> According to Lursoft data – <http://www.lursoft.lv>. According to the above-mentioned 2002 study of the NGO Centre in Aluksne district there were 71 public organisations, in Balvi district 32 and in Ludza district 19.

<sup>64</sup> See the web-site of Aluksne NGO Centre - <http://www.nvoc.times.lv/> and that of Aluksne District and Town Councils - <http://www.aluksne.lv>.

NGOs and informal groups.<sup>65</sup> The goal of the Centre is to provide consultations and assistance to NGOs in North-Vidzeme region, therefore the Centre embraces NGOs not only from Aluksne district, but also from Balvi, Gulbene, Valka and Riga districts. A typical Latvian NGO is a new (exists less than 4 years), small (under 50 members), small budget (annual budget not exceeding LVL 1000) organisation, whose activity relates to dealing with educational and social issues, or it acts as a youth support organisation.<sup>66</sup> This description fully applies to the NGOs based in the districts and civil parishes near Latvia-Russia border. They are primarily targeted at dealing with the social or cultural needs of the respective location and/or their members. For example the public organisations and groups that are registered in Aluksne NGO Centre for the most part work in the fields of culture (17%), social issues (13%), education (12%), family and children (10%), rural development (9%), youth (7%) and sports (7%).<sup>67</sup>

In terms of their membership these NGOs are small, because the population in border districts, in rural areas in particular, is likewise small, and socially active people are even fewer there. In civil parishes these are mostly employees of the local authorities and teachers. Since the number of those willing and able to work in public organisations is small, NGO activists often are loaded with duties.

The number of public organisations is directly related to the welfare level in the particular location. Due to the small membership and the overall economic situation NGOs as a rule cannot subsist from membership fees or donations. In many instances they are directly or indirectly supported (free of charge provided with premises, transportation, etc.) by local authorities. According to an opinion poll carried out in 2001 by Santa Stopniece among 40 organisations registered in Aluksne NGO Centre, more than a half 53% of NGOs receive support from local state institutions, mostly local authorities. Equal number of organisations (35%) obtain funds for their activities and projects from foreign organisations/foundations and local entrepreneurs. 15% of respondent-organisations admitted having received no material support yet. A half of the questioned organisations had supporters in one sector only: either in local authorities (in most cases) or in the private sector. 23% of organisations had financial sources in two sectors and only 13% of organisations used all three options, foreign assistance included.<sup>68</sup> The existence of Aluksne NGO Centre is possible thanks to the main sponsors: Aluksne District Council, Baltic-American Partnership Programme and the Agency of International Youth Programmes. The majority (68%) of the organisations questioned by S. Stopniece consider that the opportunities offered by NGOs are not being fully exhausted, which means that people are passive in the protection of their rights, fostering of their interests and expressing their views through NGOs. About one third (30%) of the questioned NGO representatives held the contrary view: that the public utilises the NGO opportunities sufficiently. More than a half of NGOs (55%) believe that participation in NGO activities is hampered by lack of time, almost as many respondents (53%) believe that the obstacle is lack of information. Almost a half (45%) underlined lack of positive experience of participation. As many respondents among obstacles mentioned low self-appraisal and low assessment of one's competence. Only less than one fifth (18%) of respondents as

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<sup>65</sup> Aluksne NGO Support Centre - [ngo.deac.lv/files/NVO\\_prez.ppt](http://ngo.deac.lv/files/NVO_prez.ppt).

<sup>66</sup> *NGO sector in Latvia. 2000/ 2001.*

<sup>67</sup> <http://www.aluksne.lv>.

<sup>68</sup> Stopniece, S. *Development of the Third Sector: Aluksne NGO Centre.* Vidzeme University College, Communications and PR Department. Annual project. Valmiera 2001. - <http://www.nvoc.times.lv/>

an obstacle for involvement in NGO activities mentioned low-income.<sup>69</sup> Thus the opinion poll points at cumulative effect: in the locations where there are NGOs, they have successful experience and an increasing proportion of the local population wishes to take part in their activities. On the other hand, in places where the population does not much feel the presence of NGOs, they lack any stimulus to set up any.

The underdevelopment of the NGO sector in Ludza district is even more striking in the local authorities in the border area. A chairman of the council of a mostly ethnic Russian-inhabited civil parish in Ludza district, admitted the respective territory having not one public organisation. Can the ethnic composition of the population, i.e. the increased degree of alienation of non-Latvians from the processes in the state and decreased faith in their capacity to influence processes be regarded as a reason for the underdevelopment of NGO sector in Ludza district? Not denying the existence of such feeling of alienation, the authors must remark that, for example, in Pēdēze civil parish in Alūksne district where the majority of the population is ethnic Russians, public organisations with the support of the local authority are rather active. It is obviously due to the existence of the NGO Centre and the higher overall activity of NGOs in Alūksne district; it shows that public activity as such has positive effect.

Since the capacities of local authorities are very restricted, the existence and activities of NGOs, that go outside the limits of the direct vicinity or require investments in infrastructure, depend on the availability of funds. Many NGOs have received support from different Western NGOs or private persons. Of essential importance have been PHARE programmes and the support of other foreign organisations, especially various training courses and consultations in project-development, foreign languages and computer. On the whole one of the gravest problems in the border districts in 1990s was the lack of skills necessary to obtain and administer the EU and other funds. In many locations it is still a problem, although according to Executive Director of the Latvian side of Euroregion "Country of Lakes", Ilze Stabulniece, the project-writing skills have lately developed considerably and now one can even talk about the existence of a kind of competition among NGOs.<sup>70</sup>

The analysis of the local press and other materials as well as interviews with experts testify that the activity of NGOs in the cross-border co-operation of Alūksne, Balvi and Ludza district with Pskov region is rather low. More active have been NGOs of the Alūksne district. In 1999-2000 with the participation of Alūksne NGO Centre there was implemented project "Activation of Youth in Border Area" which was elaborated by the US Peace Corps and financed by PHARE. Within the framework of the project in Alūksne and Pskov region there were held several seminars on youth health problems and democracy. The tour of a dance group from Pēdēze civil parish to Palkino district in Pskov region (with the support from the Co-operation Council) also deserves to be mentioned, as well a PHARE CREDO project "Dance in Two Nations" carried out also in 1999-2000 and some other activities.

The passivity of NGOs in cross-border co-operation with Pskov region is also reflected in the results of an opinion poll of experts (see table 7), furthermore it should be emphasised that although 15 respondents assessed the contribution of NGOs as mediocre, as many respondents found it difficult to assess the performance of NGOs.

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<sup>69</sup> Stopniece, S. *Op. Cit.*

<sup>70</sup> Interview no. 55, with Ilze Stabulniece, Daugavpils, 7 August 2003.

**Table 7**

**Assessment of the contribution of NGO to cross-border co-operation**

	Head of local authority	Official of a governmental structure	Member of parliament	Researcher	Entrepreneur	Representative of a NGO	TOTAL
No contribution	2	-	-	1	1	-	4
Modest contribution	12	-	1	1	-	3	17
Mediocre contribution	7	2	3	-	-	3	15
Large contribution	3	-	1	-	1	1	6
Difficult to assess	6	5	1	-	1	2	15

The low degree of involvement of NGOs in cross-border co-operation with Pskov region first of all points to the fact that this aspect of cross-border co-operation is underdeveloped in general. Secondly, in the districts covered by the present study there are too few NGOs and the existing ones are financially too weak to be able independently to implement cross-border co-operation projects.

However, NGOs present a substantial potential for the development of cross-border co-operation, because many activists of public organisations have accumulated considerable experience in the elaboration and administration of projects. The generally good co-operation between NGOs and local authorities is also a positive aspect. Public organisations and informal groups also are the only channel, through which not only local authorities but also broad masses of population of the border area can become involved in cross-border co-operation. Contrary to the assumption that informal contacts with residents on the other side of the border can present a threat to national security, particularly in view of the large proportion of non-Latvians in many border territories, it must be emphasised that the involvement of the local residents in cross-border co-operation to a large extent can help to lessen the feeling of alienation from the state power among the population of the border area by showing that their participation is important for the national and local interests.

#### 4. Presentation of Co-operation and Border Issues in Local Press

One of the tasks of the present study was to analyse local press in order to find out how cross-border co-operation is presented in the local newspapers of the respective districts: *Malienas Zinas* (Aluksne district), *Vaduguns* (Balvi district) and *Ludzas Zeme* (Ludza district).<sup>71</sup> The materials that were studied cover the period between 1998 and the first half of 2003. These newspapers slightly differ from each other in terms of their periodicity (issued two or three times a week) and their size. The physical size of articles depends also on the editors' policy, i.e. the arrangement of materials in the newspaper. On the whole, however, the total "useful" paper-space (the space excluding advertisements) per year is approximately the same for all three newspapers, thus the amount of materials is comparable.

The authors of the present study registered all publications that focused on or mentioned cross-border co-operation (the work of Co-operation Council, different cross-border co-operation projects, cultural, sports and other types of events that have taken place in the framework of cross-border co-operation with or without the support of the Co-operation Council, cross-border economic co-operation, tourism as one field of cross-border co-operation) as well as materials dealing with different issues related to the border and the impact of the border on the residents of the border area (the accommodation and operation of border-crossing points, the work of customs, the regulations pertaining to border-crossing and border-zone, detention of border-intruders and smugglers, the impact of the border on economic co-operation, the impact of Latvia's accession to the European Union on the border). The total number of registered publications does not comply with the sum of publications registered per separate topics, because there were many publications that dealt with several topics that presented interest to us. The authors registered not only those materials that dealt with actual facts, but also those that discussed attitude towards cross-border co-operation, assessment of prospects and the desirable situation. However, the present analysis covers only those publications that refer directly to Latvia-Russia border, and on the topic of smuggling only those materials were considered that concern detention of smugglers on or in the direct proximity of this particular border; articles that analysed aspects, such as smuggling in general, were included in the data basis only if they mentioned smuggling in the context of Latvia-Russia border.

The present study divided materials in the following categories: article, group of articles, piece of information (report), interview and document. An article differs from report in terms of their size: article as a rule is longer and frequently is illustrated with photographs. However, often it is quite complicated to differ an article from a report, especially because in district papers in general there are relatively few analytical materials and articles often tend to be merely extended and illustrated reports. The form of presentation of materials to a certain extent is influenced also by the editors' concept for that respective newspaper. It inevitably brings a certain degree of subjectivism in the classification of materials; however it does not much influence the

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<sup>71</sup> Although these are not the only local and regional papers, they are among the most popular and representative media in the respective districts. *Malienas Zinas* and *Vaduguns* are published in Latvian, *Ludzas Zeme* – in Latvian and Russian.

results of the present study because the proportion of "dubious" cases in the total number of publications is small. Distinction between reports and articles allows assessing the importance that the respective editors have attributed to that or other event or topic. Allocation of a larger space in the paper and the illustration of the presentation with pictures shows that the respective event or phenomenon is attributed more importance than if it were covered by a few lines of information and thus gives certain insight into the "weight" of concrete topics in the eyes of reporters of that or other paper. By "a group of articles" the authors have meant thematically linked publications, for instance the description of life in one concrete civil parish, because on many occasions articles, while being presented as separate units, in terms of their content are closely related to each other and thus are difficult to be singled out as separate articles.

Between the years of 1998 and 2003 cross-border co-operation was altogether mentioned in 899 registered publications. Furthermore, the total number of materials in all three papers is approximately equal (see table 8 and fig. 1), although in *Ludzas Zeme* the number is slightly higher because this respective paper publishes much more information on the border, the work of customs, smuggling, car queues etc., for obvious reasons as in this district there are located two larger border-crossing points, Terehovo and Grebnevo. The largest number of materials was published in the year of 2000 and altogether 70% of publications refer to the years 1999-2001 for the reason that in this period several PHARE Credo and PHARE CBC projects related to cross-border co-operation were implemented.

