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## **The increase of city competitiveness in Latvia in the context of polycentric development**

### **Summary**

The economical problems of Latvia with good reason have been connected with the unstable development of regions and city nets. The state territory characterizes the peculiarity of monocentric territory. In territories, which are located outside the monocentric place of action, the problems of economic development are the main reason of social and physical problems. Steadily formed city net in Latvia is favourable for polycentric and balanced state development; direction to polycentric development is delayed by low competitiveness, insufficient development in cities, and weak connection with neighbouring territories. Latvia has started the process directed towards polycentric development of territory. During the research the author clarifies the interconnection among defined economic variables; they are consolidated and therefore it can help to gain opinion about current synthesis of region division in Latvia. The **aim of the research** – by evaluation of monocentric sample impact on the development of Latvian territories, identify whether it is necessary and favourable to develop the sample of polycentrism in Latvia, which would promote the competitiveness and cooperation of cities. The tasks of research is to understand the essence of monocentric and polycentric development definition; study the status of cities of Latvia in context of EU and global level; make analysis of social, demographical, and economic indicators in evaluation of territory development; look through solutions of EU level for provision of cohesion and integrity; evaluate the city cooperation potential in the context of the EU; disclose EU financial support for the promotion of city competitiveness in Latvia.

**Key words:** monocentric and polycentric development, regional disparities, competitiveness, city cooperation, and networking.

### **Understanding of polycentrism concept**

The definition and understanding of polycentrism concept in a context of city competitiveness development can be evaluated as equipollent. In society the term “polycentric city development” is not new. The definition of polycentrism can be defined as follows: “Polycentrism, which is opposite to monocentrism, is model of spatial development, which is based on city net that tries to upgrade territorial cohesion and turns against territorial differences by considering allocation of resources for development and productivity. Their target is to diminish the negative impact of overpopulation at any scale, at the same time decreasing differences between centre and peripheral area” (Maier, 2006). It is possible to oppose polycentrism to hierarchic city systems. This concept traditionally has been referred to meso-level city agglomeration,

which concentrates on grouping of people and economic activities in inner city systems. This concept has been used also in macro-level in order to indicate on several centres within one region. European Spatial Development Perspective (ESDP) offered for discussion the third or the mega-level of polycentrism. It uses the concept of inner level and promotes alternate spread of concept in the territory of Europe that polycentrism is a centre-peripheral area (Krag, 2005).

There is a reasoned opinion that cooperation, not competition, promotes development; development is promoted also by non-dubbing of additional service functions (Batten: 1995). Cooperation allows cities to get a better look on their comparative advantages and necessity for specialisation both for goods and services, as well as it helps regions to supplement each other. Within the framework of city net the specialisation has been shown in two ways: it appears both as redistribution of functions and as positioning according to partners of the net. The supplement of city net and synergy is established by city specialisation and classification, which depends on functions, not industries (Maier, 2006). It is possible to identify two models of polycentrism:

- 1) Model of several development centres. This model outlines spatial growth, which is characterised by idea that mutually independent development centres are promoters of region growth and development. This development characterises relations of centre-peripheral area; i.e., if a centre – strong city is developing, also neighbouring cities and rural areas experiences the same.
- 2) Model of city cooperation nets. The principles of the model – cities cooperate and functionally supplement each other in order to promote general growth and development. Due to the cooperation and functionally supplement synergy, net cities make greater economy than separate cities (Maier, 2006).

The model of city cooperation nets foresees diminishing of mutual competition among municipalities and promotes understanding for municipalities about strategic framework of city nets, common interests and closer cooperation in the field of spatial development (Bailey and Turok, 2001). Cooperation makes understanding about common interests and competitiveness, thereby diminishes the identification of municipality governance only with their city and its individual development possibilities, promotes city cooperation in establishment of education and public transport infrastructure, and stimulates the dialogue among the most significant players of economy (Kloosterman and Lambregts, 2001).

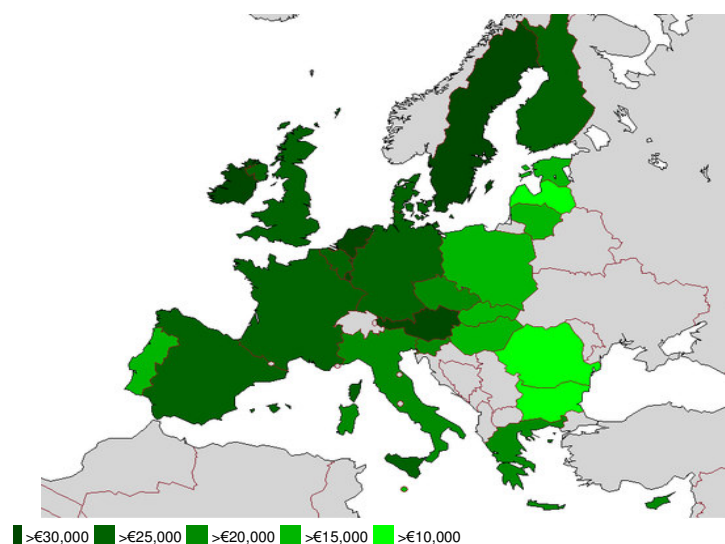
The concept of polycentrism and its different characteristics already for some while is in the limelight for development planners, experts and politicians of European cities and regions. It is mainly supported by representatives, national government, and entrepreneur association both from metropolis and small regional centres. This phenomenon can be connected to diverse understanding of the concept, different its disclosure and different impact on economical and social development of state, region and local municipalities. Polycentric development model can be marked in the context of the European Union (further in text – the EU), macro-regions or national states. Documents of the EU policy in most cases stress polycentrism concept in the EU scale (i.e. several significant development centres in the territory of EU versus typical concentration of economy in several megapolis in the territory of Central Europe).

