

Latvia

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1. GENERAL CHARACTERISTICS OF THE LOCAL UTILITY SECTOR

Explanation of terms and corresponding laws:

- *'Self-government'*: see the law On Entrepreneurship [33] which determines that an entrepreneur can also be self-government.
- *'Self-government institution'*: an institution established by the self-government and subordinate to it, a manager of institution is appointed by self-government.
- *'Self-government enterprise'*: the enterprise of one owner, the activities of which are regulated by the law On Self-Government Enterprise [34], which determines that a self-government enterprise is an independent economic unit with rights of juridical person, which performs entrepreneurial activities with separated part of self-government property assigned to it. Self-government enterprise sells its products, work, services and other values according to tariffs and for prices, which are determined in self-government or state order, or for contract prices if such ones are determined in laws and other normative acts. Profit, which remains in self-government enterprise after settling taxes and other payments determined in laws and agreements, is divided between self-government and enterprise according to the statutes. Enterprise uses the remaining profit according to statutes and collective agreement.
- *'Joint-stock company'*: an enterprise (or statutory company), capital of which consists of aggregate amount of nominal values of shares. In state and self-government joint-stock companies the functions of stockholders' meeting is performed by attorneys (representatives), who are appointed according to the procedure determined in the law On Administration of State and Self-Government Property in Enterprises.
- *'Limited liability company'*: a foundation. The operation and administration of limited liability companies is determined by the law On Limited Liability Companies [36]. Self-governments have rights to transform self-government enterprises into limited liability companies. The law On Change of State and Self-Government Enterprises into Joint-Stock (statutory) Companies regulates such transformation.

Latvia is unitary state, otherwise known as a parliamentary republic. Public functions are considered to be state functions if, only according to the law, they are transferred to district self-governments, local self-governments or non-governmental organizations. There is an exception in this system—local self-governments can voluntarily choose their functions, but only if these functions are not in the competence of another self-government or state institution. In the law On self-governments [1] functions chosen this way are named “voluntary functions”.

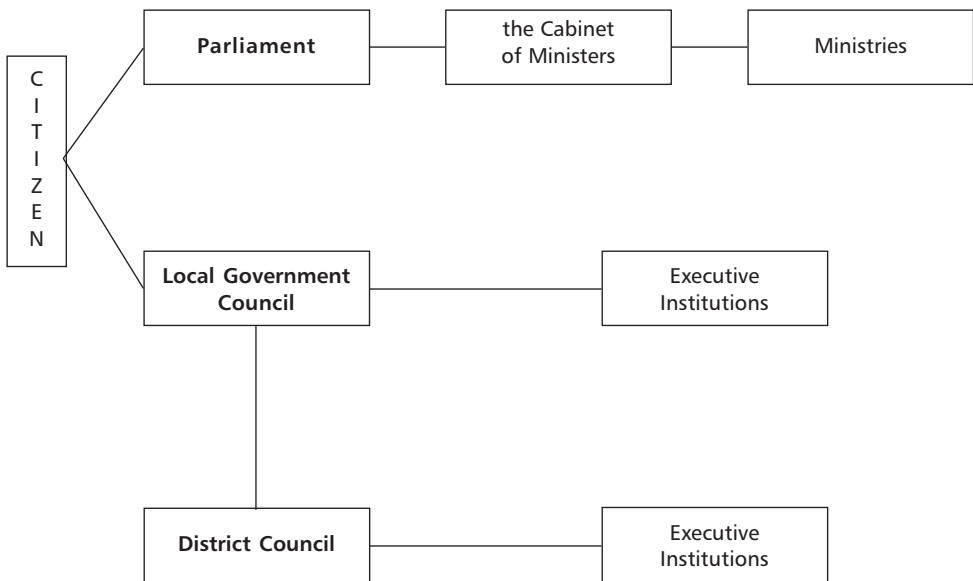
When performing their functions self-governments have the following rights:

- To establish institutions, enterprises and participate with their own finances in enterprises;
- To obtain and expropriate movable property and real estates and perform other private juridical transactions;

- To introduce local fees and determine their size.

The citizens of Latvia fulfil state public power through the highest decision making institutions: Parliament and local governments, which are elected in direct elections, and district councils formed by local governments. According to the Constitution, Parliament establishes the highest state executive power when approving the Cabinet of Ministers offered by the Prime Minister and ministries.

Figure 5.1
Public Administration Scheme



In the perception of Latvian legislation, public services are the services which are provided by enterprises acting according to exceptional rights assigned in the law or other normative acts, or license issued by state or local government institutions. According to the law On Construction, Supply, Rent and Services for Needs of Public Service Enterprises. [19], public services are the following:

- Energy supply;
- Extraction of drinking water and supply, distribution, maintenance of networks;
- Installation and maintenance of sewerage networks and wastewater treatment facilities;

- d) Administration of airport and sea port;
- e) Exploration and extraction of lodes of oil or gas;
- f) Maintenance of public telecommunication network and provision of telecommunication services;
- g) Maintenance and administration of railway infrastructure of public use;
- h) Passenger transportation with busses, trams and trolleybuses.

This list has to be complemented with the rent of dwelling apartments, which is regulated by a special law, and the maintenance of dwelling houses which in the process of privatisation transforms into service of free competition.

The law "On Self-Governments" [1] determines that self-governments in the sphere of public services perform the following functions:

- a) organizing public utilities to inhabitants (heat and hot water supply, water and sewerage),
- b) taking care of improvement and sanitary cleanliness of administrative territory (domestic waste collection, treatment and disposal of waste, maintenance of streets and parks, street rain waters, street lighting, cemeteries);
- c) providing of assistance to inhabitants in settling housing issues (rent and maintenance of housing fund);
- d) organising public transport services;
- e) voluntary maintenance of fire brigades

Self-governments have to the right to choose the form of public service provision. This choice takes place when determining if self-governments deliver services directly or hands over this service provision to enterprises. In small self-governments, mainly rural municipalities, these services are provided by self-governments themselves when establishing institutions or in separate cases one or several employees deal with these services. But in the majority of towns for the rendering of these services, self-government enterprises are either established, or the rendering of these services is transferred to private enterprises.

Information on the forms of public service provision was collected by a survey of the Union of Local and Regional Governments (ULRGL)¹ The question was who provides public services in their territory: self-government institutions, self-government enterprises, state enterprises, private enterprises, or inhabitants themselves. In rural municipalities 50% of public services are provided by self-government institution. (see Figure 5.2)

In the case urban self-governments 44% give preference to self-government enterprises. (see Figure 5.3)

Figure 5.2
Public Services in Rural Municipalities in 2000

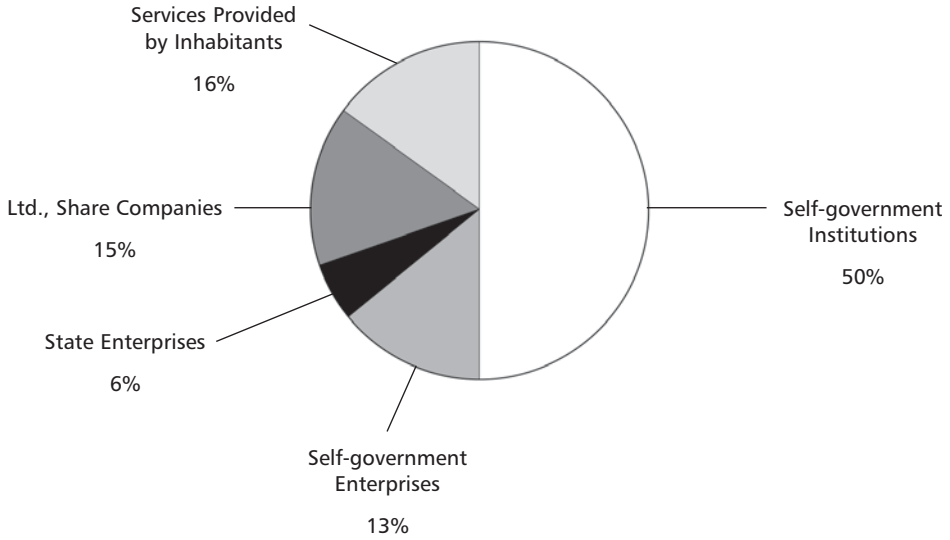
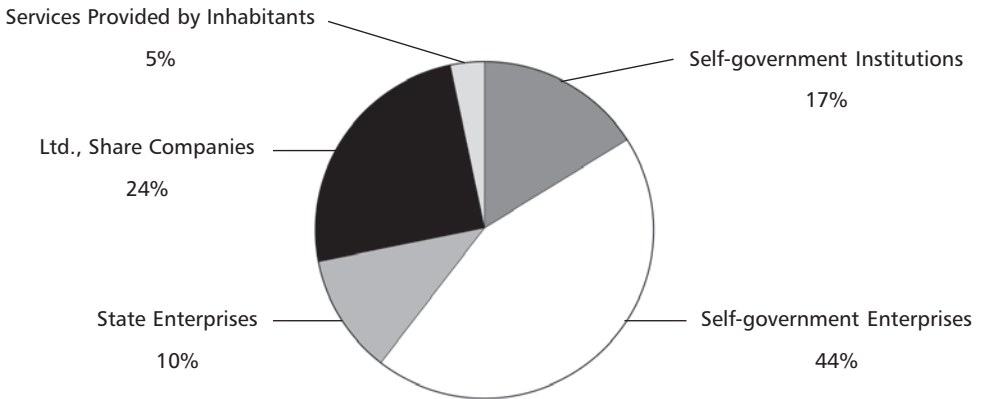


Figure 5.3
Public Services in Cities and Towns



Organization of public service rendering is a self-government function, for the performance of this function there are two possible variants: services are rendered by the self-government; the self-government establishes an institution for the rendering of services; or the self-government delegates this task to self-government enterprises, limited liability companies and joint-stock companies.