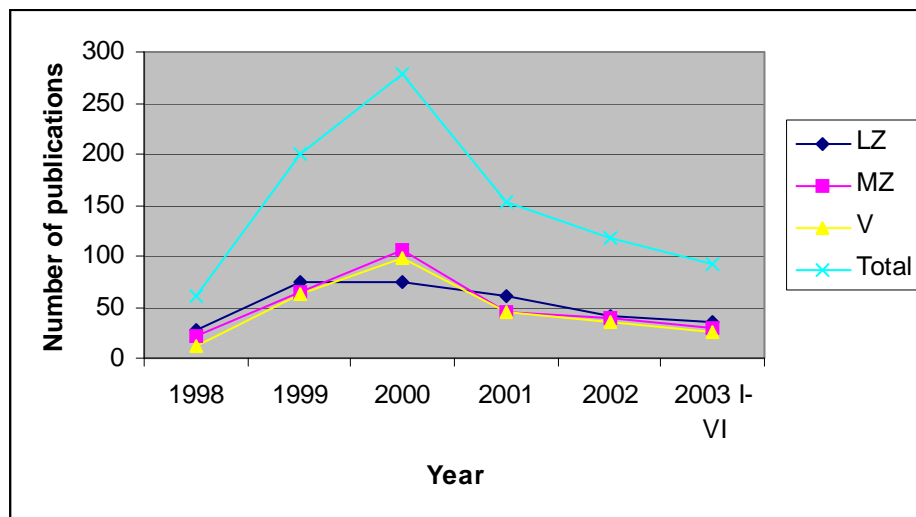
**Table 8**

**The number of publications dealing with cross-border co-operation (including economic co-operation) and border in district newspapers**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003 I-VI</b>	<b>Total</b>
<i>Ludzas Zeme</i>	27	74	75	61	42	36	315
<i>Malienas Zinas</i>	21	64	105	46	39	30	305
<i>Vaduguns</i>	12	62	98	45	36	26	279
<b>Total</b>	60	200	278	152	117	92	899

**Fig. 1**

**The number of publications dealing with cross-border co-operation (including economic co-operation) and border in district newspapers**



In terms of the type of materials, the absolute majority of publications are reports (59.5%) and articles (36.7%) (see table 9 and fig. 2), however, as was noted above, the large proportion of informative materials is attributable to reports published in *Ludzas Zeme*.

There are fewer publications on all types of cross-border co-operation (including economic co-operation and interstate tourism) than those dealing with border-related issues: the latter constitute 39.15% of the registered publications. In the category of publications on cross-border co-operation the proportion of reports is lower (46.31%) and that of articles is higher (49.43%). The rest of the materials fall into the categories of interviews, documents and groups of articles (see tables 10 and 11 and figs. 3 and 4).<sup>72</sup>

**Table 9**

**Publications on cross-border co-operation and border per types**

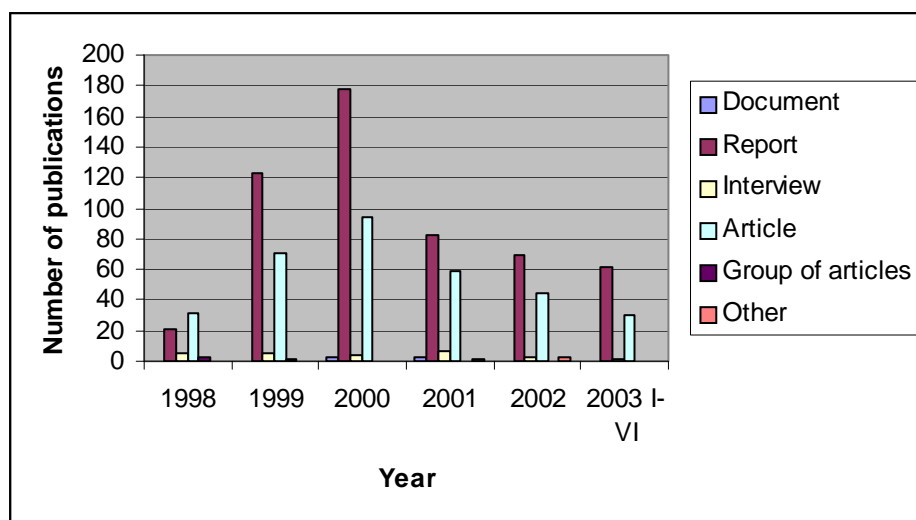
	1998	1999	2000	2001	2002	2003 I-VI	Total
Document	0	0	2	3	0	0	5
Report	21	123	178	83	69	61	535
Interview	5	5	4	6	2	1	23
Article	32	71	94	59	44	30	330
Group of	2	1	0	0	0	0	3

<sup>72</sup> Category "other" constitutes paid political advertisements and interviews.

articles							
Other	0	0	0	1	2	0	3
Total	60	200	278	152	117	92	899

**Fig. 2**

**Publications on cross-border co-operation and border per types**



**Table 10**

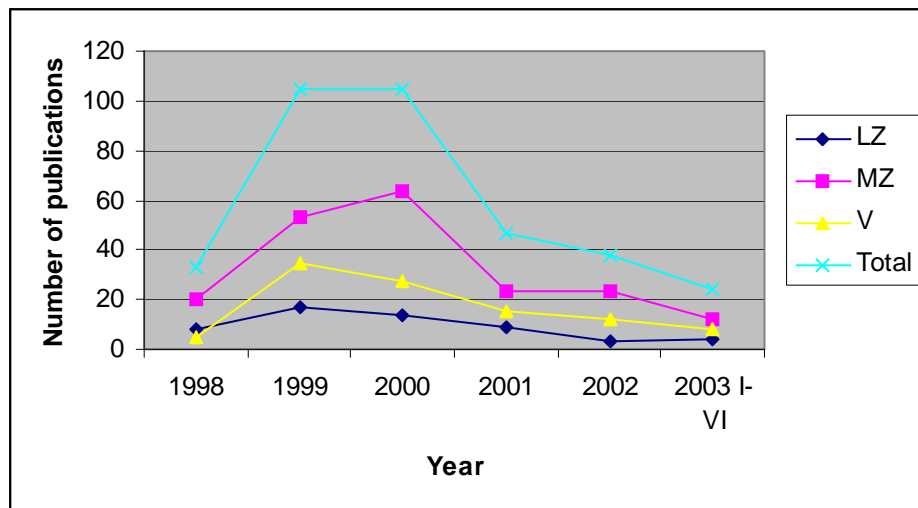
**Publications on cross-border co-operation (including tourism and economic co-operation)**

	1998	1999	2000	2001	2002	2003 I-VI	Total
<i>Ludzas Zeme</i>	8	17	14	9	3	4	55
<i>Malienas Zinas</i>	20	53	64	23	23	12	195
<i>Vaduguns</i>	5	35	27	15	12	8	102
<b>Total</b>	33	105	105	47	38	24	352



**Fig. 3**

**Publications on cross-border co-operation (including tourism and economic co-operation)**



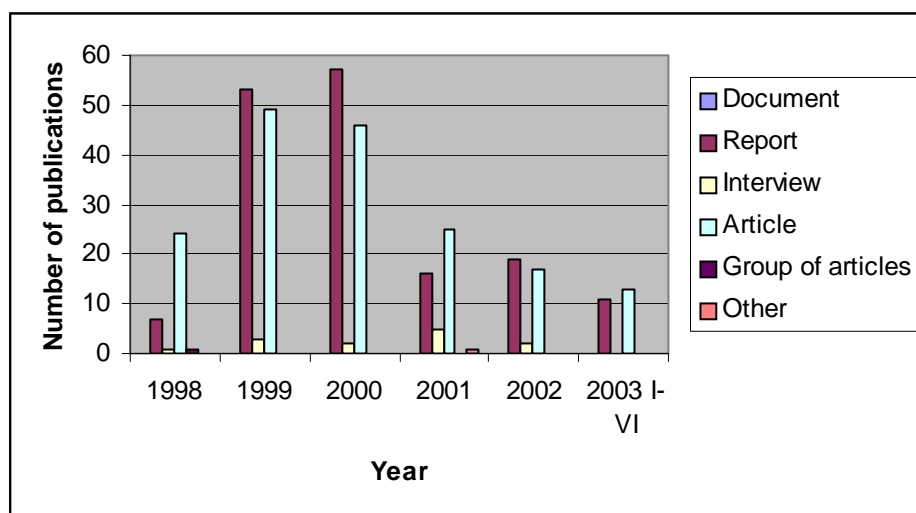
**Table 11**

**Publications on cross-border co-operation (including tourism and economic co-operation) per type**

	1998	1999	2000	2001	2002	2003 I-VI	Total
Document	0	0	0	0	0	0	0
Report	7	53	57	16	19	11	163
Interview	1	3	2	5	2	0	13
Article	24	49	46	25	17	13	174
Group of articles	1	0	0	0	0	0	1
Other	0	0	0	1	0	0	1
<b>Total</b>	<b>33</b>	<b>105</b>	<b>105</b>	<b>47</b>	<b>38</b>	<b>24</b>	<b>352</b>

Fig. 4

**Publications on cross-border co-operation per type of material**



In the respective period cross-border co-operation (including tourism and economic co-operation) was focused on or mentioned in 352 publications, most frequently in *Malienas Zinas*, followed by *Vaduguns* and *Ludzas Zeme*. The majority of publications were dedicated to different events, competitions, seminars, etc. organised by the Co-operation Council. Although a large proportion of these were reports, there were also rather many larger publications that give more details on the activities of the Co-operation Council and other events in cross-border co-operation, for example, competition “Water-World through Children’s Eyes”. The number of publications was the highest in 1999 and 2000. The data for the first half of the year 2003 show the tendency for the number of publications to grow that attest to increasing activity in cross- border co-operation this year.

Cross-border economic co-operation has been in the focus of a relatively small proportion of materials dealing with cross-border co-operation - 95 (about 27% of publications on cross-border co-operation and 10.6% of all registered publications (see table 12 and fig. 5). It is interesting to note that the proportion of such materials is the highest in Balvi *Vaduguns*, the number of publications being the highest in 1999. It should also be noted that the year of 2003 does not show the trend for the number of such publications to grow. No doubt, publications about economic activities were influenced by the hope associated with PHARE programme that was stimulated on the Latvian side by the interest that the administration of Pskov region showed in economic co-operation, particularly after the 1998 financial crisis in Russia. Many hoped that pre-crisis amount of exports of Latvian goods to Russia could be restored. Nevertheless, majority of “traditional” exporters did not manage to achieve this goal and either got bankrupt or reoriented to other markets.

Another typical trend is that the majority of materials in this category are either articles or interviews. However, it should also be taken into account that, compared to the other categories, a large proportion of the materials on cross-border economic co-operation, deals with the desirability of such co-operation, intentions or failed attempts to launch it. The number of publications dealing with the actual facts of ongoing economic co-operation is quite small.