Latvia also expresses support to the model of polycentric development, and society discusses about several desirable solutions. Mainly there are discussions about the necessity of inner model of polycentric development – several development centres in every region, based on current distribution of population. There are five regions (Riga, Vidzeme, Kurzeme, Latgale, Zemgale) in Latvia almost half of population lives in Riga's region, second biggest according to population per cent (16%) is Latgale, the smallest one is Vidzeme's region. The second biggest region of the state has the weakest showing among the territory development. National Development plan, which is average-term strategic planning document for the period of 2007 - 2013, defines the main development directions, shows the most significant tasks for country and society in a way to further aim – gradual increase of living quality. This planning document defines that “polycentric development is a possibility for regions. Polycentric development in city net formation makes preconditions for the development of well-balanced country. Cities must become a significant driving force of development for every region and country in total; its potential and prospective direction of development is defined in the spatial planning process within the region where state institutions, municipalities, NGOs, and society actively cooperates with each other (The Ministry of Regional Development and Local Government, 2006)”. There are comparatively small evaluation of possible contribution and positioning of cities of Latvia in the context of global economy. It must be taken into consideration that there may be possible negative impact of polycentrism on competitiveness of Latvia therefore the author pays attention to several significant aspects, which can force to evaluate whether it is favourable to develop the model of polycentrism in the territory of Latvia.

### **Global market and EU development scenarios**

The number of inhabitants in cities for the first time exceeded 50% from all inhabitants of planet in 2008 (Jeb Brugmann, 2009). In Latvia there are around 70% inhabitants who live in cities, but in Central Europe this figure is approximately 85%. On the basis of particular data analysis it can be affirmed that cities have become the guide of development and growth, which affects the global market.

The concentration of EU economic development is very explicit in its central part. In its turn, peripheral areas give comparatively small contribution to the EU total economy and almost do not affect EU international competitiveness. Experts in different EU development scenarios have been evaluated the possible authority area of the EU economical centre, though even in scenario directed on cohesion (if next 20 years there will be implemented targeted cohesion policy for integration and development of economy of ulterior regions) the economically dynamic territory of the EU does not expand to Latvia:



**Figure 1. Gross domestic product per 1 inhabitant in the European Union, in 2008<sup>1</sup>**

In its turn, in the comparison of cities the capital of Latvia – Riga – has been marked as a small centre of regional importance, which has a role in the context of the Baltic Sea region; Liepāja and Daugavpils preserve status as local centres. The rest cities of Latvia as separate development centres of EU level have not been marked.

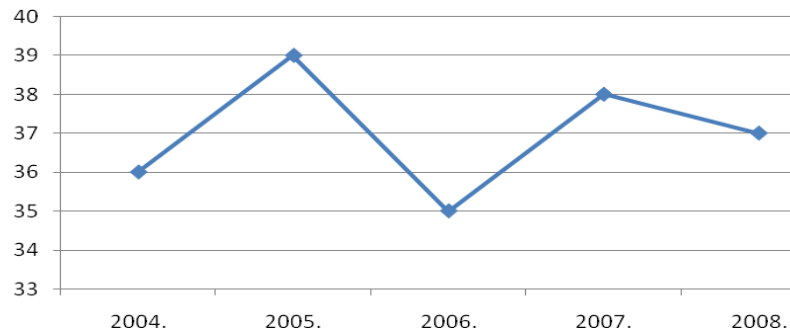
Experts have been calculated how polycentric or monocentric is the member states of the EU. For instance, Germany, Austria, Italy is comparatively polycentric, but Scandinavian States and all Baltic States within the context of such comparison are explicitly monocentric. Taking into account the current situation it is possible to make a conclusion that for the formation of polycentrism in Latvia there would be necessary huge investments and implementation of strong policy.

### **Social situation**

The choice of state development model is connected with social factors existent in particular territory. The author has worked out the analysis of social indicators within the context of the EU and Latvia, which represents the current situation.