Table 5.1
Organizational Forms of Local Utility Services

Public Services	Self-government Institutions	Self-government Enterprises	State Enterprises	Ltd, Joint Stock Companies	Services Provided by Inhabitants
Heat supply and hot water	100	63	10	27	55
Water and sewerage	156	83	10	26	23
Household wastes	109	66	8	83	30
Housing management	223	125	1	39	187
Public transport	49	30	60	125	6
Street lightning	107	20	24	17	4
Roads, streets, squares, parks, greenery (repair and maintenance)	166	42	29	70	4
Cemeteries	156	33	0	6	26
Total	1 066	462	142	393	335

The choice of self-government to provide public services themselves or delegate provision of services to self-government enterprises or entrepreneurs is affected by the type of public services, which have to be provided by self-governments. In Table 5.1 results of a survey on 246 self-governments are summarized. Data shows that how many organisations with different forms of property provide public services.

The draft law "On Procedure of Coming into Force of Commercial Law" is currently being reviewed in Parliament. The most important norms of this draft law which regard state and self-government enterprises are the following:

- Until December 31, 2002, state and self-government enterprises have to be either transferred into companies and have to be declared for registration in commercial register, or its liquidation must be started, according to the decision of its owner.
- Enterprises, which are registered as non-profit organizations have to be transformed into companies or be liquidated. After the Commercial law will come into force entrepreneurship can be established as non-profit organization only in the form of a company.
- The special regulations are applied to a company, which is established as a non-profit organization on the procedure of use of reserve funds foreseen in the statutes, liquidation and dispossessing of shares.

During the further course of the reform it is foreseen to update the norms of the law On Non-Profit Organisations. The important matter is that companies—non-profit organizations—will continue to exist.

During the reform the existing agencies which have been established according to private legislation on enterprises have two possibilities:

- i) to be transferred into agencies whose status is determined by public legislation;
- ii) to be transferred into ‘non-profit entrepreneurs’ whose status is determined by the Commercial law and the law On Non-Profit Organizations”.

The legal successors of self-government functions and obligations will lose the privilege to make state or self-government procurement when evading the legislation on public procurement.

The gradual transformation of self-government enterprises goes on independently from the new legislation. As an example, the share company called the ‘Riga Heating Company’ should be mentioned. The change of status and property forms of this enterprise characterizes the development of the process in the cities of national importance in general (see Table 5.2.)

Self-governments fulfil representation of their interests in self-government enterprises whilst appointing the manager of enterprise and determining of tariffs for services rendered by enterprise. The essential form of control of self-government enterprises is when self-governments, with the help of their auditing commission, can perform control of economic activities of these enterprises. But in joint-stock companies and limited liability companies where there is self-government capital, the representation of local government interests is fulfilled through authorized representatives whom the self-government delegates to administrative institutions of these enterprises.

Self-government rights to regulate provision of public services are provided in the law On Self-Governments [1], which determines that self-governments have the competence to fix charges for:

- Rent (lease) of self-government dwelling and not-living fund, which is closely connected with the covering of expenditure for the maintenance of apartment houses, as well as to fix maximum rent charge in the territory of the self-government;
- Use of self-government water main and sewerage;
- Heating supplied by self-government;
- Collection of household wastes;
- Other services which are provided by self-government institutions and enterprises.

This self-government competence to fix charge for use of self-government water main and sewerage, heating supplied by self-government and collection of household wastes concerns to all enterprises, which provide these public services on the territory of self-government.

Table 5.2
The History of the Transformation of the Enterprise the ‘Riga Heating Company’

Years	Enterprises	Legal form
1990–1992	State enterprise ‘Latvenergo’ Boiling houses of separate enterprises	State enterprises
1992–1994	State share company ‘Latvenergo’ as the owner of DHP1 (district heating plant) and DHP2. Riga City municipality establishes the Board of district heating and take possession of networks and boiling	State share company + self-government institution + enterprises which supply heat to the network.
1994–1995	DHP1 and DHP2 within the structure of ‘Latvenergo’, ‘Board of district heating’, Self-governments of districts of the city establishes the subject of private rights—share company ‘Pārdaugava heat supply’	State share company + self-government institution + private company where self-government capital is dominating + private enterprises
1995–2000	DHP1 and DHP2 within the structure of ‘Latvenergo’, share company ‘Rīgas siltums’, privatized enterprises	State share company + private company where 49% belongs to self-government, 49% belongs to state s/c ‘Latvenergo’ and 2% to Baltija Tranzit Bank
2000	Unchanged	Unsuccessful attempt to privatise DHP1 and DHP2, which has been rejected by referendum

2. LOCAL GOVERNMENT MANAGEMENT PRACTICES

The decision making institution of self-government has exclusive rights to:

- approve statutes of self-government;
- approve territorial division of self-government and its administrative structure;

- establish, reorganize and liquidate self-government institutions and enterprises, to approve the regulations of self-government institutions and statutes of self-government enterprises;
- appoint and to dismiss managers of self-government institutions and enterprises as well as another officials in the cases determined in the law and the statutes of self-government;
- appoint and dismiss the executive (managing) director;
- decide on alienation, mortgaging and privatisation of self-government real estates as well as purchase of real estate into self-government property;
- decide on the use of the right of first refusal on real estates being sold in corresponding administrative territory;
- determine the procedure how transactions with movable property of self-governments are concluded as well as the procedure how the receiving and management of donations and devises takes place, and how loans and other economic commitments are undertaken on the behalf of self-government;
- decide on other issues especially those, which are mentioned in the law On Self-Governments [1].

The decision-making institution of self-government issues statutes to regulate the work of self-government institutions. To regulate the work of managers and other officials of self-government institutions instructions are issued. Self-government statutes has to correspond to model statutes approved by the Cabinet of Ministers, but these model statutes determine only a range of issues which have to be reflected in statutes, but do not limit the content of statutes.

Specifically the self-government statute, but not national laws or the regulations of the Cabinet of Ministers, determines the mutual competence of politicians and executive institution. Thus in Latvia this is the matter of deputies of local and regional self-governments—how much they trust their employees and what structures to establish to implement the functions.

Regarding public utilities (water supply, electricity, sewerage, waste, heating) several forms of contractual relations are allowed for recipients:

- an agreement can be signed directly with a tenant of a separate apartment;
- an agreement can be signed with the manager of an apartment house;
- an agreement with owner of apartment house.

The tenant, but not the owner of an apartment house has the right to choose the form of the agreement. The first form is more favorable for those who intend not to pay or because of objective reasons cannot pay. If the tenant does not pay for public utilities services, but pays rent, then the charge cannot be brought against this tenant on eviction from the apartment. Provider of public utilities can try to recover a debt through the court, but it does not concern the rights of rent at all. Theoretically, it is possible to stop some types of services, but in the majority of cases, big

capital investments would be needed because the law forbids the stopping of services to other apartments which do make payments.

The most common form of agreement is with the manager of an apartment house. In this case, it is not advantageous for the enterprise to save energy or other resources. The manager of an apartment house receives the invoice for a full payment sum not dependent on those tenants who have or have not paid. In such cases both the legal and political circumstances are against the management of the apartment house. The following should be taken into account:

- laws limit possibilities to recover a debt;
- agreement with providers of public utilities envisages penalties for each day of payment delay;
- politicians who favor strong measures against non-payers risk losing the next elections.

According to this scheme, problems also arise to the providers of public utilities as well. Users of services delay payments, therefore service providers have to continuously work in a regime of advanced service. Enterprises make an advancement to the management of an apartment house from whom they have not received full payments for delivered invoices. But the state calculates taxes for the provided services immediately, as if money has been received. Therefore without the interference of self-governments with the giving of additional grants, the above-mentioned scheme does not work.

The ones who suffer most of all from such a system are the regular payers. Over a long period of time, the need to balance expenses with incomes leads to an increase of tariffs. Thus regular payers and self-governments pay for everything.

2.1 Separation of Public and Private Functions

The separation of public and private functions is usually motivated by the consideration that admitting the coexistence of private and public activities in any of the spheres would distort the competition.

This division would also create instability in relation to the changes of dominating political ideology, which follows almost every election. For example, for quite a long time the successive governments considered that it is necessary to privatize the production and supply of electricity. But left wing parties succeeded to have enough signatures for organizing the referendum. As a result, the government had to give up its programmatic directions in this particular issue of the public utilities sector.