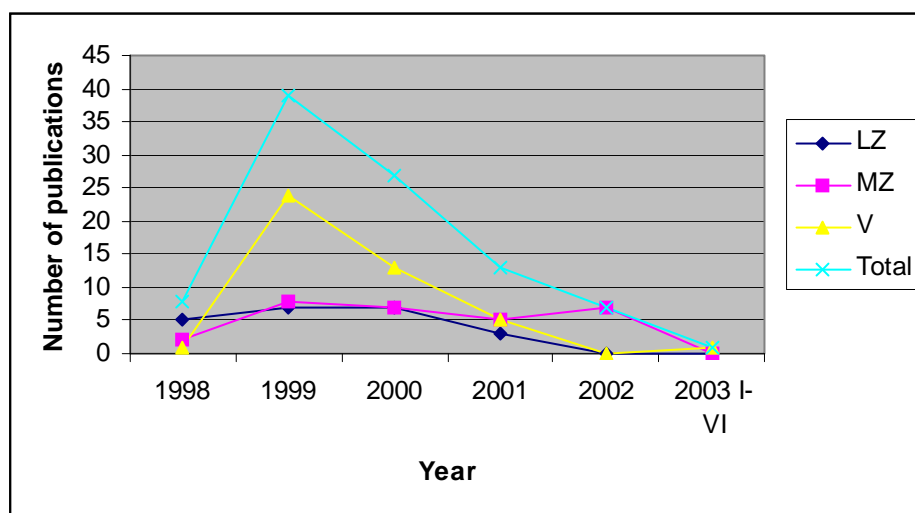
**Table 12**

**Publications on cross-border economic co-operation**

	1998	1999	2000	2001	2002	2003 I-VI	Total
<i>Ludzas Zeme</i>	5	7	7	3	0	0	22
<i>Malienas Zinas</i>	2	8	7	5	7	0	29
<i>Vaduguns</i>	1	24	13	5	0	1	44
<b>Total</b>	8	39	27	13	7	1	95

**Fig. 5**

**Publications on cross-border economic co-operation**



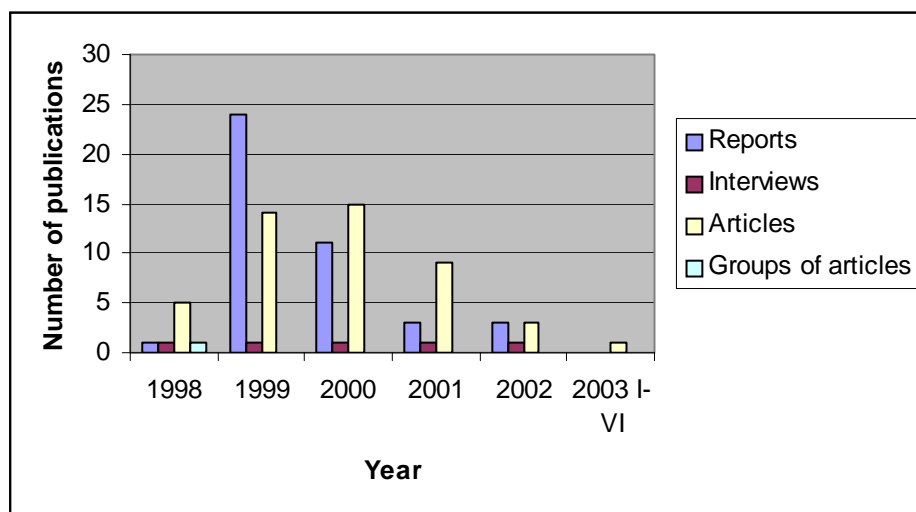
**Table 13**

**Publications on cross-border economic co-operation per types**

	1998	1999	2000	2001	2002	2003 I-VI	Total
Reports	1	24	11	3	3	0	42
Interviews	1	1	1	1	1	0	5
Articles	5	14	15	9	3	1	47
Groups of articles	1	0	0	0	0	0	1
<b>Total</b>	8	39	27	13	7	1	95

**Fig. 6**

**Publications on cross-border economic co-operation per types**



Materials on cross-border tourism were singled out as a separate thematic group. Altogether 33 materials were registered (of these 20 were articles - see table 14 and fig. 7). In this group also the number of publications was the largest in 1999-2000 and they are most directly associated with the implementation of PHARE programmes. Interest in this issue was the highest in the newspaper of Aluksne district, this obviously being the result of the hope that in the respective period the district administration laid on the elaboration of joint tourist routes of Estonia, Latvia and Russia and the prospect of international border-area tourism for economic development of the district. Regretfully, the Russian side was practically unready for the implementation of such project, which is now being carried out only in Estonian and Latvian territories. Materials on tourism are likewise clearly dominated by the category of articles (see table 15 and fig. 8).

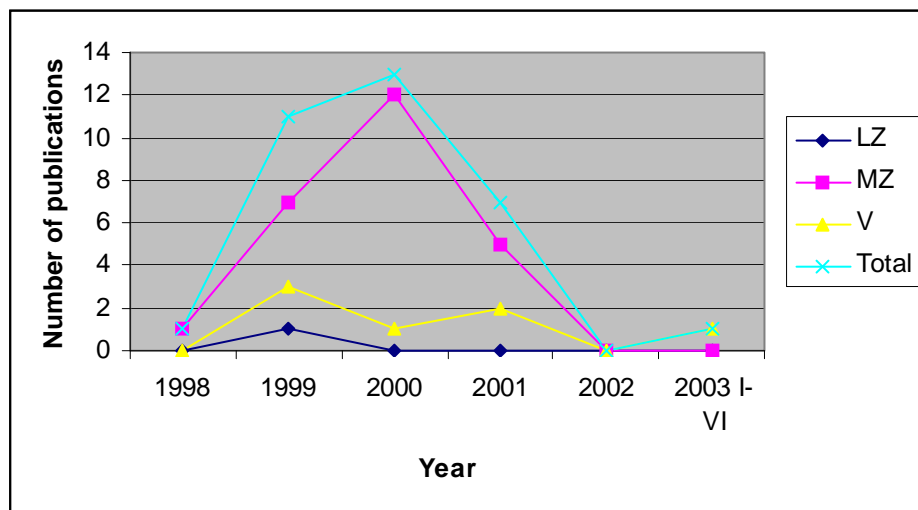
**Table 14**

**Publications on cross-border tourism**

	1998	1999	2000	2001	2002	2003 I-VI	Total
<i>Ludzas Zeme</i>	0	1	0	0	0	0	1
<i>Malienas Zinas</i>	1	7	12	5	0	0	25
<i>Vaduguns</i>	0	3	1	2	0	1	7
<b>Total</b>	1	11	13	7	0	1	33

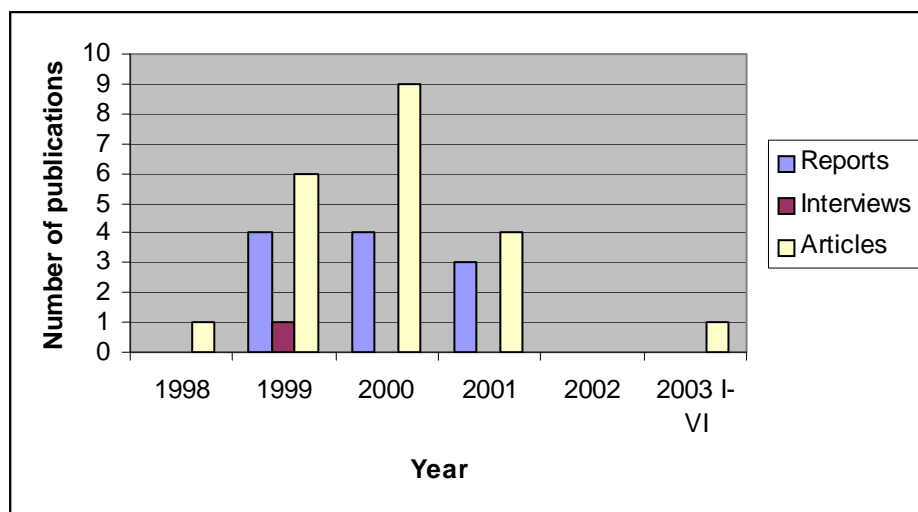
**Fig. 7**

**Publications on cross-border tourism**



**Fig. 8**

**Publications on cross-border tourism per type**



The analysed materials allow drawing certain conclusions about the connection between the type of publication and the actual process of cross-border co-operation. First of all it should be noted that district press provides quite detailed and comprehensive information on all actually happening events, especially those that involve representatives of the respective district, both on official and unofficial levels. Thus the local press (compared to the national-level papers that treat cross-border co-operation in a fragmentary and unsystematic manner) serves as a good source for the study of cross-border co-operation. The analysis of local press testifies that local authorities and NGOs, both on the level of districts and civil parishes, are rather actively engaged in different frameworks of cross-border co-operation with local authorities and NGOs of different countries, particularly Sweden, Norway, the Netherlands, etc. Rather active co-operation on different levels is also taking place

with Estonia and Lithuania. Co-operation with Pskov region is much less active, besides it is primarily restricted to the official level. The most active participants of co-operation are the local authorities of district and town level, mostly within the framework of the Co-operation Council. The local authorities of civil parishes are much less involved. Materials of district press testify that the attempts of local authorities to involve local entrepreneurs in cross-border co-operation do not find sufficient response from the part of the latter. NGOs (independently or in the framework of the Co-operation Council) have been engaged in very few instances of cross-border co-operation. For the involvement of the population of essential importance are the traditional channels: schools, amateur groups. Press materials confirm what has been said in the interviews with representatives of local authorities and NGOs: NGOs and population in general are very little involved in cross-border co-operation with Pskov region. The only groups of population that has a higher degree of involvement are school-students, largely thanks to competition "Water-World through Children's Eyes" and environmental camps.

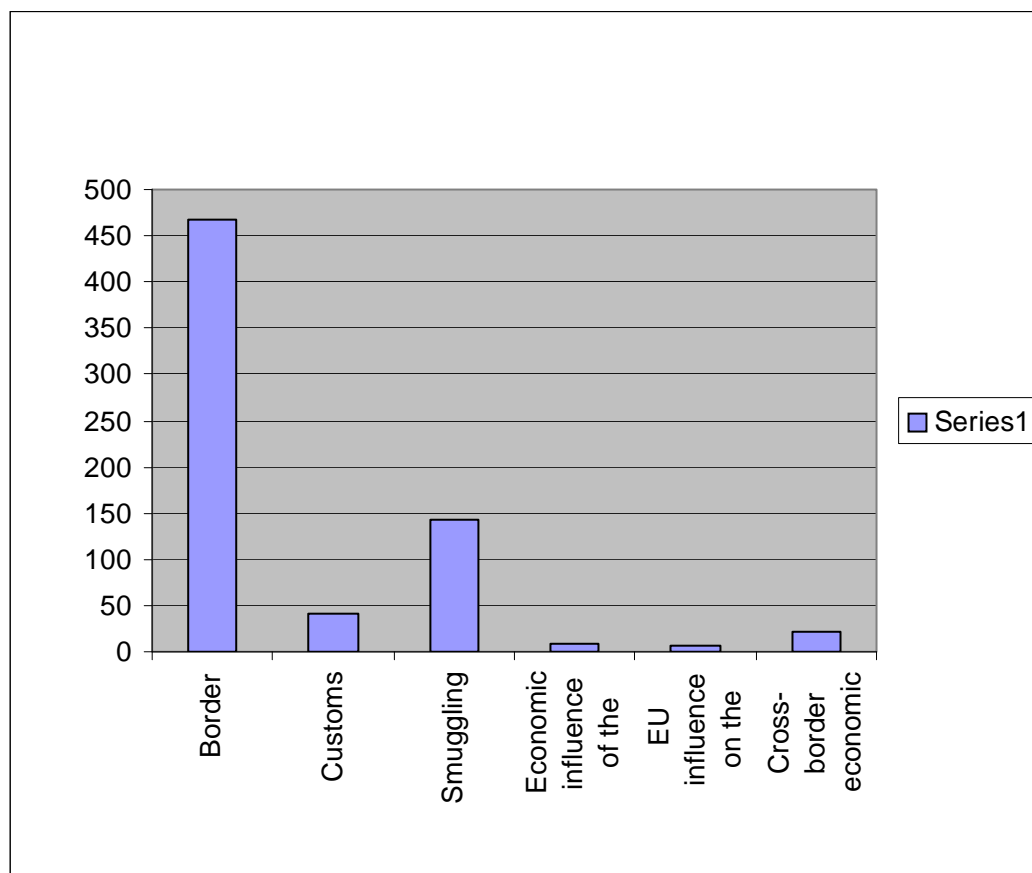
A rather surprising finding was that, in spite of the detailed information on the work of the Co-operation Council in the press, interviews with the administration of civil parishes often reveal the latter as being poorly informed about the Council's activities and cross-border co-operation in general. It must be also noted that district councils on rather regular basis report on the organised events and plans for the future. Well-informed were only those heads of local authorities who are themselves involved in the work of the Co-operation Council. Regretfully, in the framework of the present study it was not possible to carry out an opinion poll of the population; however it may be assumed that the society at large is even less informed about these issues. Conclusion must be drawn that information is not being perceived if the respective persons are not personally involved in the activities of cross-border co-operation. Thus the availability of information and the level of information are not always correlated.