The social inequality differences in countries has been characterized by indicators of Gini coefficient, which during last few years in Latvia have dramatically increased, giving the evidence about greater social stratification, inequity, and different possibilities for the development of social capital:

<sup>1</sup> [http://commons.wikimedia.org/wiki/Image:655px-European\\_Union\\_GDP\\_per\\_capita.png](http://commons.wikimedia.org/wiki/Image:655px-European_Union_GDP_per_capita.png)

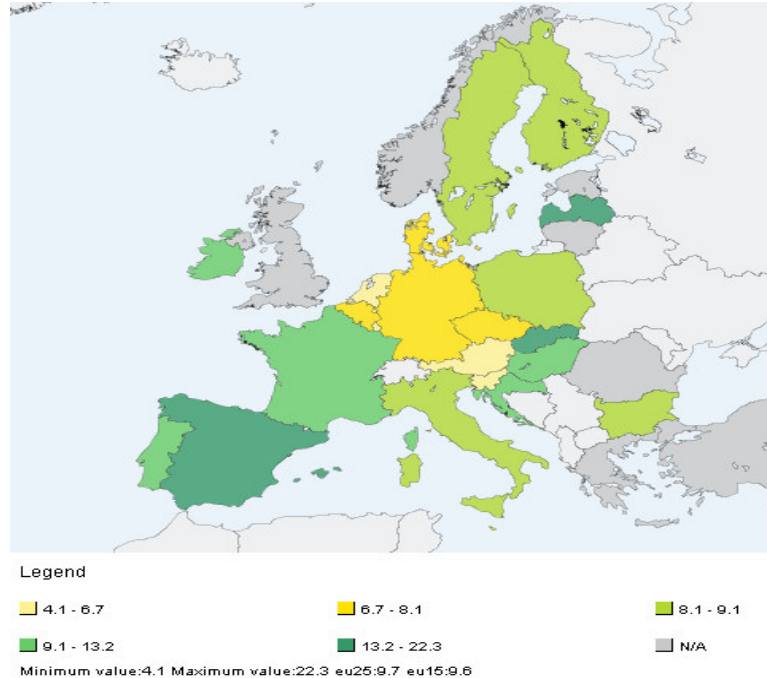


**Figure 2. Indicators of Gini coefficient in Latvia from 2004 to 2008<sup>2</sup>**

In the EU countries this indicator fluctuates in following range: in countries of EU15 – 30, but in countries of EU25 – 31.

The increase of social inequity and consequences of economic crisis negatively affects the quality of Latvian human resources. It is known that equal society ensures more equal approach to knowledge for its members, wherewith also better development and use of human resources. More equal society provides greater social and physical protectability, which establishes more stable environment also for the attraction of foreign investments. The increase of inequity, in its turn, strengthens emigration and talent outflow.

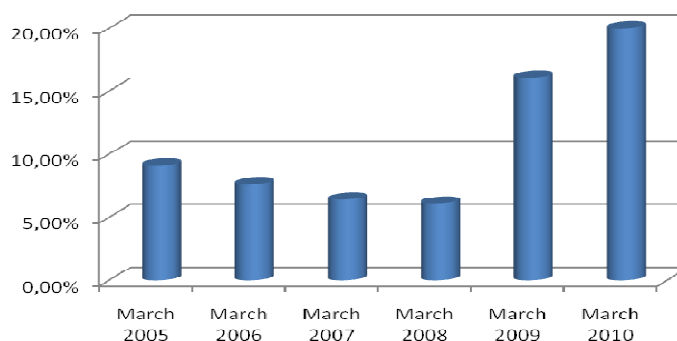
The unemployment level in Latvia is the highest in the European Union, which is represented in Figure 3:<sup>o</sup>



**Figure 3. The unemployment rate in the EU countries in March, 2010, %<sup>3</sup>**

<sup>2</sup> <http://data.csb.gov.lv/Dialog/Saveshow.asp>

According to “Eurostat” data the real unemployment level in Latvia in March, 2010 has reached 22,3% while officially registered unemployment level in 25 member states is 9,7 %.<sup>4</sup> Statistical data and sociological inquiries prove that significant part of inhabitants of Latvia have already emigrated to other countries in order to find a job or consider a possibility to do it if their material status would become worse. People with higher qualification emigrate from Latvia with their families and plan to stay out of the country for a longer period of time. At the same time shrink proportion of those inhabitants, who would like to establish their own business or start a practice of self-employment. In general, there are fewer workforces in Latvia, especially qualified specialists. Such tendency can be evaluated negatively because workforce resources are one of the most significant factors, which promote the economical development of territories, and this factor has been evaluated by potential investors.



**Figure 4. Unemployment level in Latvia from 2005 to 2010, %<sup>5</sup>**

Although macroeconomic situation in Latvia has been slightly become stable in 2010, the impact on labour market will not be immediate and unemployment will decrease gradually. Therefore it could be foreseen that social tension will remain; expected increase of unemployment and poverty. Wherewith structural reforms in state government and late impact of economic situation progress on labour market in 2010, the number of the unemployed could reach approximately 200 000 inhabitants and the registered unemployment level on average could reach 18%. The country will have to invest increasingly more resources in solution of social problems. For example, in 2007 government spent 61.61 million EUR for unemployment benefits when registered unemployment level was 5.7%, but in 2009, when unemployment level increased to 12.1%, expenses increased almost threefold, reaching 195.22 million EUR (The ministry of Welfare of the Republic of Latvia, 2010).