There are attempts to determine the legal status of state and self-government agencies. According to the concept of Public Administration Reform passed by the Cabinet in 1995, it was advised to remove uniform administrative and service functions from ministries, whilst establishing state agencies for this purpose. Since at this time there was no appropriate legislation on these institutions—agencies, then the form of private companies—limited or joint-stock companies were chosen.

In the special law of the regulations of the Cabinet of Ministers, a public competence, procedure of establishment and functions of an agency were determined. The main task of an agency became the implementation of normative acts under the supervision of state attorneys. An agency obtained a quite high level of independence, and at the same time became the subject to all supervision procedures of the private companies sphere.

At the same time the ministries, who now had an established agency under their supervision, were not able to control the situation sufficiently. State attorneys were quite often chosen because of political reasons and not for professional principles. Thus the government kept the political responsibility, but lost the possibilities of policy implementation.

The Ministry of Finance also expressed discontent. While setting the task to strongly control the formation of debts and obligations, it was not satisfied with financial reports of agencies—about the enterprises. Dissatisfaction was also expressed by journalists. State agencies refused to give complete finance reports by basing their arguments on the procedure of proclaiming the commercial secrecy as determined by the law.

Similar problems during the same period also arose within self-government agencies. Mainly they exist in the form of co-operation enterprise—for example, tourism or development agencies. There are also mixed type institutions (state together with self-governments) with the features of agencies—port management boards, patients funds and so on.

There are attempts to cut down the possibility that during the decision making process state and self-government officials are influenced by the private interests. For this purpose there is the Corruption Prevention Law [26] and the institution system for its implementation.

According to the law, a situation of a conflict of interest is when an official has to perform his or her mandate in a matter where at the same time the material or other personal interest of this official or his or her relatives exist.

The law [26] determines that the officials to whom the restrictions applies are:

- The chairman and vice-chairmen of self-government, executive director and vice executive directors of the self-government;
Deputies of self-government decision making institution;
- Managers of state and self-government enterprises along with their deputies;
- Managers and their deputies of private companies if the public share in aggregated capital of these enterprises exceeds 50%.

The law delegates to the Cabinet of Ministers the rights to determine the list of the officials who are subordinate to the restrictions of the Corruption Prevention Law, if they pass administrative acts or deal with state or self-government property or financial means.

The following restrictions are applied to the mentioned officials regarding:

- the decision making which concerns them, their relatives or enterprises, where they own more than 1% of capital or their relatives are in management institutions of enterprise;
- the implementation of controlling, inquiring and punishing functions in above mentioned cases;
- the rights to be the representative of the state or self-government in relations with physical or juridical persons representing his/her own interests or interests of relatives.;
- the rights to receive presents or additional payment;
- the combining of several posts.

When taking up the post as well as once a year officials fill in the special declaration, which is controlled by the Department of Corruption Prevention of the Ministry of Finance. Such declarations have to be filled in three years or more after leaving the post. But the Corruption Prevention Law does not prevent the main cause of corruption expansion which is an excess of regulation. Much permission, many licenses and many controllers create a corruptive environment.

2.2 Co-operation among Small Local Governments

The aim of inter-municipal cooperation, as well as administratively territorial reform is to provide qualitative services to inhabitants. There is a point of view that qualitative services with minimal expenditures can be provided only by big self-governments. While following this point of view the administratively territorial reform is implemented while putting emphasis on the administrative, territorial and economic amalgamation of self-governments. As a result of amalgamation the newly established self-government is economically and administratively strong, but the negative fact is that in these new self-governments, whilst the possibilities of inhabitants to directly influence the development of their territory decreases, the centralization of power goes on.

The co-operation of self-governments creates the possibility to keep the elected representation of each of self-governments when providing efficient use of financial means of each municipality and via commonly established institutions to implement the main goal—to provide qualitative services.

The legal status of co-operation is determined in the law On Self Governments [1], which determines the rights of self-governments to co-operate. According to this law two forms of co-operation are possible. The obligatory co-operation for the implementation of some functions assigned to self-government by the law and voluntary co-operation for the implementation of tasks linked with different issues of common development issues and preparation and implementation of projects as well as for the implementation of concrete functions.

The obligatory co-operation is determined in the case if some self-government do not have their own infrastructure, then the obligation of these self-governments is to sign agreements with other self-governments in order to provide the implementation of functions foreseen in the law. In these cases the Cabinet of Ministers determines the procedure of mutual inter-payments of self-governments. Usually such a scheme is applied to provide the social care services and education. It has to be noted that in the cases when the obligations are not fulfilled regarding the payment for provided services—the self-government which is service provider have rights to turn to the State Treasury to recover these means through the self-government financial equalization fund. The voluntary co-operation of self-governments for the implementation of the functions of their competence is also determined in the law On Self-Governments [1], which states that in order to solve the tasks which are the matter of interest of several self-governments they have rights to co-operate. The legal base of the co-operation, is the co-operation agreement signed between interested self-governments. Such co-operation agreements have to be signed within the frame of the self-government budget, if corresponding decision of self-government council has been passed or signing of the co-operation agreement is foreseen in the statutes of self-government.

The law On Administratively Territorial Reform [40] determines the procedure on how, after the investigation of administrative territories, the co-operation projects of rural municipalities and towns have to be prepared. These projects are the basis for co-operation.

When implementing co-operation, self-governments have rights on the base of mutual agreement to establish common institutions for the performing of common tasks. Such institutions operate on the base of the statutes approved by the corresponding councils, which sets the competence of the common institution, its financing and supervision procedure as well as other issues of work of the common institution.

If we look at the experience of Latvian self-governments in the implementation of co-operation projects, then the biggest proportion is towards the creation of co-operation associations, which are authorised to carry out the following tasks:

- development planning;
- attraction of investments;
- establishment of common institutions;
- establishment of common enterprises.

The main target of development planning is to elaborate mutually connected development plans of self-governments when using the intellectual potential of each municipality.

The attraction of investments is a complex issue. Each small self-government has touched upon the problem of attracting finances to the projects elaborated by this self-government. But also several municipalities when having elaborated some common project, for example, infrastructure projects,

which have a problem in attracting financial resources. Since it is not determined in the legislation that institutions commonly established by self-governments can be juridical persons with their own budget, then the problem arises with receiving credits. Even several self-governments have elaborated common projects, in the case of taking credit each self-government has to do it separately.

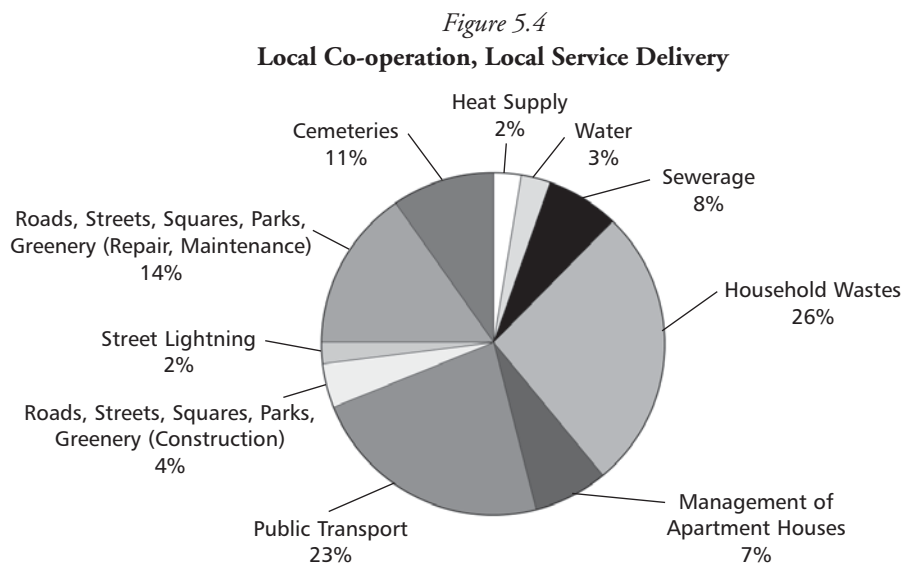
Within the frame of co-operation projects self-governments establish custody courts and construction boards.

Some self-governments establish common enterprises mainly of:

- 1) The provision of water supply and sewerage services. The biggest such common enterprise is being established in the North Kurzeme self-government co-operation association. The biggest possible problems, which such common self-government projects can meet is the passing of common decision on the basis of common agreement and the implementation of agreements.
- 2) Waste management. The establishment of common enterprises for the provision of this service is, in fact stimulated from above and is linked with the implementation of the strategy of waste water management elaborated by the Ministry of Environment and Regional Development.

When establishing common public service enterprises the important sphere appears in the regulation of these services—that is in the establishment of the regulators of public services.

The Union of Local and Regional Governments in the questionnaire mentioned above set the question to self-governments on co-operation. The following data characterizes the co-operation of self-governments in the sphere of public services. (See Figure 5.4.)