The analysis of press materials point to a certain connection between the type of publication and the activity of cross-border co-operation: when actual events are taking place, the proportion of reports increases. As concerns intentions, plans and attitudes the dominating form of press materials is the article, same as concerning publications on economic co-operation.

This relation is also present in the materials on border-related issues that are clearly dominated by reports.

Fig. 9

Border-related issues: distribution per themes



The materials on this topic are clearly dominated by reports. In most cases these are reports on the detention or conviction of the intruders of the border and the regime of the border-zone and on the detection of smuggling. Issues related to the border itself and border-crossing were dealt with in 467 of the 686 registered publications (in 68.1% cases). The second largest thematic group is constituted by publications on smuggling: 142 (20.7%) materials. Cross-border economic co-operation was discussed in 21 publications, the impact of Latvia's accession to the EU on the border - only in 7 publications and the impact of the border on economic life in the border area - in 8 publications.

Border-related issues most frequently are discussed in *Ludzas Zeme*, considerably less so in *Vaduguns* and least of all in *Malienas Zinas*. The reasons are obvious: in Ludza district there are located the two largest Latvia-Russia border-crossing points Grebnevo and Terehovo, consequently different kinds of events related to border-crossing and smuggling happen there more often. Much more difficult is to explain the fact that also in this group of issues the number of publications was the highest in 1999-2000. One of the reasons could be that in the recent years rather substantial improvement in the consolidation of the border has been achieved, which fact has considerably decreased the occurrences of previously rather wide-spread transgressions, such as the crossing of the "green border" in order to visit one's relatives or acquaintances on the other side of the border, or small-scale smuggling.

Summarising the studied press materials conclusion may be drawn that different types of materials related to the border or cross-border co-operation provide rather detailed information on what is actually going on in the border districts as well as the opinion of different-level leaders of these districts and, to a lesser degree, also that of the population. District press on that or other level report on all most important events in the life of the district. Reporters of district newspapers also as a rule enjoy good co-operation with the local administration that allows them receiving information on all kinds of events. District papers try to remain politically neutral and give the floor to representatives of occasionally quite opposite views, which fact provides a certain insight into the attitudes in the population in general. For instance, one has the impression that the population of Ludza district is more “leftist” in its views than that of, for instance, Balvi district. *Ludzas Zeme* has also more often interviewed members of the Socialist Party and PCTVL (Party For Human Rights in United Latvia), such as Alfreds Rubiks, member of the 8<sup>th</sup> convocation of the Parliament from PCTVL Alexander Golubov, who himself comes from Goliseva village. The strong position of the leftist forces in Ludza district is also attested by the vote in all previous parliamentary elections as well as the EU referendum. To a certain extent it is dictated by the ethnic composition of the population, that increases the feeling of being isolated from “the centre”. The newspaper of Balvi district on its turn on regular basis gives the floor to, for example member of parliament from TB/LNNK (Party For Fatherland and Freedom/Latvian Nationalistic Independence Movement) Juris Dobelis and the position of his party is rather strong in this district in general. It must be re-emphasised though, that district papers do not try to force an opinion on the readers or to form concrete views. They for the most part fix the happenings and reflect the dominating mood.

In conclusion another rather important finding from the analysis of the local press must be pointed out. The press features relatively many publications on the impressions of the district’s residents from their trips to Western Europe but very few publications speak about life on the other side of the border. The only major attempt at showing how people live in the border districts of Pskov region was related to the elaboration of a joint tourist route when reporters of the local papers were organised a trip along the route in Pskov region and the impressions of the trip were presented in publications of considerable length.

Apart from that, information about life in Russia’s border districts is rather sporadic. No doubt, a rather large part of population visits Russia on regular basis, however even larger is the proportion of those who in the last decade have not crossed the border once, having neither friends, nor relatives, nor business contacts in Russia. Their idea of the life on the Russia side is obviously based only on the stories of other people or is non-existent at all. No doubt, it is one of the reasons why practically no co-operation is taking place on NGO level: there is no interest because there are no contacts and there is no real idea of the daily life on the other side of the border.

It may be assumed that the situation on the other side of the border is similar, if not worse, if only because the dominating overall negative image of Latvia in the central Russian media is bound to affect also the attitudes of the residents of Pskov region and does nothing to encourage their interest in co-operation.

Local press could contribute greatly to mutual understanding and trust through providing impartial information and establishing contacts with the Russian colleagues. The goal of cross- border co-operation by definition is low-level diplomacy and



encouragement of mutual understanding and this is what the local press on both sides of the border could contribute to.

## 5. Cross-border Economic Co-operation

### 5.1. The main directions and scope

After the regaining of Latvia's independence the close economic ties between Latvia and Russia still persisted; they weakened as a result of Russia's sanctions against Latvia and the 1998 financial crisis in Russia. Many Latvian enterprises, especially those based in the direct proximity of the Russian border, had their main export markets in the CIS countries, especially in food industries.<sup>73</sup> Many of them were not able to stabilise their financial situation and went bankrupt. Those, who recovered, reoriented themselves towards the domestic market or the West. Although food processing and light industries did not regain their former importance in Russian markets, engineering industry seems to be rebuilding its capacity and competitiveness in Russian markets more successfully.

Apart from the impact of the financial crisis, the scope of economic relations between both countries has been affected by the Russian economic sanctions against Latvia. For example, in July 1998 the Russian Ministry of Transportation abolished all reductions of transportation tariffs regarding goods shipped from or to Latvia. The same measures were not applied to Estonia and Lithuania. The same year Latvia was placed in the same category as offshore zones as regards control over financial operations in foreign currencies. Only in spring 2003 Latvia was crossed out from this list.<sup>74</sup> These measures as well as efforts of Russia to channel the export of oil products through its own ports and to build new ports in order to channel through its own ports also the present transit of fertilisers through Baltic ports, has affected and, probably, will continue to affect Latvian-Russian trade considerably.

However, Russia still is one of Latvia's major suppliers of raw materials and markets. Latvia is interested in serving as a transit country for Russia's goods and raw materials and sees in Russia an enormous market with great opportunities. Russian businessmen still are interested in utilising Latvia's transit services, making use of the advantages that Latvia will offer as a member of the European Union and are interested in Latvia's investments in its territory.

In terms of the turnover of external trade Russia clearly is one of Latvia's major partners. However, it is difficult to establish an accurate figure of the scope of export/import. Let us only compare the data on Latvia's export/import to/from Russia published by the Central Statistics Authority of the Republic of Latvia (table 15), that, due to different methodology of accounting, differ substantially from those available at the web-site of the Embassy of the Russian Federation in Latvia (table 16):

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<sup>73</sup> For example, Latvia's largest producer of canned dairy products, Rezekne Dairy before the crisis exported 70 % of its output to Russia and Central Asia. The suspension of shipments to Russia after the 1998 August crisis reduced the company's overall sales by roughly 15 %. – See "Rezekne suspends Russian sales", *Eurofood*, 17 December 1998.

<sup>74</sup> "Krievija atcel ierobežojumus valūtas operācijām ar Latviju" (Russia lifts restrictions to currency transactions with Latvia). *Diena*, 2 April 2003.

**Table 15**

**Latvia's external trade with Russia (millions LVL)**

	<b>1998</b>	<b>1999</b>	<b>2000</b>
Export	129.0	66.4	47.3
Import	221.3	181.0	224.5

Source: Yearbook of Latvia's Statistics 2001. RL Central Statistics Authority: Riga, 2001, p. 180.

**Table 16**

**Russia's external trade with Latvia (millions LVL)<sup>75</sup>**

	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Export</b>	409.0	588.6	975.6
<b>Import</b>	123.7	58.5	54.4

Source: Web-site of the Embassy of the Russian Federation in Latvia - [www.latvia.mid.ru/latvia/torg\\_econom\\_lat.html](http://www.latvia.mid.ru/latvia/torg_econom_lat.html). According to the data supplied by the State Customs Committee of Russia; Export and import implies export from and import to Russia.

The data in USD supplied by the Russian side transferred to LVL on the basis of the rounded off average exchange rate, the resulting figure still differs substantially from that supplied by the Latvian side. As seen from the tables, there are practically no discrepancies as to Latvia's export figure, but as concerns Latvia's imports, i.e. Russia's exports to Latvia, the figure per each year differs 2-4-fold.

Policies of the Russian federal government and large economic groups do not necessarily coincide with the interests of particular regions. Already in 1999 Mikhail A. Alexeev and Vladimir Vagin pointed to the controversial impact of the federal policies on the economic interests of Pskov region.<sup>76</sup> This observation is even truer in the present situation.

Since mid-1990s Pskov regional administration has made an effort to attract investments and has attributed increasing attention to economic co-operation with the Baltic States. In view of the transit routes crossing the region, the proximity of the Western markets as well as the existing economic links, economic co-operation with Estonia and Latvia is one of possible ways for the Pskov region to enhance its economic prospects. Investments of Estonia and Latvia into Pskov region are increasing, and in 2002 Latvia with 447,0 thousand USD (11,3% of all investments) was the third largest investor in non-financial sector (after the USA and Italy).<sup>77</sup> The largest part of all investments goes to the two largest cities of the region – Pskov and Velikiye Luki, the three rural districts that have received more or less significant

<sup>75</sup> Prices were given in USD. Transferred to LVL on the basis of exchange rate 1USD=0.6LVL.

<sup>76</sup> Alexeev, M.A., Vagin, V. "Russian Regions in Expanding Europe: The Pskov Connection." *Europe-Asia Studies*, January 1999 – <http://www.findarticles.com>.

<sup>77</sup> Information Agency Rosbalt, 23 April 2003 - [http://www.gms.ru/news\\_inv/2091rosb.php](http://www.gms.ru/news_inv/2091rosb.php).

foreign investments, were Gdov (164,6 thousand USD or 4.2 % of all investments), Sebezh (respectively, 150,3 thousand USD or 3.8 %) and Pitalovo (118,5 thousand USD or 3 %) districts. Preference given to the two districts, bordering with Latvia, at least partially can probably be explained by the activities of Latvian businessmen.

However, it is very complicated to establish the scope of cross-border economic co-operation between Latvia's border districts and Pskov region as the available statistical data refer to trade with Russia in general and does not view Pskov region separately. The Statistics Committee of Pskov region also operates with data on trade with Latvia as a whole and does not have information on individual Latvia's districts and regions.

According to Lursoft in 2002 the direct investments of the residents of Russia in the registered basic capital of Latvia's enterprises constituted 77 860 815.41 LVL. At the end of 2003 in Latvia there were 1591 joint ventures with Russia. By the autumn of 2003 in the enterprises of Balvi town and district there was registered one investor from Russia who had invested 1 200 LVL. The total amount of foreign investments in the district amount to 17 925 LVL. In the enterprises of Ludza town and district there are registered 13 Russian investors, whose investment together constitutes 162 515 LVL. The total amount of investments in the enterprises of Ludza town and district is 167 215 LVL. As concerns the available data on the enterprises of Aluksne town and district, there the total amount of foreign investments constitute 91 840 LVL.<sup>78</sup> In terms of total investments these three districts rank among the last five (out of 26) in Latvia. In Balvi district the amount of investments is the lowest. From the part of Pskov region Latvia is regarded as one of the most important partners of economic co-operation as the amount of external trade of Pskov region with Latvia constitutes more than 10% of the entire external trade of the region.