Latvia has one of the socially unequal societies in the European Union – and economically weakest in the aspect of NUTS2 region. The fifteen lowest regions in the

<sup>3</sup>

<http://epp.eurostat.ec.europa.eu/tgm/mapToolClosed.do?tab=map&init=1&plugin=1&language=en&pcode=teilm020&toolbox=types#>

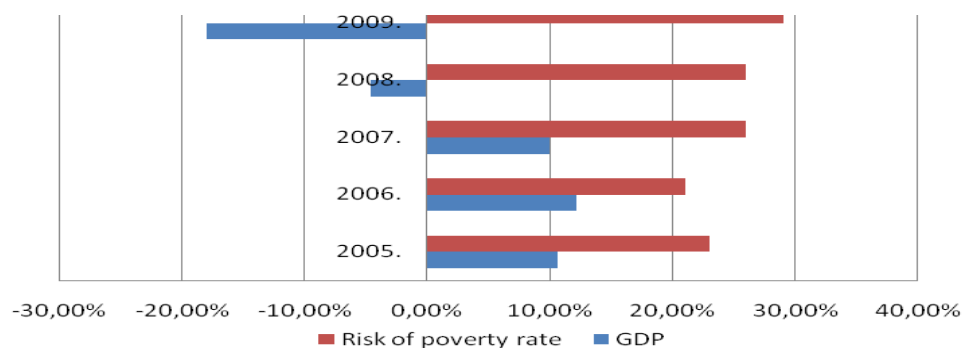
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<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelectio n=1&plugin=1>

<sup>5</sup> Harmonised unemployment rate by gender . <http://epp.eurostat.ec.europa.eu>

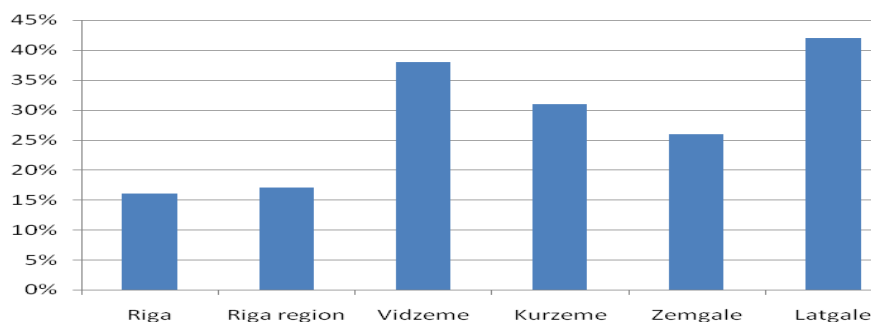
ranking in 2007 were all in Bulgaria, Romania, Poland and Hungary, with the lowest figures recorded in Severozapaden in Bulgaria (26% of the average), followed by Nord-Est in Romania, Severen tsentralen and Yuzhen tsentralen in Bulgaria (all 27%). Among the 66 regions below the 75% level, fifteen were in Poland, seven each in Greece and Romania, six each in Bulgaria, the Czech Republic and Hungary, four each in Italy and Portugal, three in Slovakia, two in France (both overseas departments), one each in Spain, Slovenia and the United Kingdom, as well as Estonia, Latvia and Lithuania (Eurostat, 2007).

Although in the period of time until 2007 the GDP of Latvia increased within every year, more than 20% inhabitants were subjected to the risk of poverty; this indicator continues to rise within every next year:



**Figure 5. Interconnection of GDP and poverty risk indicators in Latvia, 2005 - 2009, %<sup>6</sup>**

It means that a little bit more 500 thousand or  $\frac{1}{4}$  inhabitants of Latvia are subjected to the poverty risk. During last few years the number of inhabitants, who are subjected to the poverty risk, increases. The conclusion can be done after observing the tendencies in this field – economic growth does not solve all social problems at the same time. It is important that economic growth is a result of one region, not whole country. The level of poverty risk is differently spread also within the context of Latvian regions.



**Figure 6. Index of poverty risk in regions of Latvia in 2008, %<sup>7</sup>**

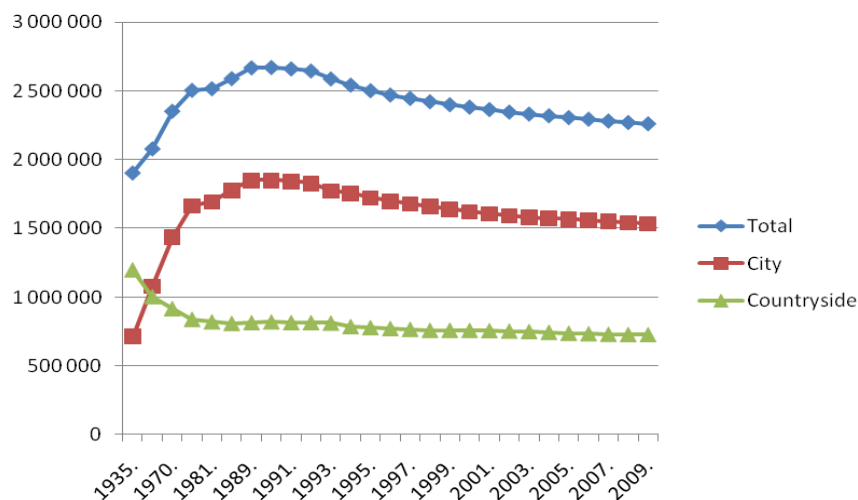
<sup>6</sup> Autores apkopojums. <http://data.csb.gov.lv>