2.3 Extension of Private Roles and Activities

The privatization process in the public utilities sector proceeds more slowly than in other forms of entrepreneurship. With the exception of some state monopoly enterprises, the privatization has already been completed in other sectors, whereas in the sector described, it has reached only the ‘middle stage’.

The public utilities sector is socially sensitive. The obligation of self-government is to provide the accessibility of corresponding services to poor inhabitants as well. Theoretically the scheme to accomplish the privatization consists of several stages:

- 1) *Communalization.* Giving of state enterprises in charge of self-governments. State refused from responsibility on whole sectors assigning them to self-governments with all debts. The most characteristic measure of such big scale was the transfer of heating supply enterprises to self-governments in the heating season of 1992–93. At that time, self-governments had to take big credits for purchase of fuel, because state assigned its unprofitable enterprises without fuel or finance reserves. During this period each self-government chose an independent strategy for the balancing of social and economic matters.
- 2) *Liberalization of prices and tariffs.* During the years of USSR occupation the introduced centralized planned economy were under unified tariffs, but the state ‘supplied’ the services under their prime costs. In order to stop the budget subsidies to the sector the liberalization of prices was necessary. The salaries were increasing more slowly than prices for other resources, therefore this liberalization of prices became a big problem for many households. Gradually, during the space of a few years, the prices for services increased ten times in comparable prices.

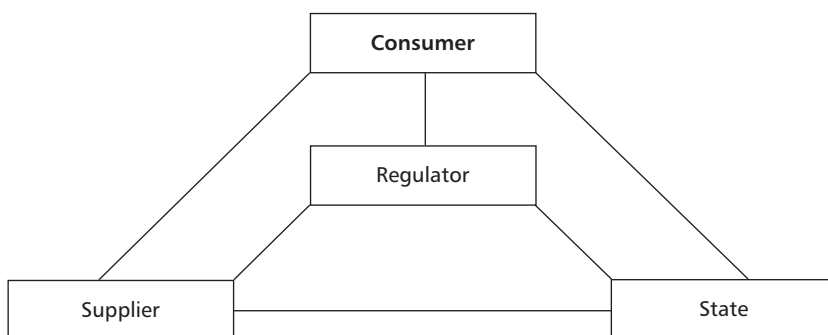
It was ‘allowed’ for self-governments to determine tariffs independently. The determination of economically based tariffs was difficult before the self-government elections of 1994. Thus the Riga self-government ‘voted’ for a determination of heat supply tariffs in amount of 60% from possible minimum amount, what caused the debt to heat supply enterprises within one heating season to the amount of 25 million Lats. The councilors who voted for formation of such big debt were more successful in the elections because the electorate wanted to pay less. In some spheres, as for example the determination of rent for flats, the liberalization still has not been completed.

- 3) *Establishment of a regulator.* The establishment of public utilities regulator started shortly after the liberalization of tariffs and prices. It was motivated with classical theme how a ‘non-political’ regulator will ensure the balance of state, suppliers and consumers interests. (See Figure 5.5.)

The first state regulators were established in the spheres of power industry (at the beginning—to the Regulation Council of Thermal Energy, which later was transferred to Power Regulation Council) and telecommunication (Council of telecommunication tariffs). At the same time the

norm on the 'assignment' of functions to self-governments was elaborated. Thus, the Power Regulation Council assigned the regulation of heat supply to all self-governments, except Riga City who refused to partake in this assignment.

Figure 5.5
The Position of Public Utilities Regulator



Initially the role of regulators expressed itself in three main spheres:

- Approval of tariffs;
- Licensing;
- Settling disputes.

It should be pointed out that from the beginning, licensing was not only the form for the determining of tasks, but also as the factor hampering competition. The enterprise when receiving the task to provide the service according to the terms set in the license gets the exclusive rights, which protect them from the competition.

In several spheres—waste management, water supply, rent of apartments, sewerage the role of regulator was taken over by self-government decision-making institution. Starting with year 2001 all self-governments will have to establish separated regulators to which self-government directions will not be binding.

a) Restructuring of Enterprises

In order to prepare the conditions which would draw services closer to the market the initial restructuring of big monopoly-enterprises could be necessary: introduction of separated accounting by branches and by types of services; dispersion of management and the strengthening of horizontal co-operation against the concentration of resources and power. It was essential for several state enterprises in public utilities sector such ones as 'Latvenergo', 'Latvian railway' and others.

In the case of self-governments restructuring sometimes went in the opposite direction. Thus from several self-government enterprises dealing with house maintenance the common institutions were established for the provision of services, big heat supply monopoly from several competing enterprises was formed et cetera. Such restructuring was more as hampering factor to the privatisation process. Politicians succeeded to stop the development for several years but in any case life proved later that it is necessary to return back to the started schemes.

b) Creation of Competition

As it was mentioned above the mentioned measure is more characteristic to big state enterprises. Usually it is the separation of networks from production and supply. Such strategy in Latvia was chosen for the privatization of electricity and railway branches. Such scheme can be used also in the communal sector. Sometimes it happens and sometimes not.

In some cases waste disposal is separated from collection and treatment. This scheme can be used also in heat supply, but temporarily the producers try to keep in their charge also networks.

c) Privatization

Privatization can be done while implementing both the all mentioned activities and part of them. In any case it has to be taken into accounts that private enterprises in public sector work for the profit. Therefore liberalization of tariffs is obligatory. When interfering in the processes of price regulation and 'imposing' on private sector excessive tasks to implement social functions instead of the state or self-governments the processes are delayed and the whole society suffers as a consequence.

Consistent policy in this meaning is the separation of *social and economic functions*. In such cases the marketing of services develops most rapidly and sooner the advantages created by competition mechanisms become apparent. In this respect, the good example is passenger transportation with motor transport. The mechanism of subsidising the unprofitable routes opened the way to real competition. Hundreds of enterprises compete each with other on the sale of routs. As a result it succeeded in renewing the routs to remote rural municipalities.

d) Consolidation of Small Companies

Self-governments inherited the communal service sector from the times of socialism and got them of different development stage. In big cities and towns of district centres these were enterprises under the subordination of town or district executive committees which started in 1991 when the implementation of local government reforms was in the hands of local town governments and transformed into self-government enterprises

On the territories of present rural municipalities the dwelling fund and public utilities infrastructure of Soviet time villages were the property of collective farms. Collective farms organised communal

services on these territories. When implementing the transformation from the socialistic system, rural self-governments were established and all public utilities infrastructure was given into their charge. At that time in every rural municipality self-government could pass decision on how public services will be provided on the territory of rural municipality. In majority of self-government while continuing the procedure established during the Soviet times all services were given in charge of one institution—self-government institution or self-government enterprise either the provision of services was taken over by rural municipality through its services (departments).

Consolidation of public services in self-government, its institution or enterprise has hampered the formation of separate enterprises of public services. There are several reasons for this:

1. *Keeping Administration*

The will of local politicians to keep the administration of services, whilst obtaining in this way the assurance that this way the possibility is created to provide faster implementation of self-government policy in self-government structural units.

The issue on keeping the administration, which means the complete retaining of public services in the hands of self-government is a political one. Councilors have to decide how much they interfere in solving everyday issues of provision of public services.

2. *Potentiality of Cross Subsidies*

Cross subsidies create the possibility to self-government politicians, (when taking into consideration the political situation and when evaluating the law solvency of inhabitants), to regulate the tariffs of public services according to the needs of a concrete time period. In fact, it means that self-governments determine tariffs lower then they should be. The losses caused by these lowered tariffs are covered by other incomes of the particular enterprise. In the cases when the services are provided by self-governments or its service (department) there is possibility to cover these losses from self-government budget.

3. *Small Amount of Public Services, Solvency of Inhabitants and their Debts*

This could be the main obstacle for division of enterprises or the separation of public services from self-government. This obstacle can be eliminated through the co-operation of self-governments or self-government amalgamation while increasing the quantitative necessity for public services. Such solution of this issue has another problem. Self-governments can pass the decision on consolidation of its enterprises or on creation of new enterprise, which in fact is also consolidation. The new enterprise becomes strong and it would be difficult for other enterprises to get into this particular market.

4. *Limited self-government budget*

It is closely linked with the previous condition, especially in the case with self-government services or institutions, because when retaining the common self-government service provision there is the possibility of a redistribution of means.

2.4 Legislation on Consumer Protection

In Latvia the consumers rights are protected with the law “On Protection of Consumers’ Rights” [42], the aim of which is to provide possibilities to customers to perform and protect their legal rights when signing the agreement with producer, seller or service provider.

The rights of customers are violated when purchasing goods and receiving services the free choice and expressed will of customers is not observed:

- The equality principle of contracting parts is not observed and the terms of a contract are not fair;
- There is no possibility provided to receive overall and complete information on goods and services;
- Unacceptable quality or unsafe goods are sold or unacceptable quality services are rendered;
- Payment for purchase and weight and measure are not determined correctly, as well as there being no possibility provided to make this certain;
- Contracts terms have not been sufficiently performed;
- Consumer is not possibility given to fulfil refusal rights to annul the signed agreement or other legal and contractual rights.