Enterprises with shares of Latvian capital registered in Pskov region and Latvian companies that operate in Pskov region are the result of the activities of Latvia's large companies; in Latvia's border districts (Aluksne, Ludza and Balvi) there are practically no large enterprises. In each district there are 2-3 companies whose annual turnover exceeds one million LVL. In Ludza district there are companies "Ariols", Ltd., which produces farinaceous products, "Cirmas bekons", Ltd., which breeds pigs and "Ludza Bakery", Ltd., whose annual turnover (in 2001) amounted to almost 1 million LVL.<sup>79</sup> In Balvi district there are manufacturing and commercial company "Balvi – Holm" (1.81 million LVL), co-operative society "Adzele" (1.72 million LVL) and "Ziguri Timber Company", Ltd. (1.29 million LVL)<sup>80</sup>. In Aluksne district there are "Grodi", Ltd.<sup>81</sup> (3.13 million LVL), „Alta S”, Ltd. (2.56 million LVL), joint stock company „Troicis&Partners" (2.23 million LVL) and "Graudins and Sons", Ltd. (1.63 million LVL)<sup>82</sup>. In the course of the present study it was established that these largest of border area's companies are oriented at Latvia's market, although there

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<sup>78</sup> Lursoft statistics on the information processed at the Company Register, <http://www.lursoft.lv>.

<sup>79</sup> Companies in Ludza district with the largest turnover in 2001, Lursoft statistics, <http://www.lursoft.lv>, statistics updated on 22 October 2003.

<sup>80</sup> Companies in Balvi district with the largest turnover in 2001, Lursoft statistics, <http://www.lursoft.lv>, statistics updated on 22 October 2003.

<sup>81</sup> The company is registered in Gulbene town and owns gas stations in Aluksne, Balvi, Gulbene and Valka districts. In fact, some of the most active companies in border districts are affiliations of companies that are based in other regions of the country or are local companies by origin that have extended their activities also to other parts of Latvia.

<sup>82</sup> Companies in Aluksne district with the largest turnover in 2001, Lursoft statistics, <http://www.lursoft.lv>, statistics updated on 22 October 2003.

have been attempts at conquering the Russian market as well. For example “Alta S”, Ltd. that bakes bread and produces confectionery and cooking products owns 24 shops, one bakery and a confectionery factory. In the last 3 years the company has been negotiating the possibility of launching sales in Russia. However, the attempt has failed. One of the reasons was that in all instances the company was required to do pre-payment but given no guarantees<sup>83</sup>.

Entrepreneurs of Pskov region on their turn are interested in the economically better-developed centres, which are located farther from the border: Rezekne, Daugavpils, Valmiera, as well as Riga and the port cities, rather than the border districts. These centres from their part are likewise interested in co-operation with Pskov. For example, in 1999 Valmiera city signed memorandum “On Development of Economic, Cultural and Tourism Contacts” with Pskov region. Entrepreneurs from Pskov on regular basis take part in business days and vice versa: Latvia’s Chamber of Commerce and Industry organises trade missions of Latvia’s entrepreneurs to Russia.

A group of companies from Rezekne rather actively co-operates with Russia, both purchasing Russian raw materials and exporting their products to Russia. For instance, “NOOK”, Ltd., which manufactures circular saws, buys raw materials in Russia and sells there its products, mostly concentrating on Pskov, but having plans of dealing with other cities as well, such as Moscow and St. Petersburg. Problems in the co-operation with Russian colleagues are caused by the long and complicated visa procedure and lack of cargo trucking companies. RSEZ (Rezekne Special Economic Zone) joint stock company “Rebir” used to be a monopoly manufacturer of electrical tools in the entire Soviet Union. The company was hit hard by the 1998 financial crisis in Russia. Today the company buys about 70% of its raw materials in Russia and sells in Russia 70-80% of its products. The difficulties that the company suffers are caused by border-crossing problems and competitors. Company “Paritet” exports to Russia 90% of the timber processing tools that it manufactures. RSEZ “Larta-1”, Ltd. uses the services of transportation companies to export 60% of its manufactured milking equipment to Russia. The co-operation does not involve Pskov region because of the strong competition there. Future plans are primarily associated with Moscow and St. Petersburg. Company “A&C electronic Baltic” manufactures high-quality cables for TV sets and monitors and sees a market for its products in Moscow, St. Petersburg, Voronezh, etc, rather than in the border regions, partly because in Pskov there is a company of similar profile.<sup>84</sup>

In Daugavpils there is well-developed industry: metal-processing, chemical industry, food processing and light industry. The city stands on the crossroads of transportation arteries. The City Council has developed close co-operation with St. Petersburg and Moscow.<sup>85</sup> The activities of Riga companies in Pskov region have remained outside the scope of the present study, the only point of contact that the authors of the present study came across was energy company “Jauda” which lately has been trying to develop co-operation with Russian companies, including “Pskov Energo” in Pskov region. However, for more far-reaching plans the company looks at partners from Moscow.

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<sup>83</sup> Interview no. 15 with Evalds Abdullajevs, Chairman of the Board of “Alta S”, Ltd., 9 May 2003.

<sup>84</sup> Data on the above-mentioned companies from Rezekne are taken from interviews with managers or representatives of these companies, 31 July 2003 and 7 August 2003.

<sup>85</sup> Data from Daugavpils web-site <http://www.daugavpils.lv>.

The interest of Pskov region to co-operate with economically better-developed Latvian regions and cities demonstrates that cross-border economic co-operation has a tendency of “bypassing” the border area, as attested also by the modest investments in the respective districts. However, the Latvian side also displays the tendency of “bypassing” the Russian border area, i.e. Pskov region. Irrespective of the fact that for Pskov region Latvian entrepreneurs are among the major partners of economic co-operation, the main focus is on searching for partners and market in Moscow, St. Petersburg and deeper into Russia.

Thus, the districts on both sides of the border are not involved in large-scale economic co-operation. In interviews with experts in border areas the authors inquired about the obstacles for cross-border economic co-operation. Of almost 40 entrepreneurs in border area whom the authors mailed questionnaires, only 7 responded. All responses had one idea in common: in order for co-operation to take place, there must be interest and economic advantage. Of the 7 respondents one was engaged in small-scale co-operation, importing spare parts, another was looking for co-operation partners and the others did not co-operate, failing to see any economic advantage in it because of the difference in price levels, the costly and time-consuming border crossing and the modest amounts of trade.

The conclusion about the directions and scope of economic co-operation is that the major segment of economic co-operation is between entrepreneurs of Pskov city and those of the large Latvian cities; the large Latvian companies in their turn look towards other large Russian towns. This trend is expected to persist in the future and the most realistic fields of co-operation among border areas will be tourism and services. The location of such large Latvian cities as Rezekne, Daugavpils and Valmiera so close to the Russian border does not stimulate the need to develop cross-border economic activities (warehouses, transfer terminals, etc.) in the border area itself.

It should be noted that sometimes it is rather complicated to obtain information about entrepreneurs of the border area who work in Russia, because many of them do not wish to advertise their really existing contacts, probably because a part of them operate there in a semi-legal status while the others do not wish their competitors to hear about the existing opportunities and niches in Russian business.

It should be underlined that many of the questioned entrepreneurs (but not all) as well as the residents of the border area in general admit that the border hampers economic contacts. However, there is a field of economic “co-operation” which directly profits from the existence of the border, i.e. smuggling. The main types of smuggled goods are spirit and vodka, tobacco products and fuel. Furthermore, while before the year of 2000 spirit was transported from Latvia to Russia and Lithuania, now the main channel of smuggled alcohol goes from Russia to Latvia.<sup>86</sup> Analysis of the local and national press leads to the conclusion that in terms of the scope, there are two levels of smuggling. The one involves illegal import of goods in relatively small amounts that serves as a source of income or extra money for many residents of the border area. In January 2002 Chief of Aluksne District Police Authority Ansis Gailitis remarked that “the smuggling of alcohol and fuel had become business for the

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<sup>86</sup> Aploka, E. “Dara zinamus Valsts Robezsardzes perna gada darba rezultatus” (Report on the Results of Work of the National Border Guard for the Last Year). *Malienas Zinas*, 29 January 2002.

residents of this district, Balvi district as well as Riga.”<sup>87</sup> Due to improvements in the work of the borderguard and different restrictions (for example in 2001 it was prohibited to remodel or install additional fuel tanks in cars, according to 1<sup>st</sup> January 2002 resolution by the Cabinet of Ministers only a single crossing of the state border is allowed) and because the price differences of the respective goods in both countries gradually decreases, this type of smuggling becomes less profitable. The other type constitutes large-scale smuggling usually not intended for consumption in the border districts. For example, on one occasion border guards discovered in a car in Ludza district 790 bottles of non-declared alcohol<sup>88</sup> and on another occasion 1000 l non-declared diesel fuel.<sup>89</sup> On yet another occasion non-declared goods for the value of 30 000 LVL were found in Terehovo border-crossing point.<sup>90</sup> The line between small-scale smuggling and smuggling as a form of large-scale entrepreneurship is rather vague. The increased amount of arrested smuggled goods is a result of the improved control of the-so-called “green border”, compared to early 1990s.

The actual scope of smuggling and the role of smuggling in the economy of the border area are rather difficult to assess. Anyway, the amount of the arrested smuggled goods is rather modest, compared to the actual amount of smuggling. Thus in 2001 Vilaka division of the National Border Guard arrested 2435 packs of cigarettes, 0,140 g of marihuana, 72 l of alcohol, 1138 l of fuel and 5 cars.<sup>91</sup> One can only point to the general trend: in the last five years there have been tangible achievements in the combating of smuggling and the proportion of smuggling in the total scope of cross-border economic activities has a tendency to decrease, yet it still leaves a rather substantial impact on the economy of the border districts. Many residents of the border areas are rather tolerant towards small-scale smuggling believing that it provides a means of survival to the population with modest income. However, the questioned entrepreneurs pointed also to the negative economic consequences for the border districts caused by the failure of the excise tax to reach the state budget and the distortion of competition.<sup>92</sup>

## 5.2. Economic-co-operation-enhancing organisations

There is a whole range of organisations that have set as their goal the promotion of economic co-operation between Latvia and Pskov region: local authorities, the Co-operation Council, Latvian Chamber of Commerce and Industry (LCCI), Rezekne Special Economic Zone (RSEZ) as well as private consultancy companies.

Local authorities of the border districts and cities are interested in enhanced economic co-operation. Several of the questioned entrepreneurs admitted that local authorities on regular basis invited them to seminars and provided consultations. The main activities take place within the framework of projects launched by the Co-operation

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<sup>87</sup> Apine, S. “Aiztur nelegālas alkohola kravas un atklāj marihuānas lietotāju” (Alcohol cargo detained and a marihuana addict caught). *Malienas Zinas*. 5 January 2002.

<sup>88</sup> *Ludzas Zeme*, 3 June 2002.

<sup>89</sup> *Ludzas Zeme*, 6 March 2001.

<sup>90</sup> *Ludzas Zeme*, 20 November 2001.

<sup>91</sup> Engelsa, S. “Pērnā gada rezultāti apmierinoši” (The Last Year’s Results Satisfactory). *Malienas Zinas*, 19 February 2002.

<sup>92</sup> Interview no. 65, with an entrepreneur in Balvi, (here and hereinafter in the text the respondent’s name is not mentioned if he/she wished to remain anonymous), 10 June 2003.