<sup>7</sup> [http://www.csb.lv/csp/events/csp/events/?mode=arh&period=01.2010&cc\\_cat=471&id=11923](http://www.csb.lv/csp/events/csp/events/?mode=arh&period=01.2010&cc_cat=471&id=11923)

The highest index was in Latgale, which was followed by Vidzeme and Kurzeme. Significantly lower index was in Riga and Riga region. The index of Zemgale, in its turn, complies with the average indicator of Latvia. The analysis of particular data indicates on unequal region development in the territory of Latvia, which is a result of monocentric development. Concentrating resources (financial, workforce, material etc.) in Riga region, in the length of time Latvia is experiencing situation when the rest state territory is backward in its development. Within the influence of economic crisis the situation has become more dramatic not only in Latvia, but also in the EU. The evaluation of social indicators clearly indicates on the fact that choice of Latvia to use monocentric development model did not give an investment for the development of all territory.

## Demography

The significant condition of polycentric territory choice is demographical situation, availability of human resources, and prospective development. In the period between 1990 and 2005 the number of inhabitants in Latvia has been decreased for 13.6% and it is second highest indicator in the EU after Estonia – 14.2%. The number of inhabitants in the EU during last fifteen years has declined for about 4.6%, but, for instance, the number of inhabitants in Luxemburg, Cyprus, Malta has increased for 15-20%, the number of inhabitants also increased in Scandinavian states for 5-6%.



**Figure 7. The number of residents in Latvia from 1935 to 2009, people<sup>8</sup>**

The changes in number of inhabitants of Latvia has been influenced both by negative balance of birth/death indicators and negative indicators of outer migration. The analysis of inhabitant age structure in future marks a conditional “demographical gap” (the number of able-bodied population is significantly decreased) as the result of society agedness supplemented by wave of emigration. Decrease of incomes in state and municipality budgets and proportional increase of necessary expenses for provision of education, social and health care for non-working inhabitants (children, pensioners,

<sup>8</sup> <http://data.csb.gov.lv/Dialog/Saveshow.asp>

unemployed etc.) predicts also the increase of social tension during next few years. If the budget possibilities decrease, the social inequity will continue to rise.

It is clear that Riga within the Baltic scale is natural metropolis, which always will be the centre of attraction for inhabitants; the capital also in future will be able to attract people not only from Latvia, but also from foreign countries. If the current tendencies in rural areas are taken in to the consideration, must admit that polycentric approach in the development of region territories is one of the ways how to shift financial resources of the EU to infrastructure investments, establish attractive environment both for inhabitants and investors. It is the only way how to stop the decrease of human resources in peripheral areas because otherwise on average term Latvia will have only few economically active and inhabited cities – Riga and some seaside areas if the government continues the monocentric policy. Although, initially there was no necessity for that, in the future Latvia will have to make immigration policy in order to develop all territory of the state purposefully and promote the attraction of qualitative human resources.

### **Economic situation and prospective**

The characteristics of polycentrism in Latvia are obvious, and in a vector of development it followed by the allocation of corresponding resources. The taken outer debt commitment by the government under the influence of economic crisis will affect the possibilities of state budget noteworthy also after 2012-2013. Firstly, the government will have to start the repayment of debt or form the overcrediting and it is hardly believable that it will possible with such low credit percentage. It means that there will be a necessity to deflect considerable part of state budget for servicing the outer debt. Secondly, GDP forecasts of macroeconomic experts (SwedBank: 2010) witnesses that amount of GDP in the level of 2008 could return only in 2014 – 2015 and it means that also employment will come closer to level of 2008 only after some 4-5 years. Until then the unemployment rate will remain relatively high. With the increase of work productivity, the corresponding amount of GDP in Latvia will form comparatively smaller amount of employed people, wherewith significant unemployment level will remain longer.

Latvia has equal fiscal policy in all its territory and high tax rates which impede economic activity. The government must form deliberative, united statement of taxes in average term, which, in its turn, would increase the productivity, and motivate to employ inhabitants. Municipalities in local level clearly see the problems, which impede the growth of socially-economic territory and city competitiveness; therefore it would be useful to form action tools for municipalities, which would help to promote the business action in belonging territories.