The obligation of seller or service provider is to provide true and complete information on quality, safety, price, guarantees and the possibilities of guarantee repair, regulations of use, name and address of seller or service provider (company) showing that in tag, in attached guidance of use, technical specifications or other written information.

The consumer also has the right to ask to have the additional information also orally. If the information in regulations on use is in a foreign language the translation to the State language must be attached.

The supervision and control of protection of the consumer’s rights is performed by the Centre of Protection of Consumers’ Rights, other competent and authorized state institutions in co-operation with self-governments and public organizations dealing with protection of consumers’ rights.

The Centre of Protection of Consumers’ Rights is an institution of state administration, which is under supervision of the Ministry of Economy. Its main task is to perform the protection of rights and interests of consumers.

The main functions of the Centre of Protection of Consumers’ Rights are:

- To perform control in the spheres of non-food trade and service provision;
- To perform control in estimating correct weight and measures of food and non-food goods;

- To organize and co-ordinate the co-operation of institutions involved in implementation of state policy in the sphere of protection of consumers' rights and non-governmental organizations;
- To review claims, organize check-up of quality of purchases;
- To provide the legal advice, to protect consumers' rights in the court.

Customers have rights to submit a claim on violations of requirements of normative acts of consumers' rights to the Centre of Protection of Consumers' Rights which has the right to determine the term to the producer, seller or service provided within which it is obliged to sent an answer on the violations mentioned by the consumer.

Consumers have rights to submit requests to the producer, seller or service provider regarding the found faults of purchases or services immediately after discovering them but no later than within a year from the day of purchasing or receiving of service.

Consumers have rights to voluntary join together in public organizations (clubs, societies, associations), where the aim of activities is to protect consumers' rights and which act according to normative acts and statutes of corresponding public organisation of consumers' rights protection.

The public organizations of the protection of consumers' rights have rights:

- Together with the supervision and control institutions of protection of consumers' rights to participate in check-outs which are connected with the observation of quality demands of produced and sold goods;
- To review the claims and proposals of consumers, to provide the necessary assistance to consumers in the cases when their rights have been violated;
- To file a petition to the court for protection of rights and interests of consumers and represent consumers in the court.

A consumer who has bought or got for his use the purchase of insufficient quality has rights to request that producer or seller decreases the price of the purchase, eliminates defaults of purchase, changes this purchase to the same one of sufficient quality or equivalent purchase, cancels agreement and repays to consumer the sum of money paid for the purchase.

The loss compensation is determined according to the Civil law when taking into consideration that:

- Consumer has no special knowledge on features and characteristics of purchased goods and received services;
- The reference of a seller that the information of the producer on purchase does not correspond to reality does not acquit a seller from responsibility.

Supervision and control institutions have to take over the responsibility on loss compensation to producers or service providers in relation to baseless action of supervision and control institutions.

The local public organizations of the protection of consumers' rights have elaborated the recommendations of how consumers have to protect their rights. They suggest turning to the Centre of the Protection of Consumers' Rights and the Committee of Thermal Energy Consumers only when attempt to settle the issue with service provider has ended unsuccessfully with the refusal from its side.

- The first step to settle an issue is to turn directly to the service provider. Such rights are provided to the consumer by the regulations set by the Cabinet of Ministers: 'Procedure how a tenant or owner of a flat settles accounts for received public utilities'. They determine that a consumer has to provide complete and true information on indicators shown by meters installed in a house and how the charge is accordingly calculated.
- If expanded calculation as a proof for price of service is not received, then it is necessary to turn to self-governments, whose function is to regulate service enterprises and to protect consumers;
- If the answer is not received from self-government and the issue is not settled, then support has to be looked for in state, self-governments or the public organizations of the protection of consumer rights or in the prosecutor's office.

In order to stimulate the activities of Non Governmental Organizations (NGOs):

- It is necessary to establish a favorable judicial system and to increase the understanding of decision makers, NGOs and society on the importance of NGO sector while regularly being aware on, analyzing and popularizing the role of NGO sector input;
- Self-governments would have to participate actively in the facilitation of the work of NGOs while providing the accessibility of information;
- To maintain an up-to-date data base on existing NGOs and their activities;
- To provide assistance to NGOs in project preparation and co-ordination;
- When using the capacity of self-government employees to provide assistance in various educational activities;
- Self-government officials should provide support to NGOs both with personnel and other resources.

3. LOCAL SELF-GOVERNMENT FINANCES

The analysis of self-government expenditures for three years period (1997–1999) show that 19–20% from self-government means are allocated to economic sector. Thus in these were 61.8 million

Lats or 20%, in 1998—69.9 million Lats or 20% and in 1999—63.5 million Lats or 16%. The decrease of financing in 1999 is explained with decline of the common self-government financial situation. Most of funds are allocated to education, this part includes state earmarked subsidies for teachers' salaries.

If analyses are carried out with regard to self-governments, then the conclusion is that cities of national importance are ones which allocate most of their finances to the economy, comprising of 23% from the total expenses, in towns 22%; and in rural municipalities 18%; but in district self-governments only 2%. This is because the public utility sector is the function of local self-governments.

In 1999 self-governments all together channelled 63.5 millions Lats into the economic sector, from then on 93% (60.2 million Lats) were allocated to housing, communal sector and environment protection.

4% or 2.5 million Lats from expenses in the economic sector were channelled into the purchase of fuel and services and measures in the power sector. These expenditures include expenses for the management of services and fuel in the power sector, investments, fuel, electricity and others (See Figure 5.7.)

Figure 5.6
Self-government Expenditures 1997

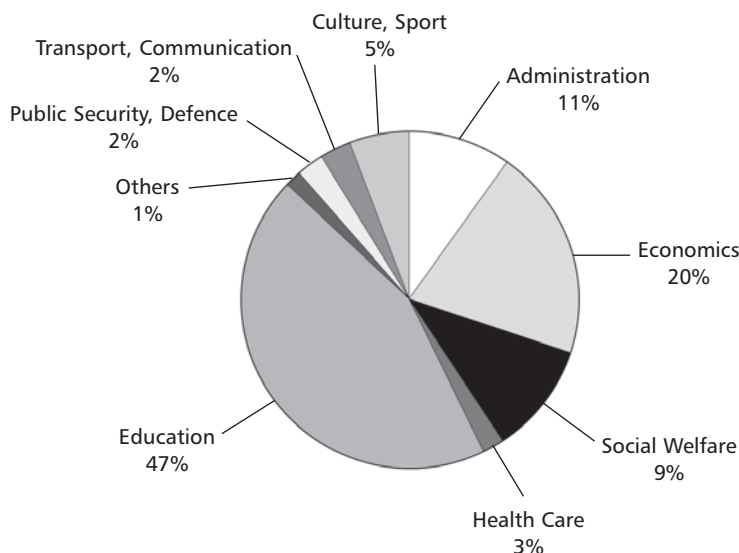
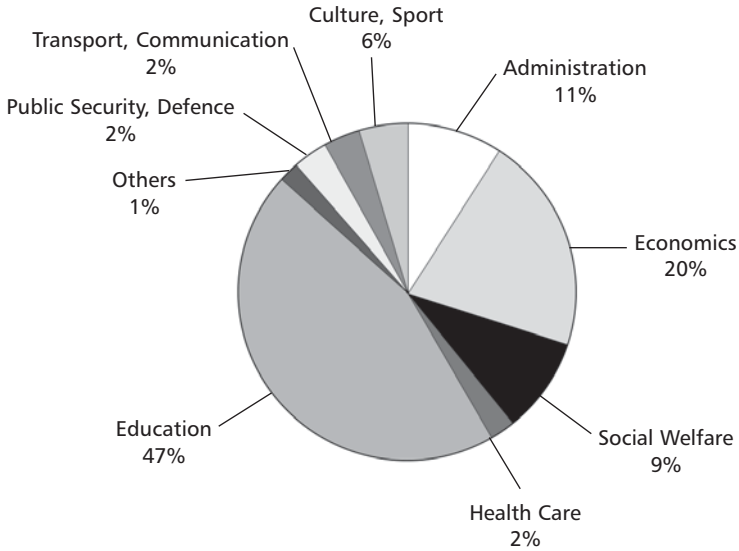