Council. The local authority of Aluksne district is the most active institution. Questioned whether the attitude of the local authorities in Latvia was an obstacle for cross-border economic co-operation, 86% of experts responded that it was not.<sup>93</sup> Thus, even if local authorities do not specially support entrepreneurs, they certainly do not place obstacles on their way either.

Within the framework of Latvian Chamber of Commerce and Industry (LCCI) there is set up Latvia-Russia Council of Economic Co-operation, from the Latvian side chaired by the Head of the Marketing Department of Liepaja Special Economic Zone Gunars Kazeks, and from the Russian side by the President of Pskov Territorial Chamber of Commerce and Industry Vladimir Zubov. The Council began to operate in 1996. It assists in finding new contacts and supports the existing ones. In 1996 the Council organised exhibition *EXPO Latvia* in Pskov. Several trade missions to Russia, including Pskov have also been arranged. LCCI has regional divisions in Valmiera and Rezekne. Valmiera affiliate works actively in the direction of Russia, while Rezekne division more focuses on Belarus. Aluksne district is located in the territory of Valmiera division and Balvi and Rezekne - in the zone of activities of Rezekne affiliate. LCCI serves as an influential lobby in the entrepreneurs' relations with the state. Although LCCI and its divisions organise missions, exhibitions, business days and other events, people who are not associated with business find it difficult to assess the contribution of the Chamber of Commerce and Industry in cross-border co-operation. Thus about a half of the questioned experts (49%) were not able to assess the achievements of LCCI and 9% believed that it had made no contribution at all. On the whole one can say that the services of LCCI are used primarily by representatives of the big business and outside their circle the organisation's activities are little known.<sup>94</sup>

In Rezekne city and the adjacent civil parishes as of 4<sup>th</sup> November 1997 there operates Rezekne special Economic Zone (RSEZ) that offers different tax discounts<sup>95</sup> and other benefits to companies which are located and operate in its territory and invest in manufacturing or infrastructure. Currently in RSEZ there are 11 companies and one more enterprise has just received a permit. Russian company "Severastal" plans to launch activities there in order to manufacture metal constructions. Although RSEZ faces a range of problems and the advantages that it offers are not fully exhausted, the companies that have been operating in Rezekne for a long period, are willing to use the benefits of RSEZ.

The administration of Rezekne Special Economic Zone (SEZ) administers the Zone: advertises, assists and offers services to investors. In fact the functions of RSEZ are very similar to those of CCI and Business Support centres (BSC). RSEZ also co-operates with CCI and takes part in presentations and exhibitions. SEZ could serve entrepreneurs as a springboard to Russia and Belarus and as a destination of Russian investments. However, so far it has not been sufficiently actively used because land in the territory of SEZ is expensive and privately owned and there are no ports or comfortable airports there.

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<sup>93</sup> Rather does not hamper than hamper and does not hamper at all.

<sup>94</sup> In 1999 the Consul General of Russia in Daugavpils Mr. Bondarenko remarked that these were primarily the heads of large companies that asked the assistance of the Consulate General, "the others either lacking information or being distrustful".- G. Britiks. "Mums maz dots, un ari to neprotam panemt" (We are given little but even that we are unable to accept). *Ludzas Zeme*, 3 December 1999.

<sup>95</sup> 80% discount of the company income tax, 80% discount of the real estate tax.



There is a range of consultancy companies that see potential profit in the promotion of cross-border co-operation. In the course of the implementation of the present project the authors met Ms Laila Balga, who on individual basis for 13 years already has been lecturing on the elaboration of projects and only in the last year linked this aspect with Russia, too. She believes that there is a possibility to attract the funds of American and Scandinavian foundations to the border area.<sup>96</sup> However, so far he has not succeeded in finding partners in Pskov region. Consultancy company "Attistiba Regioniem" (Development for Regions - ATR) under the leadership of the chairman of the board Aigars Parms since 1998 has been organising meetings and seminars of Latvian and Russian politicians, entrepreneurs and artists both in Latvia and in Pskov, St. Petersburg, Moscow and Kazakhstan. It was through the support from ATR that company joint stock company "Jauda" from Riga launched co-operation with "Pskov Energo" in Pskov, factory "Orions" from Ogre established contacts with the Communal Services of Pskov Region and joint-venture "Tekers-Pskov" that exports and processes timber was established. In 2003 ATR submitted a 200 000 Euro worth proposal to the European Commission on a cycle of training courses for the staff of local authorities, entrepreneurs, NGOs, students and health-care personnel from 4 Latvia's border districts and 4 districts from the Russian side in order to raise their qualification and other types of activities aimed at increasing the capacity of border districts. The project received approval from the EC, however due to a problem on Pskov side was not launched. [The EC had already allocated funds, but the Russian side rejected the project and thus it was not launched]<sup>97</sup>.

On the whole conclusion may be drawn that there is a sufficient number of different level organisations and institutions that are interested in the promotion of cross-border economic co-operation and almost all of them offer assistance in establishing contacts with entrepreneurs on the other side of the border, however as attested by our opinion poll among experts, 74% of the respondents believe that cross-border economic co-operation is hampered by lack of information about the potential partners and about how to co-operate. What is the reason: does the available information fail to reach the target audience or else, do the entrepreneurs of the border districts avoid it and do not look for it on their own accord? 42% of the respondents blame insufficient activity from the part of the local Latvian entrepreneurs, while 44% hold the opposite view. Obviously these are entrepreneurs in the border area who acknowledge themselves being unable to compete in the Russian market and thus do not even show interest in the opportunities of co-operation. Many entrepreneurs are scared of the difficulties in doing business in Russia in the context of criminal activities, bureaucracy and difficulties in finding trustworthy partners. A businessman from Balvi admitted that the District Council was inviting him to meetings and seminars, but he would rather earn 1 LVL in Latvia than 10 in Russia.<sup>98</sup> A part of those who show interest, work on their own, because, as several entrepreneurs remarked, one can achieve something only through his own efforts and initiative. The existing successful examples of co-operation attest also that small and medium size companies attribute special importance to personal contacts and co-operation partners in Russia whom they can trust.

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<sup>96</sup> Interview no. 80 with Laila Balga, consultant on the attraction of international finances, 13 August 2003.

<sup>97</sup> Interview no. 67 with Aigars Parms, Chairman-of-the Board of ATR, 9 July 2003.

<sup>98</sup> Interview no. 65 with a businessman from Balvi, 10 June 2003.

### 5.3. The role of small and medium companies

In Aluksne district there are registered altogether 1811 companies, in Balvi district – 1406 and in Ludza district – 1154.<sup>99</sup> In this respect as well these districts fall behind other regions of Latvia.

Support programmes of cross-border co-operation: PHARE CBC, TACIS CBC and INTERREG allocate funds for the promotion of economic co-operation and the development of small and medium companies (SMC), this being one of the aims of financing. Cross-Border Co-operation Council's strategy Vision 2010 envisages the creation of pre-conditions for commerce in the border area, for the establishment of joint ventures and the promotion of their development and for the creation of inter-regional structures for the development of entrepreneurship. The Co-operation Council has also implemented the earlier-mentioned project for the development of entrepreneurship. On the whole small and medium companies are given an important role in cross-border co-operation; the goal is to help these companies to develop through cross-border co-operation in this way raising the social and economic standards in the entire border area. One must admit though, that not all funds intended to the development of SMC are handed over to the companies themselves, but instead go to business support structures and different projects that are aimed at the improvement of business environment, creation of favourable preconditions and promotion of contacts and know-how. It is a positive contribution, yet support measures do not neutralise the other larger hurdles: border-crossing difficulties, visa-regime, double customs tariffs from the Russian side, difference in prices etc.

Thus the actual contribution of SMC to cross-border co-operation remains modest. These companies have insufficient capacity to overcome the obstacles presented by the border and differences in the business environment in Russia. Cross-border economic co-operation on some occasions can serve as a tool for the encouragement of the development of SMC (if a niche can be found where there is no serious competition, if there are good personal contacts with civil servants and partners in Russia etc.); as a rule however, the company needs first to consolidate its position in Latvia in order to be successful in the Russian market. To the question how much will Latvia's border districts benefit from the development of SMCs (as a result of economic cross-border co-operation) 42% of respondents reply that it would improve the situation slightly while 54% consider that the improvement would be substantial. However, the present study leads to the conclusion that if the existing obstacles persist, legal cross-border economic co-operation between small and medium companies in the border area will not develop in the future. Tourism and services would be the only perspective spheres.

### 5.4. Factors that hamper and factors that encourage cross-border economic co-operation

Respondents of the opinion poll have pointed at the main factors that hamper cross-border co-operation:<sup>100</sup>

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<sup>99</sup> Distribution of companies districts of Latvia, Lursoft statistics, <http://www.lursoft.lv>, statistics updated on 22 October 2003.

- difficulties in border crossing – 86%
- the existing visa regime – 84%
- the lack of information on potential partners – 74%
- the lack of information on how to co-operate – 74%
- the work of customs on the Russian side – 67%
- Russian legislation – 51%
- insufficient activity from the part of Latvia entrepreneurs – 42%
- Latvian legislation – 42%
- corruption of civil servants in Russia – 40%
- corruption of civil servants in Latvia – 37%
- the work of customs on the Latvian side – 33%
- the attitude from the part of authorities of Pskov region – 19%
- the competition by Russian goods being a threat to manufacturers in Latvia – 16%
- the border regions of Russia having nothing to offer to us – 9%
- the population of Russia regarding the competition by the Latvian goods as undesirable – 7%
- attitude from the part of local authorities of Latvia – 4%
- Latvian side having nothing to offer to Russia – 4%

The list above clearly shows that the top five hurdles are associated with the border, the crossing of the border and lack of information that also can be related to the existence of the border. It is a particular obstacle for the entrepreneurs of Aluksne district because in this district there is only a border crossing point, to reach the nearest customs point they have to go either through Estonia or through Balvi district which is not sound from the economic point of view. The closing down of Punduri railway station in Balvi district has severed contacts through this point and according to Chairman of Skilbeni civil parish Peteris Supe for 10 years already none of the locals had taken his products to Russia.<sup>101</sup> As concerns queues on the border, many respondents admit that they have to be reckoned with, that there will always be queues, yet spending several days on the border makes business unprofitable. It must be noted that queues are caused by the slow operation of the customs on the Russian side. Some of the respondents confessed that there was a way of overcoming this obstacle: one must pay to the Russian customs officers to be ushered to a separate row where the customs procedures are completed in a short time. Such difficulties keep many entrepreneurs from doing business in Russia. Entrepreneurs from Aluksne find it easier simply to buy a ticket to Berlin, to get on the vehicle and depart than to go through the visa procedures and wait for a visa to be issued in order to go just 10 km into the other side of the border; the first option is more profitable and takes less

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<sup>100</sup> Hamper very much or more hamper than does not.

<sup>101</sup> Interview no. 20 with Peteris Supe, Chairman of Council of Skilbeni Civil Parish (Balvi district), 10 June 2003.

time.<sup>102</sup> It was also remarked in the interviews that Russian entrepreneurs likewise find it less complicated to send a cargo to the other end of their country than to take it to Latvia. Yet there was also an opinion voiced that the visa regime has never affected economy, that it must be small-scale business to be hampered by visa requirements.