### **Solutions of EU level for the provision of cohesion and integrity**

The concept of polycentrism in policy documentation of European level appeared and was consolidated in 1999, stressing it as a contrary to concentration of economy in separate metropolis and accenting the comparatively more sustainable impact on the environment of the polycentric settling structure. It needs to emphasize

that initially the concept of polycentrism was not connected with economic benefits. The target for its inclusion in the agenda of the EU policy was the implementation of sustainable development – opposite to the growth based on economic benefits.

2009 marked defined changes in the EU discussion levels about issues of city development by placing emphasis on necessity for the new, radically different after-crisis development strategy, accent the high potential of creative economy and necessity of innovative solutions for the provision of public services. These new city development tendencies are characterized by following key words – cooperation, complementarity and networking. It means that polycentrism has not been opposed to monocentrism anymore, there is no accent put on any spatial development model within the context of state or region, but on the ability to cooperate (in region, with neighbour countries or partner cities in more remote territories) and establishment of new, creative offers for the attraction of investors and inhabitants.

In the beginning of 90.-ties the finance resources within the state was in a small amount and the government decided that investments will be mainly financed by state itself, but planning in Latvia had been decentralised. This sample has not provided a positive impact on region development. Currently Latvia establishes centralized planning – state can stimulate polycentrism by evaluating the necessity and direction of investment of cities, rural areas, and provincial towns.

Though, Latvia can counteract destructive state policy in the development of regions, dispossessing centralized state resources and allocating them to development centres directly. Availability of financial resources would allow region centres to establish and realize after-crisis development strategies and productive competitiveness. This statement agrees with the positions of the EU – the policy of competition can influence the territorial placement of economic activity ensuring that the regional support is concentrated in disadvantaged regions and smoothing the intensity of support dependent from type and scale of problems (Commission of the European Communities, 2008).

### **The potential of city cooperation in Latvia within the context of the EU**

ESPON scientists suggest making the cooperation of purposeful cities as a solution for provision of the EU spatial integrity. If cities cooperate within the framework of micro-regions, it is possible to establish conditional “cogwheels”, which are similar to watch mechanism and gradually connects with economically the strongest and the most dynamic EU territory – the zone of the Central Europe.

Currently in Baltic region there is a competition among several bigger and smaller countries, which tries to establish regional metropolis. For instance, Sweden invests huge financial resources in Stockholm, the agglomeration of Copenhagen – Malmö has been developed; St.Petersburg has become powerful. Riga city can become a significant point in the Eastern coast of the Baltic Sea. Especially successful result will attain if Riga retains good relationship with the capitals of other countries and tries to cooperate in different fields.

Within the context of Latvia it means the cooperation among cities of regional importance and amalgamation (conditional concentration) around Riga, which, in its

turn, with the help of such “supplemented” potential of economy can increase its competitiveness and incorporate in the cooperation net of cities in the Baltic States region, therefore incorporating Latvia in the stream of EU and global economy.

It is also possible to use the potential of geographical placement of Latvia within this particular model instead of trying to compete in the international economy individually.

A significant part of government active participation in the spatial planning development forms the establishment of technical, transportation, and social infrastructure. Demographical, social and economic indicators clearly show that municipalities and state itself in next few years will not have noteworthy state resources for investments in the development and establishment of explicitly polycentric economic structure of the state. Wherewith the issue about the management ability to create a new vision and ability of the participants (government, municipality, entrepreneurs, and inhabitants) to cooperate for increase of international competitiveness is urgent or choice to maintain irrational reliance on return of world economy tendencies to before-crisis situation and offered solutions. The city competitiveness in after-crisis period will be determined by their adventure to establish new vision of economical development and ability to ensure versatile cooperation with participants of public and private sectors. Regions in their development must pay great attention to the development of separate cities and metropolis, as well as in the establishment and use of city and city – rural area models.

#### **EU financial support for the development of city competitiveness in Latvia**

For a successful development of cities and attraction of EU funds Latvia has worked out the city policy with the help of which the government seeks a solution for the development of cities and the means for solution of problems. Tools of “Investment” traditionally are directed on investments in infrastructure. During the planning period of 2007 to 2013 Latvia established the implementation scheme of “Investment” tools policy, which is subordinate to available EU financial resources. The states strategic contain document (further SSCD) for the period from 2007 till 2013 year is the main planning document of state level structural funds and cohesion funds that ensures the connection between the cohesion politics and national priorities and bases the choice of this priority, also sets the strategy of funding acquisition, leading frame, ensures the coordination between financial tools. The mechanisms of the SSCD are shown in operation programs and its` additions.