Figure 5.6 (continued)
Self-government Expenditures 1998



Self-government Expenditures 1999

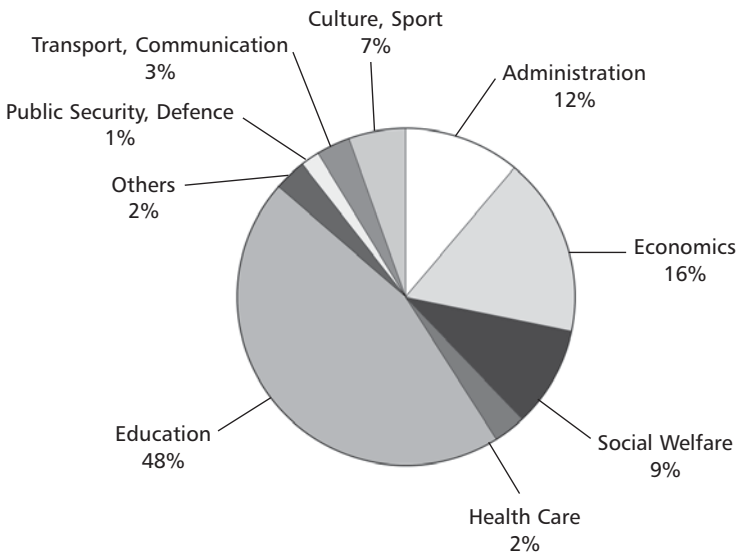
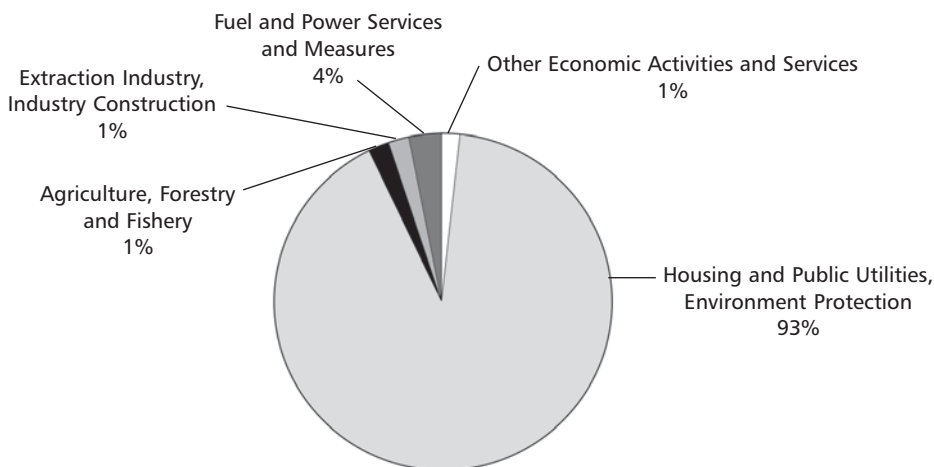


Figure 5.7
Self-government Expenditures in Economic Sector in 1999



Total self-governments expenses for the transport and communication sector are 2–3%. This expenditure now includes expenses for the management of transport and communication services, investments, motor transport (management road and highway construction, including maintenance town roads, streets and pavements, services which regulate system of public roads and determine tariffs for use of public transport), grants for organizations of public transport, railway transport, and communications.

More than 90% from total revenues of self-government budgets were channelled for covering the current costs. But 60–65% from expenses of current budget are used for salaries and current subsidies mainly in the spheres of social welfare, housing and education and 30% for goods and services.

The analyses of self-government revenues for three-year period show that the biggest part of self-government revenues is formed from tax incomes—in average 40–60% depending on the type of self-government. Only district self-governments do not have their own tax base.

Non-tax revenues form only approximately 10–12% from total self-government revenues. This part of revenues is linked with the public utility sector. The biggest proportion of non-tax revenues is made of revenues from payable services—50% or 26.3 million Lats.

20% or 8.7 million Lats are revenues from housing and public utilities services. If we compare self-government expenditure for housing and the public utilities sector and purchase of fuel then

for these purpose in 1999 self-governments invested 62.7 million Lats but received from inhabitants in the form of payments only 8.7 million Lats. In actual fact, housing and public utilities sector is a cost accounting sector where expenses have to be covered by incomes. The present situation shows that the solvency of inhabitants is low, and self-governments cannot collect means necessary for the sector. Taking into consideration that technological facilities of public utilities system are outdated and often are in emergency conditions self-governments invest money in capital repair of systems both when attracting investments and taking credits and channelling means from self-governments budgets in the way of subsidies.

The law On Accounting determines the system and standard of accounting, but nevertheless, there are slight differences between the preparation of accounts in self-governments and enterprises. The law provides that accounting has to be done in the way that third person who is qualified in accounting issues can get a clear impression on the financial situation of an enterprise and its economic activities within a certain time period, as well as detect the beginning of each economic activity and follow its course. The manager is responsible for setting the accounting in enterprise [43].

The chairmen of self-governments (their institutions) and managers of enterprises who permitted violations of the law On Accounting and other normative acts of accounting, malicious misrepresentation of accounting data, not submitted officially determined accounts or loss of accounting documents are called to account according to procedure evoked by laws.

Figure 5.8
Local Government Revenues, 1999

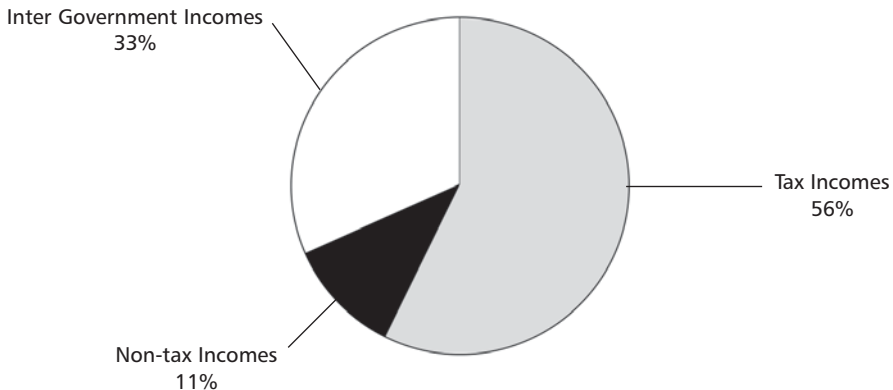
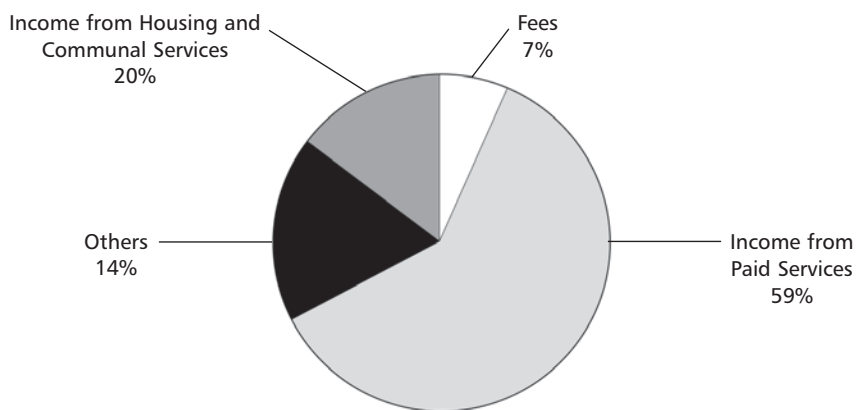


Figure 5.9
Local Non-tax Revenues, 1999



3.1 Property Rights

During the period of Soviet occupation any form of public property was reduced to state property. Therefore, part of the present economically active inhabitants of Latvia still regard self-government property as a form of state property. After the re establishment of the democratic state, since 1990, several principled laws of independent Latvia period (1918–1940) were restored—including the Constitution of 1922 and the Civil law of 1937 [8]. In this law, state property is clearly separated from self-government property.

Article 1404 of Civil law determines: “Juridical persons are declared to be state, self-governments, unions of persons, establishments and community of things what are assigned juridical character.” That opened way to the following formulation of self-government competence in the law “On self-governments” 1]: “When performing local and district (regional) administration, self-governments within the frame determined by self-government law are subject of public rights, but in the sphere of private rights self-governments have rights of juridical person.” This law also determines that property is economic base of self-governments.

Since 1990 self-governments have important role in the privatization process. This process is characterized by several stages:

- *Restitution (denationalization) or the giving back of real estates* to legitimate owners before the soviet occupation in 1940. During this process, real estates (houses and land) first of all came to the self-government property and responsibility of self-governments were to

give back real estates to legitimate owners or their inheritors. The process was basically concluded from 1991 until 1995, but some activities in this sphere still continue.

- *Land privatization* took place according to separate laws in rural areas and towns. This is now mostly complete. There are actions going on with so call compensation lands, which are given in the property of those for whom it was not possible to give land during restitution process because of functional reasons.
- *The privatization of shops, service centres and public catering enterprises:* these enterprises were 'communalized': that is they were transferred from state property to self-government property in 1991. The majority of self-governments privatized all this sphere in 1992–1993. Some self-governments because of prevailing viewpoints there lagged behind for several years. The process is now complete.
- *The privatization of small and medium enterprises:* privatization of these enterprises took place without 'communalization' intermediate, but participation of self-government representatives in privatization commissions was essential. The right of first refusal has its important role—if the ones who privatized tried to buy properties for insubstantially low price, then self-governments could buy these properties with the right of first refusal. The process basically was completed until 1997.
- *The privatization of big enterprises:* This was undertaken independently by national government without the participation of self-governments. The process has been started, but has not been completed. Several enterprises which are essential for economy of Latvia have still not been privatized, such as 'Latvian Railway', energy company 'Latvenergo', navigation company 'Latvian shipping', oil transit company 'Ventspils oil' and others. Big problems arose in the branch, where for 20 years concession was concluded, which established a monopoly in the branch of fixed net telecommunications. EU legislation requires to eliminate monopoly, which can cause big deprivations to the state.
- *The privatisation of health care institutions*—hospitals, polyclinics and doctor service centres. The percentage of privatization is quite high in the sector of self-government health care institutions. The privatization of state health care institutions has stopped And alternative solutions are being sought.
- *The privatization of enterprises of self-government public transport sector,* with regards to heating supply and waste management enterprises. Part of self-governments have accomplished such privatization, others try to keep enterprises in their property. The process is closely linked with the development of methods and institutions of regulation.
- *The privatization of apartments:* according to the law On Privatization of State and Self-Government Privatization[9] apartments of this category are privatized with privatization certificates or money. If those living in the flat require it, then the state or corresponding self-government cannot refuse the privatization of one's own property. The status of apartments privatized in this way, including the procedure of further expropriation, is determined by the law On Apartment Property [10]. In the majority of towns, the

privatization of apartments comes to an end. A certain lagging behind is observed in Riga and Ventspils.