The conditions in Latvia and Russia compared by individual fields (the work of customs, legislation, corruption), all respondents as a rule assessed the situation on the Russian side as being more negative than in Latvia. Commenting their responses the experts often spoke negatively about the situation on the Russian side: legislation is obscure and changeable there, it may change at any moment and with a backward date, it is difficult to find qualified labour there (this problem was mentioned also for the Latvian side) and on the whole Russia is regarded as a risky place for business; yet according to the Chairman of Valmiera City Council Inesis Bokis, if one is lucky to find normal partners there are many good examples of co-operation and some people have grown rich through working in Russia.<sup>103</sup>

Many respondents remarked that Latvian entrepreneurs are not active enough, yet there were also many counterarguments: firstly, a business-person by definition is always active and tries out all possible options; secondly the Latvian side has nothing extra to sell in Russia because “nothing is manufactured”<sup>104</sup>, and thirdly, the difference in prices in Russia is not large enough to make business profitable there after the deduction of customs tariffs. It is impossible to launch legal business there. And finally, if entrepreneurs of the border area would enjoy some privileges, such as discount of VAT, “business would rapidly flourish there.”<sup>105</sup> Chairperson of Blonti civil parish Olga Pavlovska on her turn believes that co-operation with Russia is possible only in the field of culture, but not in economy.<sup>106</sup> These responses confirm the earlier mentioned findings and reveal the general tendency in cross-border co-operation in Europe: possibilities of involving the private sphere in the activities of cross-border co-operation are limited and/or the process is difficult to stimulate.<sup>107</sup>

In what way the border districts of Latvia would benefit from cross-border economic co-operation in each of the below-listed fields? Experts believe that the situation could be improved substantially by:

- service of transit transportation - 65%
- development of tourism – 65%
- timber processing and import from Pskov region – 58%
- development of SMC – 54%
- export of agricultural products to Pskov region – 53%
- co-operation in the development of information technologies – 51%
- development of transportation companies – 44%
- export of the products of local industry to Pskov region – 40%

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<sup>102</sup> Interview no. 60 with a businessman in Aluksne, 9 May 2003.

<sup>103</sup> Interview no. 19 with Inesis Bokis, Chairman of Valmiera City Council, 6 June 2003.

<sup>104</sup> Interview no. 11 with chairperson of local government, 9 May 2003.

<sup>105</sup> Interview no. 24 with chairperson of local government, 10 June 2003.

<sup>106</sup> Interview no. 46 with Olga Pavlovska, chairperson of the Council of Blonti civil parish (Ludza district), 23 July 2003.

<sup>107</sup> Scott, J. *Inducing co-operation: Can Euroregions function as bridges between complex boundaries?* - [http://www.indepsocres.spb.ru/scott\\_e.htm](http://www.indepsocres.spb.ru/scott_e.htm).

- import of industrial products from Pskov region – 32%
- import of agricultural product from Pskov region – 11%

As seen from the responses, development of services structure in the border area and tourism are regarded as the main forms of economic co-operation that would be advantageous for the Latvian side. 53% of the respondents believe that the export of agricultural products to Russia would be of considerable benefit for the border area. In the Soviet period the population actively sold their agricultural products in the markets of Pskov region and a part of the residents of the border area still cherish nostalgic hope that, if not for the border, Russia could serve as a good market for the products of small farms. However such attitude is not based on the study of the market and disregard the fact that import customs duties and other payments could make such trade unprofitable even if the border-crossing procedures were simplified. Such trade could be profitable only for large wholesales companies or sales co-operatives, the likes of which are practically non-existent in the border districts of Latvia.

However, the Mayor of Valmiera city Inesis Bokis believes that small and medium Latvian companies could act as pioneers in Russia, launching their small business there because the large companies have already entered Russia from the West. And there are opportunities there, from the field of timber industry to agricultural products<sup>108</sup>.

As concerns import from Pskov, the respondents are positive only about the prospects of the import of timber and even that not from Pskov region itself but rather from entire Russia, Pskov serving only as a point of transfer. The experts do not regard the import of competing agricultural and industrial goods as a stimulating factor for Latvia's border districts. The development of SMC would indeed be a stimulating factor (54%), yet phenomena such as the smuggling of alcohol and cigarettes hamper the development of legal commercial companies in the border districts.

Inquired what would be the economic benefit for the border districts from the implementation of the below-listed measures, the experts responded that economic profit would be substantial from the following measures:

- development of entrepreneurship in Latvia's border districts - 72%
- simplified border-crossing procedures – 70%
- increased level of information about different forms and opportunities of cross-border economic co-operation – 61%
- decreased discrepancies in legislation and regulations on both sides of the border – 53%
- the signing of Latvia-Russia border agreement – 53%
- activation of contacts with entrepreneurs in Pskov region – 49%
- improved work of customs – 44%
- approved long-term development strategy of the border region – 42%
- completion of the territorial reform – 21%

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<sup>108</sup> Interview no. 19 with Inesis Bokis, Chairman of Valmiera City Council, 6 June 2003.

As seen from the responses, experts believe that all of the measures to a larger or smaller extent would bring economic benefit. The most painful issue is the low overall level of entrepreneurship in the border area and it is this aspect that is to be blamed for the weak cross-border economic co-operation. Border-crossing problems practically do not lag behind in the list of hurdles. In spite of the existence of the many organisations that provide information and consultancy services to entrepreneurs, the respondents believe that there is still much to be done. An essential obstacle and field of work is the placing in order of the legal environment between the two neighbouring states.

Drawing conclusions about the obstacles and stimulating aspects on the road of economic co-operation, one thing becomes obvious: the hurdles are discussed in the present tense while the positive aspects are spoken about in the future tense. It means that currently there are more obstacles than the opportunities of economic development. It must be emphasised that similar problems exist on all borders. *The European Charter of Border and Transborder Regions* among traditional problems for border regions mention daily border problems, administrative and legal obstacles for trade, economic backwardness due to the location near the border etc. However in the area of Latvia-Russia border these problems not infrequently are felt much more painfully than in the economically better-developed European regions. Many respondents mention also the strained political relations as an obstacle for economic co-operation.

#### 5.5. The influence of the Latvia's accession to the European Union on the development of transborder co-operation

Latvia's membership in the European Union, one hopes, will eventually reduce tensions in the Latvian-Russian relationship, enabling the signing and implementation of laws which regulate and influence cross-border co-operation. Membership will also reduce political distrust and insecurity about the way in which cross-border co-operation influences national security. One must, however, count on the fact that these political obstacles will remain in place for quite some time to come, although one can also predict that the interest of Latvia and Russia in cross-border co-operation will increase, especially because as a member state of the EU, Latvia will have access to new sources of EU financing under the auspices of the INTERREG initiative. This will also simplify procedures related to the administration of financing. Tripartite co-operation among Estonia, Latvia and Russia will also be made easier;

Latvia's border regions can develop thanks to financing from the European Regional Development Fund, but that will depend on the extent to which Latvia implements successful regional policies. These are currently on the drawing board, and negotiations are being held with the EU on the harmonisation of the policies. The existing version of the policies speaks to the preservation of the status of a territory which deserves special support when it comes to the border region;

The main administrators of INTERREG funding are Euroregions and comparable structures, and it is entirely up to these structures to determine how successful they will be in using the funding. It is important for that reason to ensure that all participating countries attach an equally significant importance to the existence of the Euroregion;

After Latvia joins the EU, it will have a “stronger” border with Russia - something which was stated by most of the experts who were interviewed for the purposes of the study. Respondents think that border guard facilities will become more effective (91% of respondents), as will customs facilities (88%). Researchers found more pessimism in relation to the fight against smuggling - only 65% of respondents think that smuggling will decrease after Latvia’s accession to the EU. Only 32% of respondents think that border crossing will become more complicated, while 56% of respondents partly or fully disagree with that claim. The border regions already are affected by regulations demanding that people must have special permission to enter the border zone that is two kilometres wide. This has hindered business and tourism opportunities in the zone, of course. A former regime which made it easier for border region residents to cross the frontier is no longer in place. There must be a compromise between fully justifiable EU requirements and national security interests on the one hand and the interests of border region residents on the other. It is clearly possible to maintain the existing border and customs regime while making contacts among border regions residents and cross-border co-operation easier. The number of border control and customs facilities can be increased, queues on the border can be reduced (although the queues most often occur because the way in which Russian border guards and customs officials work), it can be made easier to receive visas (by increasing the number of consular institutions in the border region and by reducing the cost of a visa for certain categories of residents and in specific instances), etc.

Since Latvia’s vote on September 20, 2003, in favour of accession to the EU, it can be expected that the Pskov Region will develop increased interest, but probably it will focus on Latvia as a whole and on the country’s leading economic centres. In terms of the interests of Latvia’s border regions, it is important to ensure that cross-border co-operation is developed specifically among border territories. A Euroregion would be the most desirable and promising for co-operation. In the survey, 36 of 57 respondents said that a Euroregion would be the most successful form of co-operation. There are two possible Euroregion options - one involving Latvia and Russia, the other involving Estonia, Latvia and Russia;

The results of the survey that was conducted under the auspices of the research project tell us that most experts have a positive view of prospects for cross-border co-operation after Latvia’s accession to the EU. A total of 83% of respondents agree with the idea that after Latvia’s accession to the EU, it will be easier to find financing for cross-border co-operation projects. In terms of cross-border co-operation in the future, the largest number of experts said that a facilitating factor will be economic interest, along with the ability to write project proposals and to collaborate with international organisations. A total of 89% of respondents feel that there will be greater transit operations, which will create new opportunities for border regions in improving their economic situation. Fully 93% of respondents agree with the statement that the transport infrastructure will improve, especially in terms of road building and road repair. The likelihood of other economic changes, however, was evaluated more reticently. Only 44% of respondents feel that the competitiveness of Latvian products in the Russian market will increase. All told, survey data show that the issue of economic development opportunities in border regions and of the prospects for cross-border economic co-operation are those fields in which there is the greatest lack of clarity and predictability;

Respondents did not have a clear sense of what will change in cross-border co-operation after Latvia’s accession to the EU, but most expressed the hope that there

will be positive developments in all areas. The interviews showed, however, that there are many issues, particularly in border regions, which are not clearly understood at all. Respondents think that there will be an increased availability of resources from European Union funds, but they say that the ability of local institutions to receive those funds is still a problem. The ability to draft project proposals has increased in Latvia over the last several years to a very significant degree, and one can speak of a certain level of competitiveness when it comes to the battle over available financial resources. The biggest problem for local governments and NGOs is finding necessary co-financing for major projects. Another factor which may have significant influence is the ability of people in border region local government institutions - particularly in Russia - to write project proposals;

One cannot hope for rapid increases in economic co-operation in the border regions at this time, because economic potential there is inadequate. Many small and medium companies in border regions will face difficulties in satisfying EU requirements. Cross-border economic co-operation must clearly be reviewed at two different levels. Major economic activities (logistics, industrial output, investments) will, as now, continue to be concentrated primarily in major economic centres such as Rezekne and Valmiera. If regional reforms lead to a situation in which these centres are regional centres, the trend will become even more pronounced, because then the towns will be the centre of border regions. The proximity of major towns to the border is already an important factor, because it eliminates the need to create the cross-border economic infrastructure (reloading terminals, for instance) in the immediate proximity of the border. The second level focuses on the fact that in this case border regions will control only that share of the economy which involves tourism and services. If depopulation continues in border regions, these are niches which may not develop at all;

Euroregions and other forms of cross-border co-operation can reduce depopulation trends in border regions by promoting social, cultural and economic activity. Euroregions and state and local government aid, however, can only create a framework for economic co-operation. The extent to which cross-border economic co-operation develops will depend on the issue of whether businesspeople see any economic advantage in the process;

Membership in the EU will provide a positive impulse for tourism development, which continues to be one of the most promising forms of cross-border economic co-operation, despite evidence to the contrary that has been seen in the past. The development of tourism, however, depends first and foremost on the attitude and level of interest that is displayed by Russia. There must be improvements in visa procedures and in border and customs controls on the Russian side of the border. The tourism infrastructure in the Pskov Region must be improved. In Latvia, the tourism infrastructure has been improved quite rapidly in recent times. Roads are the major problem (although work is being done to resolve it), as is the ability to "sell" the product to potential foreign tourists;

Russian speaking residents, and non-citizens in particular, have not been involved in the relevant activities to any significant degree at all. Many people in Latvia fear that activities might have a negative influence on the loyalty which border region residents have toward Latvia - something that would affect national security, too. The fact is, however, that cross-border co-operation can help in reducing the alienation of Russians and non-citizens vis-à-vis the Latvian state. Latvia's membership in the EU



and NATO will create greater security and stability, and these factors should facilitate the integration of border region residents.