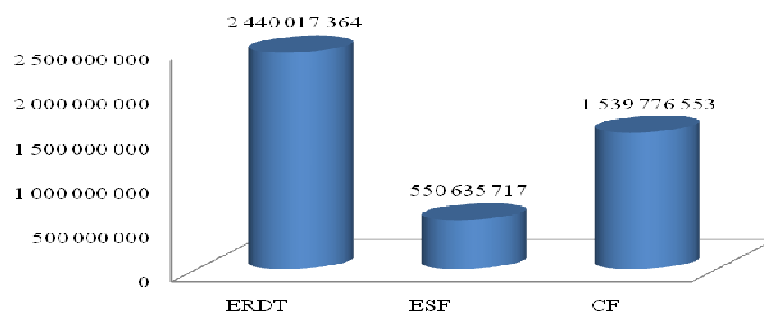
**The priorities of Latvia's development for the funding of the Structural Funds, its percentage division for time period from 2007 till 2013 year<sup>9</sup>**

Priority	Title of topical axis	The structural fund	Part of total funding amount %
1	Human resources and employment	ESF	12,19
2	Business and innovation	ERDF	16,30
3	Infrastructure and services	CF; ERDF	71,60

The priority „Human resources and employment” is meant to develop human resources and effective use of them. The wanted activities are: education, administrative capacity, technical support, health, employment. The priority „Business and innovation” is meant to increase the competitiveness and it is meant for movement to the economy that is full of knowledge. The wanted activities are: science, researching and development, innovation, competition increase, financial activities. The priority „Infrastructure and services” is meant to improve public services and infrastructure with precondition of states and its all territory balanced development. The wanted activities are: tourism; socially economical influence on culture, environment; power intensity of household, transports and infrastructure; development of cities. In this priority the following activities are funded by the Cohesion Fund: transport; environment; sustainable development; technical support.

The support for the regional governments, non-governmental organizations, institutions and businessmen was offered according to three programs including 18 priorities, 35 activities and subordinating 150 sub activities (Activity program, 2007). There are two selections for project competitions: the opened selection of project applications and the limited one.

During the period from 2007 till 2013 three structural funds of the EU will be accessible in Latvia with total sum 4.53 billion euro. The following chart shows the funding division among funds:

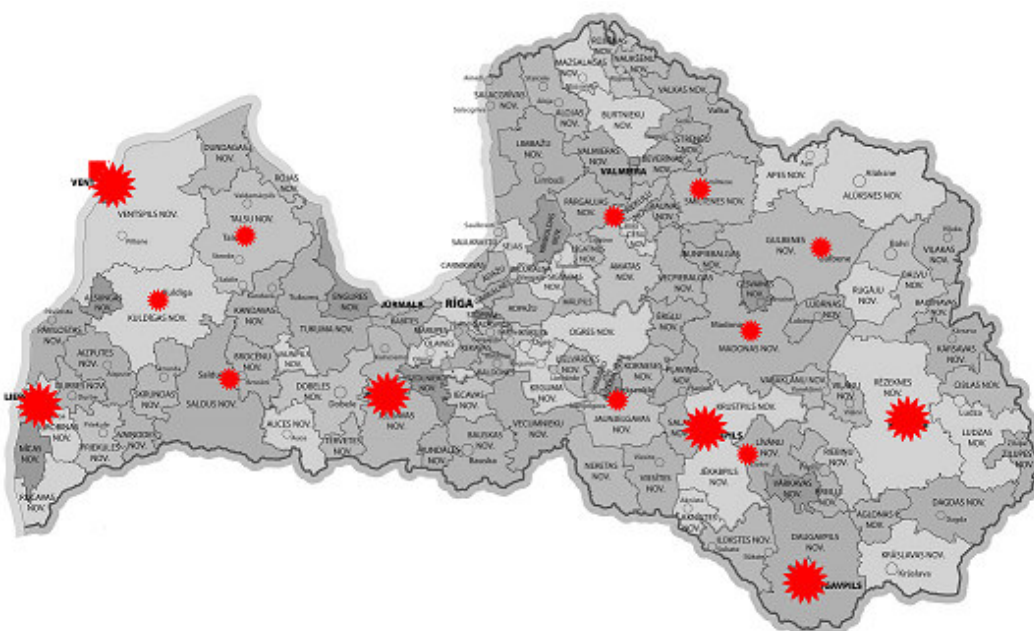


**Figure 8. The division of the Structural Funds in Latvia for the period from 2007 till 2013 year, EUR<sup>10</sup>**

<sup>9</sup> Valsts stratēģiskais ietvardokuments [internet source 05.04.2010] <http://www.esfondi.lv/page.php?id=479>

The coordination of the structural funding implement process for the period 2007 – 2013 year was begun in the beginning of 2006 year. In following order it was accepted at groups of the National Development plan, The Ministry of Finances, in discussions between social partners, non – governmental organizations, planning regions and other responsible institutions. The government had to pass 150 resolutions to start plan the acquirement of the billions given for the next time period. Still in the end of 2007 year a real acquirement of new funding was not started because all necessary documents and databases were worked out so slowly. Almost every project handled by the Ministers got objections from the Ministry of Finance, other ministries, also from non-governmental organizations and social regional partners. It could be connected with low clerk competence and lack of suitable skills and knowledge.

The special attention during the period 2007 - 2013 is paid to the sub-activity No 3.6.1.1 „Increase of the national and regional development centres growth for state’s levelled development”.