Privatization certificates were introduced as state securities starting from 1993. They are of two types—usual and compensation. According to the law On Privatization Certificates[11] self-government responsibilities in issuing of these certificates were connected mainly with compensation certificates for unreturned property. Self-governments have to accept these certificates as payment means in privatization process of owned properties. Self-governments as subject of private rights are limited in their right ability. They can take actions with their property as far as laws do not limit these actions.

In 2000, the Parliament passed the new Commercial Law [18], although it has yet to come into force. It is linked with putting legislation in order in the sphere of entrepreneurship and resign from such presently existing form as self-government enterprise. The separated property in self-government enterprise is self-government property. But self-government enterprise can deal with this separated property, including alienation. Up until now, self-government enterprises could receive orders when avoiding regulations on public procurement.

3.2 Financing Utility and Communal Services

Any form of public utility has to operate in such a way that its incomes cover management expenses and profit is obtained for investing in development. But the practice in Latvia shows that very many providers of public utilities services work with losses. Since the law On Self-Governments stipulates that the function of self-government is to organise public utilities services to inhabitants, then the task of self-government politicians is to pass a decision on the subsidising of the public utilities sector, or not providing some of services leaving that in charge of inhabitants.

If the provider of public utilities services is a self-government institution or enterprise, then finances for the operation of institution (enterprise) can be formed from:

- a) Incomes from the provided services;
- b) Financing from State Public Investment Programme;
- c) Joint projects with foreign partners;
- d) Loans;
- e) Local subsidies, donations;
- f) Self-government compensation to inhabitants in need.

This latter one is available if the public utilities service provider is a private enterprise.

a) *Incomes from the Provided Services*

The normative acts determine that revenues from due services are counted in the self-government's basic budget. There is no common procedure on determining charges for services in self-governments. Each self-government elaborates its own separate procedure. The size of due service (tariffs) is determined by the council decision of self-government. When the size of due service is determined, then all necessary expenses for provision of service as well as profit interests which are channelled for investments or repayment of credits.

If the provider of public utilities services is enterprise (self-government or private), then the size of due service (tariffs) is determined by the council decision of self-government and revenues are collected by enterprise.

b) *Financing from State Public Investment Program*

Financing from the State Public Investment program can be channelled only to institutions of self-government or several self-governments, self-government enterprises and to institutions, enterprises and companies where the sum of shares of self-governments exceeds 65%.

c) *Joint Projects with Foreign Partners*

One of the most important methods of attracting foreign investments is through the participation in joint projects. Joint projects envisage investments (grants) or credits of foreign partners. In order to participate in a joint project, the council of self-government has to pass the decision the same way as it is when taking credit in the State treasury or Commercial bank. Joint projects are very advantageous because they envisage only small co-financing of Latvian partners—10–20% from the total project budget.

d) *Credits*

A self-government institution has no rights to borrow finances without the decision of the self-government council. Self-government undertakes credit commitments for the provision of operation of self-government institution.

The service provider is a self-government enterprise or company where the share of corresponding self-government exceeds 50% as well as institutions, enterprises and companies established by several self-governments where the sum of self-government shares exceeds 65%.

Self-governments can give guarantees to these enterprises when passing a decision of self-government council. For institutions, enterprises and companies established by several self-governments, the amount of guarantee in percentage corresponds to a number of shares in corresponding equity capital.

If the service provider is an enterprise or company where the share of corresponding self-government does not exceed 50%, then self-government cannot give guarantees to the mentioned enterprises for taking credits.

e) Subsidies from Self-government Budget, Donations

If the provider of the service is a self-government institution, self-government can assign subsidies for the improvement of technological facilities and the provision of operation for public utilities sector or compensation for people in need. If the service provider is enterprise, then self-government cannot give a subsidy directly to an enterprise. But self-government can determine some leeway to people in need and in the form of compensation transfer the difference of tariffs to an enterprise. The self-government, its institutions and enterprises, as well as companies have rights to receive donations and grants from private and legal persons.

f) Self-government Compensation to People in Need

It is forbidden for self-government and self-government institutions to donate or grant financial means or property. But self-government enterprises and companies where the share of self-government in equity capital separately or in total exceeds 50% can donate or grant financial means or property only to provide assistance in such spheres as culture, art, science, education, sport or health care as well as for social assistance.

In order to increase the ability of inhabitants to make payments for received public utilities services, self-governments give social support to needy inhabitants in the form of apartment benefits. In 1999 self-governments of Latvia have used for these benefits 4 379 000 Lats, which constitutes 32.1% from all financial means used for all types of benefits, 164 400 self-government inhabitants received these benefits. Data from questionnaires shows that from 264 surveyed self-governments, 234 pay apartment benefits.

3.3 Capital Investment Schemes

In the year 2000, the seven years programming period of European Union began. The same as in other candidate countries, Latvia will start to receive so called 'pre-structural funds'—ISPA, SAPARD and Phare. ISPA and Phare concentrate on the viewed public utilities sector.

In 2000, ISPA and Phare programs were formed on different principles. ISPA (environment and transport) projects were planned in a sectoral way, in the Ministries of Environment Protection and Regional Development and Transport. The Phare program was planned with a mixed approach—21 millions EURO were planned in a sectoral way, but 9 millions EURO were assigned for two out of five planning regions of Latvia which have been established by self-governments. It was intended that planning regions will have active preparation for the implementation of future structural funds after EU accession.

The Cabinet of Ministers has already passed the decision to continue this policy, and to divide Phare means of 2001 already, to programs in four regions. Unfortunately the European Commission did not support this intention. Brussels 'pressed' on Latvia to carry out a policy of centralization

of power and finances, when demanding later to do programming and project preparation only in the form of sector policy. If it would be in fact the demand of the officials in Brussels than it would be gross violation of the sovereignty of Latvia (the European Commission cannot give such directions to any of the EU member countries and it is not foreseen by EU legislation). Unfortunately there are well-founded suspicions that local politicians have already agreed with officials in EU Commission on such position.

The difference between the two approaches is as follows:

- In the case with the sectoral approach, the one National Development Plan is elaborated for the whole country as for one region of NUTS II level of European statistical division. This plan during the negotiations with the European Union becomes a single programming document. Activities are planned in a sectoral manner. The measure in the context of Structural Funds is planned for the territory of the whole country on the national level.
- In the case of a regional approach, the development plan is accepted for every planning region. National Development Plans can be made, but it has a subordinate role because it integrates regional development plans. Activities are planned regionally (and so the measure is planned on regional level). Ministries in this case, have a co-ordination function, whilst politicians of the regions have a dominating role.

Unfortunately there was another decision. Therefore the role of regions in the process of formation of capital investments decreases, the process of centralization of finances continues.

But there are also serious problems in the circumstances of centralization conditions. In Latvia the budget is planned for one year and investment programs are indicatively described for three years. It does not allow the rational use of existing financial means, none of the self-governments can be sure that the stated investment project of several years will continue also the next year. Therefore, the Association of Local and Regional Governments of Latvia have already, for several years, invited the government to review the budget preparation process and divide the budgets of all levels into two budgets:

- Medium term development budget with a cycle of 6–7 years;
- Short-term regular budget.

The Association considers the norms of the development budget as obligatory to a regular annual budget.

Another essential problem is to provide local and regional self-governments with sufficient financial resources for co-financing or independent financing of investment projects.

The law On Administration of Budgets and Finances, [6] determines the procedure of elaboration, approval and implementation of state and self-government budget and responsibility in budget process. Regulations of this law concern also financial activities of enterprises in cases if they are

assigned state or self-government budget means, or state or self-government capital share has been invested in these enterprises. The Minister of Finances can, on the behalf of the state, take loans within the frame permitted in the annual state budget law. Equally, only the Minister of Finance can give guarantees on the behalf of the state.

Although the state does not give funds for capital investments to enterprises, it is possible to receive grants through the State Public Investment Program. Now the legislation stimulates that the receiver of financing is the self-government. Since, for the implementation of big projects, self-governments establish self-government institutions and enterprises, it is foreseen to make amendments which allow the mentioned enterprises to receive the financing.