## **Conclusions**

1. The greatest accomplishments in developing cross-border co-operation can be attributed to the Border Region Co-operation Council which was established by Latvia, Estonia and Russia in 1996. Although cross-border co-operation has expanded since the establishment of the council, the main forms of co-operation so far have involved seminars, meetings, discussions and publication of informational materials. There have been few actual projects which involve wider ranges of border region residents in co-operation processes, which are aimed at practical, long-term co-operation, or which aid in resolving other problems. Because of limited financial resources, cross-border co-operation so far has depended on the availability of external financing from the EU PHARE Programme and the like. This has not promoted the emergence of long-term projects.
2. Cross-border co-operation in Latvia mostly involves representatives of district administrations, while parishes are not involved and have had little information about the process. Local media outlets have provided fairly extensive and thorough information about projects that are organised by the Co-operation Council, as well as other kinds of projects. This indicates that information is not being properly perceived, because there is a lack of personal involvement and participation.
3. Local government employees have set up good personal contacts with their opposite numbers across the border and with representatives of the Pskov Region - this is a foundation for further co-operation in the future, it is capital that must be put to use. The frontier regions have also seen the emergence of a range of qualified specialists - people who have extensive practical experience and good theoretical knowledge about cross-border co-operation.
4. The determination of Latvia's official border with Russia and the institution of a visa regime on both sides - these factors have significantly influenced the lives of many people in the border region. Everyday and personal contacts with people on the opposite side of the border have become more difficult. The new situation has also hindered or made impossible those economic contacts and private business opportunities which existed under the Soviet economic system. This particularly applies to the sale of agricultural produce in the markets of the Pskov Region. Difficulties related to border crossings and the preservation of contacts across the border, as well as the narrowing of the market for agricultural goods - these are problems which have particularly harmed those people who enjoy the fewest social protections. The border, however, has also created new economic opportunities for ambitious people, albeit not always legal ones. Economic activity has also been influenced by the closing down of several railroad lines.
5. Economic co-operation between Latvia and the Pskov Region has been comparatively active, but it usually does not involve the border areas as such. Major towns such as Rezekne, Valmiera, Riga and others have developed their own active co-operation processes. This is mostly because the level of economic activity in Latvia's border regions is quite low. There are few business structures with opportunities or even an interest in developing co-operation with partners in Russia. Those opportunities that are created by transit - in the development of the service

sector, for instance - are also not used to any sufficient degree in border regions. The inadequate level of economic co-operation across the border is also affected by factors such as the small number of customs facilities, detailed customs regulations and the resulting queues which often form on the border;

6. There is little knowledge in Latvia about cross-border co-operation and cross-border co-operation structures. Local government officials, to say nothing about the public at large, have little or no information about the existence and operation of Euroregions and other types of co-operation. One reason for this is that there is a lack of widely accessible and understandable information, but the main problem lies in the field of public relations and civic participation;

7. There has been virtually no involvement in the field of cross-border co-operation by non-governmental organisations in Latvia, particularly in terms of those NGOs which operate in border districts and parishes. There are quite a few NGOs in the border regions (albeit not in all parishes), but their work is aimed mostly at various social and cultural problems of a local nature. The poor involvement and the lack of interest in cross-border co-operation can be explained through various factors - a lack of financing, limited human resources in the border regions, difficulties in crossing the border and, by extension, problems in developing contacts with possible co-operation partners in Russia. It is also very important that district officials and the aforementioned Border Region Co-operation Council have done little to involve NGOs in the field of cross-border co-operation;

8. In sum, cross-border co-operation between Latvian and Russian border regions is weakly developed. Interviews and content analysis of the local press, however, show that residents, local government officials and publicly active individuals in border regions are interested in the development of cross-border co-operation. They are usually optimistic about the prospects of such co-operation, often relating the issue to Latvia's upcoming membership in the European Union.

#### Factors which hinder cross-border co-operation

1. Cross-border co-operation has been negatively influenced by the overall status of Latvian-Russian relations. There is no border treaty between the two countries, there are no co-operation agreements that would allow specific institutions at the regional level (the police, fire fighters, etc.) to collaborate in specific instances, there are no bilateral agreements on cross-border co-operation, on easier border crossing terms for border region residents, on environmental protection, on tourism, etc. Cross-border co-operation (including economic co-operation) is also influenced by the atmosphere of mutual distrust that is created by the tensions in the bilateral relationship. There is simply no conviction in regard to the stability and predictability of that relationship;

2. The Co-operation Council was not named or registered as a Euroregion at its inception because the administrators of the Pskov Region objected. Neither is the council a member of the Association of European Border Regions (AEBR) - something that is not true when it comes to the "Country of Lakes" Euroregion that was set up by Latvia, Belarus and Lithuania. The Pskov Region has recently displayed a great deal of interest in the establishment of a Euroregion, but it is not clear what role the existing Co-operation Council would play therein - whether the existing

experience will be put to use, or whether a new structure will be set up to start the work anew;

3. Difficulties in the establishment of the Euroregion can largely be blamed on the fact that Latvia and Russia have differing views on what cross-border co-operation really means. The Pskov Region is more interested in co-operation with Latvia as a whole, or at least with major regions such as Vidzeme and Latgale, as well as economically powerful centres such as Riga, Valmiera, Rezekne and Daugavpils. Non-economic co-operation and small projects are not granted sufficient attention, and that influences attitudes both toward the Co-operation Council and toward co-operation among border regions as such.

4. Border crossing problems, the visa regime, complicated customs procedures for small businesses - all of these factors hinder cross-border co-operation. An issue which is viewed quite differently by local governments and districts on the one hand and national government institutions on the other is the number of border crossing and customs facilities. Districts are interested in seeing an increase in the number of border and customs facilities, because that creates new jobs and makes it easier for local residents to cross the border, thus enhancing economic activity. Government institutions, by contrast, are not interested in an excessive number of such institutions, believing that they would not have sufficient numbers of clients.

5. Next there is the problem of financing and co-financing. Most of the cross-border co-operation projects that have been implemented in relation to the Pskov Region so far have received funding from the PHARE CREDO and the PHARE CBC projects. Only one project received funding from the PHARE/TACIS programme. Individual projects have been financed by the Swedish government (through the offices of the Swedish International Development Co-operation agency, or SIDA), the Norwegian Foreign Ministry, the Association of Norwegian Municipalities and some Latvian institutions. Cross-border co-operation, in other words, has not been able to move forward without external financial support. Russia has been far less active in finding funding. A key obstacle against joint projects is the fact that there are difficulties in the co-ordination of funding through the PHARE programme, which has been available for Latvia, and the TACIS programme, which has been available for Russia;

6. There has been a lack of information about opportunities which exist for businesspeople and NGOs. Here, however, the blame rests in large part with NGOs and businesses themselves - there has been a deficit of initiative and interest. The Co-operation Council and the leadership of districts, parishes and towns have done a great deal of work in involving local businesspeople in cross-border co-operation and helping them to find co-operation partners. The lack of interest is often caused by the fact that border districts businesses in Latvia often are insufficiently competitive in the Russian market. Companies are small, they lack the financial and human resources that are needed to gain a foothold in the Russian market and to make investments in long-term projects. Businesspeople often have their eye on quick profits, not on long-term co-operation. Another key factor, at least for some businesspeople, is the fear of working in the Russian market and concerns that exist about long-term political and economic stability there.

7. The leaders of border districts in Russia have been displaying increasing interest in cross-border co-operation, but from a very low starting point. That has been due to the lack of experience and knowledge, as well as to the shortage of available financing resources. Despite the fact that Russia's districts formally have sufficient authority to

engage in cross-border co-operation projects, the fact is that the actual level of cross-border co-operation depends primarily on the attitudes of the leadership of the Pskov Region.

8. There has been a significant lack of economic initiative and business traditions in Latvia's border regions, and this has kept people from making use of the advantages that the border region provides in terms of transit services and tourism services. A serious problem is that transit flows are uneven, and the intensity of the flow depends on the operations of Russian customs officials and other factors that are difficult to foresee in advance. For that reason, many businesspeople doubt that it is worth even launching a business. Tourism development is hindered by inadequate services (although such services have been developing quite quickly in Latvia's border regions) and by the less than co-operative attitude of the Pskov Region in terms of developing joint tourism routes.

9. There is a direct link between the level of economic and social activity in border regions on the one hand and the efficiency of cross-border co-operation on the other. If border regions are to be developed, there must be a national strategy on the development of the frontier. The Co-operation Council has designed a strategy that is called "Vision 2010", but it has not been put to work in any serious way.

10. Regional and territorial reform plans have not had much of an effect on cross-border co-operation so far, but it must be kept in mind that this will not always be true. Territorial and regional reform plans that have been considered in Latvia (local governments at one or two levels, the size and authority of first-level local governments, etc.) may well have a positive and/or a negative effect on cross-border co-operation. The most important thing right now is that there is no clear sense of the subjects of future cross-border co-operation in Latvia.

## **Recommendations**

1. The necessary bilateral agreements and treaties must be signed, but that will require political will on the part of Russia.
2. Regional development planning and specific support for more backward regions involves government support for business in the frontier region, road building and infrastructure development. Economic activity is the main prerequisite for preventing depopulation and socio-economic backwardness in border regions and in promoting cross-border co-operation. The way in which the relevant development plan is put into practice will be of importance.
3. In the course of regional and territorial reform, consideration must be given to the ability of newly established administrative structures to work effectively in the area of cross-border co-operation projects.
4. Cross-border co-operation must be publicised so as to involve as many people and organisations as possible - NGOs in particular.
5. It must be understood that cross-border co-operation is an instrument for political, social and ethnic integration and for overcoming the social alienation that exists in border regions.
6. Computerisation on both sides of the border can help in overcoming the lack of information - especially for NGOs and local governments. It can also help in speeding up contacts. Thought must be given to ways in which information that is available in Latvia in the area of cross-border co-operation and relevant projects and local governments is also available to potential partners on the other side of the border. The Internet is an important resource in this regard. Districts have their own homepages, but they do not provide information in Russian or English in many cases. This might be an important project in the area of financing cross-border co-operation under the auspices of the EU.
7. The experience of other Euroregions (those in which Latvia participates, as well as those in which it does not) must be studied, popularised and put to use. The establishment of an Internet portal on Euroregions in Latvia might be of key importance. Such a portal could provide information about all of the Euroregions in which Latvia takes part and about relevant activities, projects and partnerships.
8. Experience in the area of cross-border co-operation must actively be shared with partners in Russia, especially insofar as the drafting of project proposals and the administration of EU funding are concerned. This, too, could be a project which can receive EU financing.
9. Government institutions must devote more attention to the negative influence which the border has on the lives of border region residents, but this attention must not hinder national security or the strength of the border.
10. Local governments must continue to provide information to businesses and to help them in finding contacts across the border. Here, too, financing might be received under the auspices of EU projects.

11. The local press must publish more information about the lives of people on the other side of the border. Information of this type has been very scarce so far. Also of key importance is co-operation with the administrators of border districts in the Pskov Region, the aim being to ensure adequate information about people's lives in Latvia's border regions. Adequate and objective information plays a key role in breaking down negative stereotypes and, by extension, in promoting greater interest in cross-border co-operation among NGOs and businesses.