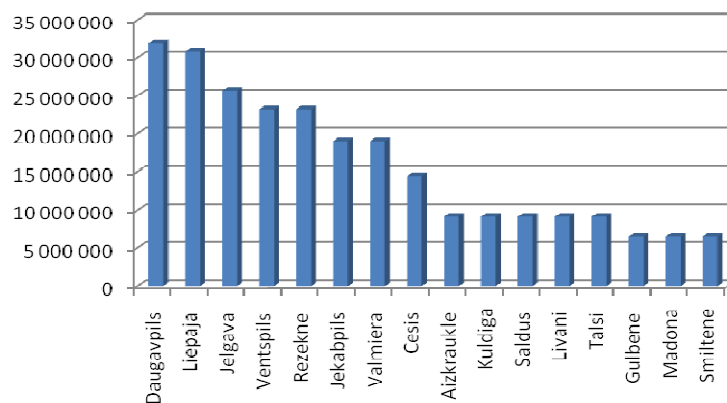


**Figure 9. Defined polycentric development cities of national and regional importance in Latvia**

The goal of activity is to ensure the definite national and regional centres (cities) growth, to support the competitiveness of city and region environment. 16 cities of national and region importance may participate to get the structural funding of the EU. There is a separate sub-activity for Riga.

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<sup>10</sup> Funding division among industries for 2007 – 2013 years. [internet source 29.01.2010] <http://www.esfondi.lv/page.php?id=633>



**Figure 10. Allocated ERDF financing for the polycentric development of Latvia in 2008, EUR**

Total available amount of funding is 297.69 million EUR, inter alia the financing of European Regional Development Fund 253.04 million EUR and national public financing 44.65 million EUR (Regulations of the Cabinet of Ministers No.91, 2010). The implementation of such projects will help to develop several development centres of national importance and ensure the city cooperation net in Latvia.

### Conclusions of the research

- 1) The consequences of economic and social crisis stimulate the reassessment of accepted and emphasized concepts that are self-evident, and management principles. Rapid changes in world economy give a reason to evaluate the topicality of hitherto adopted decisions and their conformity to current and future economic, social and demographical situation in Latvia, taking into account GDP, reduction of employment and number of inhabitants, as well as increase of demographical load, budget restrictions, and investment deficit.
- 2) Baltic States in general, also Latvia are explicitly monocentric countries. Latvia currently experiences the necessity of internal model of polycentric development – several development centres in every Latvian region, which are based on current distribution of population. For the implementation of polycentrism in Latvia huge financial investments and implementation of powerful policy are needed.
- 3) The increase of social inequality and consequences of economic crisis negatively affects the amount and quality of Latvian human resources; it causes emigration and outflow of talented people. If a social tension remains, it is predictable that unemployment (March, 2010 – 22.3%) and poverty will increase (29% in 2009), but number of inhabitants will decrease (the decrease from 1990 to 2005 is 13.6%) also in future. In the effect of negative social and demographical indicators the cities of Latvia lose their competitiveness.
- 4) In time until 2007 Latvia experienced economic growth, though it did not solve social problems. It is important to mention that economic growth could be observed in the context of region, not all country. Latvia has equal fiscal policy in all its territory and high tax rates which impede economic activity. The government must form deliberative, united statement of taxes in average term,

which, in its turn, would increase the productivity, and motivate to employ inhabitants. Municipalities in local level clearly see the problems, which impede the growth of socially-economic territory and city competitiveness; therefore it would be useful to form action tools for municipalities, which would help to promote the business action in belonging territories.

- 5) Since the beginning of 90.-ties the state investment planning in Latvia had been decentralised. This sample has not provided a positive impact on region development. Currently the state government can stimulate polycentrism by making centralized planning, as well as evaluating the necessity and direction of investment of cities, rural areas, and provincial towns. Availability of resources would allow region centres to make and realize their own after-crisis development strategies and effective competitiveness.
- 6) Polycentric approach to development of region territories is one of the ways how to move EU finance resources to investments of infrastructure and establish attractive environment both for inhabitants and investors. It is the only way how to stop decrease of human resources in peripheral areas. In future Latvia will have to make immigration policy in order to develop all state territory purposefully and promote attraction of qualified human resources.
- 7) The development of city competitiveness in Latvia is possible by choosing polycentric state management method. The city competitiveness in after-crisis period will be determined by their adventure to establish new vision of economical development and ability to ensure versatile cooperation with participants of public and private sectors. Regions in their development must pay attention to the development of separate cities and metropolis, as well as establishment and use of cooperation models among cities and rural areas.
- 8) During the planning period 2007-2013 Latvia established the implementation scheme of "Investment" tools policy, which is available with the support of EU financial resources. The application of allocated resources has been planned carefully in order to gain the maximum efficiency. The special attention is paid to the sub-activity „Increase of the national and regional development centres growth for state's levelled development". The goal of activity is to ensure the definite national and regional centres (cities) growth, to support the competitiveness of city and region environment. With the help of these projects it will possible to develop several development centres, which are significant to state, as well as provided city cooperation net in Latvia.

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