Since 1995, public investments in Latvia have been made within the framework of the Public Investment Program (PIP). The PIP covers infrastructure investment projects financed from financial sources available in the state, i.e. the state budget, guaranteed loans, grants, and own resources of project executors.

The size of PIP has grown every year, and in 1998 the total financial resources of PIP from the central government basic budget, government credits and guaranteed loans and other sources (special budgets, grants, own resources of project executors) amounted to 2.9% of GDP and it is planned that financing from all sources in 1999 will amount to 4.5% of GDP and in 2000— to 5.3% of GDP.

While implementing PIP, the government has retained the priority sectors of the preceding years which is the basic infrastructure of transport, energy and environment protection.

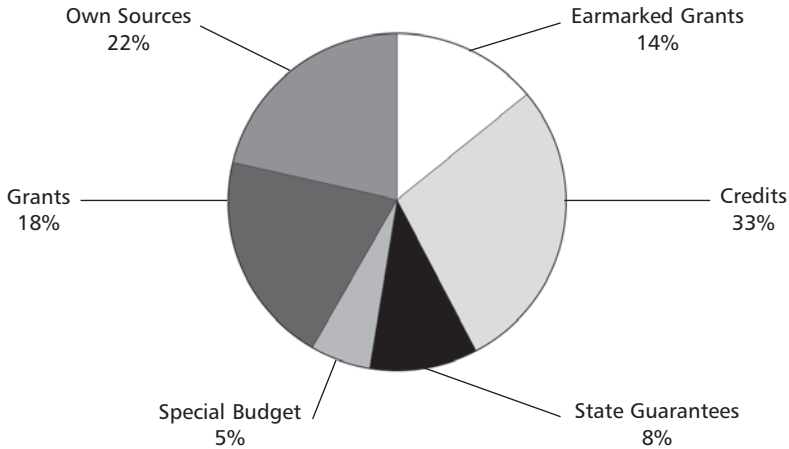
One of the main financing sources of investments is a state earmarked subsidy, which comes through Public Investment Programme (PIP). According to present legislation, the proposals of investments projects of local self-governments have to be submitted to each ministry which is responsible for the concrete sector. But the corresponding ministry determines its investment priorities, and lists at the same time its projects besides self-government projects. The proposals of ministries consisting of both the national and local self-government projects are submitted to the Ministry of Economy. This ministry is responsible for the consideration of proposals submitted by ministries and elaboration of draft PIP, which is further submitted to the Cabinet of Ministers. Before submitting the project proposal, the self-government has to follow the methodology for the preparation of investment project proposals made by the Ministry of Economy.

Although PIP is elaborated every year for a three year period, the finances are known and approved only for the corresponding fiscal year. Last year's state budget comprised of approximately one quarter of PIP financial means—the rest coming from loans, foreign grants and other finance resources (including self-government co-financing part in self-government budgets).

From 1995 to 2000, the structure of invested financial sources of PIP has changed. If in 1995, the proportion of PIP projects financed from state budget was 50% from the total amount of

invested finances, then in 2000 it decreased to 25%, but the use of the resources from loans increased rapidly. (See Figure 5.10)

Figure 5.10
Financing of Self-government Projects in PIP, in 2000

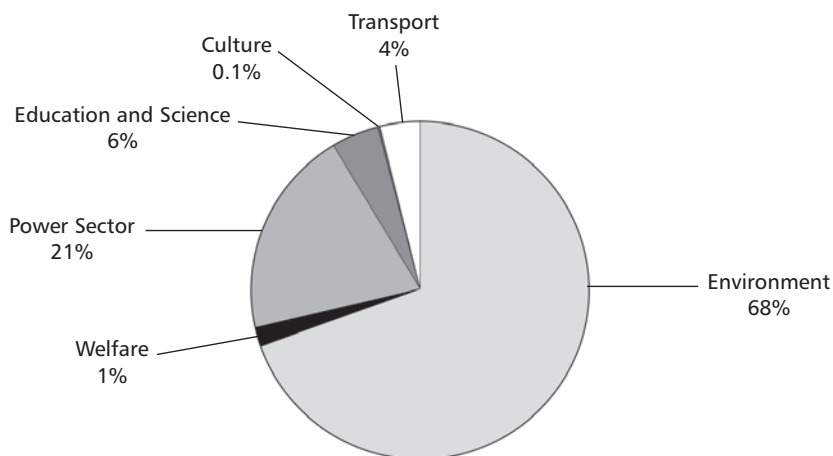


Regarding PIP as sources for financing self-government projects in 2000, we can see that the biggest part is comprised from loans—33 % or 26.4 millions Lats and own financial means, 22% or 26.7 million Lats. Thus in total the investments of self-governments in the implementation of projects is 55%. State earmarked subsidy—14% or 10.8 million Lats, grants 18% or 14.5 million Lats, state guarantees 8% or 6.5 million Lats and finances from special budget 5% or 3.7 million Lats.

When PIP was formed, then the state priorities were determined: power, environment and transport—sectors, where contributions from common state investment resources were the largest. During the last years big changes have taken place, and the priority sectors now are defence, internal affairs and justice. But the mentioned priorities concern state budget institutions.

When analyzing self-government projects in a sector context, then most of the financial means from all financial sources in 2000 were channelled to the implementation of environment projects—68% or 54.2 million Lats, and for the implementation of projects in the energy sector—21% or 16.5 million Lats. 4% or 3.2 million Lats was assigned to the implementation of projects in the transport sector. (See Figure 5.11)

Figure 5.11
Financing of Self-government Projects in PIP from All Financial Sources, in 2000



When analyzing state earmarked subsidies to self-governments by sectors, a similar situation can be found. Most of the finances are channelled to the implementation of environment projects—56% or 6 million Lats, in the power sector 15% or 1.6 million Lats and in the transport sector 11% or 1.2 million Lats [47].

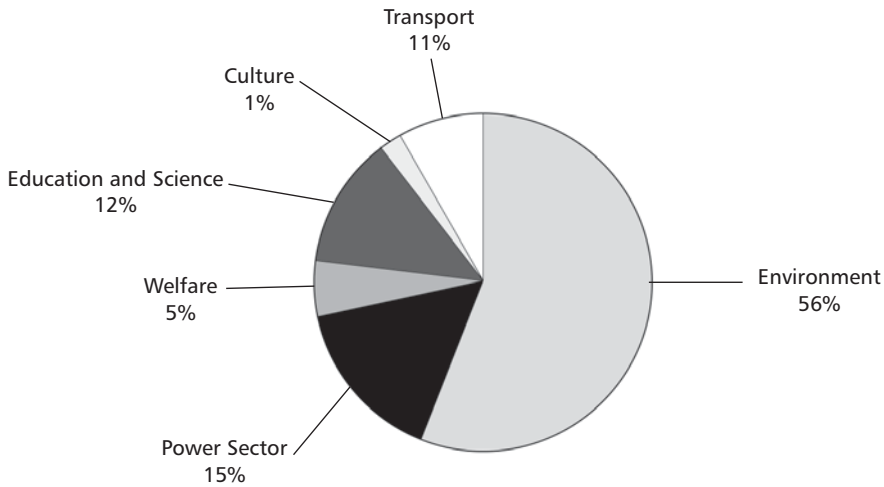
The Union of Local and Regional Governments of Latvia suggests to improve PIP by envisaging to perform the following tasks:

- co-ordination of national development policy with European Union and planning regions;
- improvement of institutional structure of development management;
- reform of budget management;
- financial decentralisation;
- improvement of management procedures of PIP.

3.3.1 On the Stabilization of Self-government Finances

At the beginning and the middle of 1990s, several foreign finance companies gave credits to self-governments with a state guarantee for improving district heating, water supply, and wastewater treatment facilities. In many cases, loans were given on very favorable terms: non-interest, with deferred payments and so on. But now, some self-governments have problems to pay back loans, and then the stabilization process is started. (See Figure 5.12)

Figure 5.12
Financing of Self-government Projects in PIP from State Earmarked Grants



The law On Stabilization of Self-Government Finances Land Supervision of Financial Activities of Self-Governments was passed in May 1998. The initial intention of the law was to use a broad range of financial and administrative measures to prevent a situation of crisis, but the passed law practically envisaged only one type of measure—a state stabilization loan.

The Union of Local and Regional Governments of Latvia asked Parliament members not to support the passing of this law in such wording, because in fact the text of the law did not reflect its title. But the law was passed, and stipulated that the stabilization of self-government finances has to be performed, if at least one of the following indications is stated:

- Self-government debt obligations, which has the term for repayment in the regular fiscal year, together with the debt of the previous year exceeds 20% from total self-government budget of the regular fiscal year;
- Self-government cannot or because of provable conditions will not be able to settle its debt obligations;
- Self-government debts exceeds assets in its property by market value of assets.

The self-government is considered to be the one which cannot, or because of provable conditions, will not be able to settle its debt obligations if the Minister of Finance has approved at least one of above mentioned indications.

In order to start the procedure of stabilization, the application of financial stabilization of the self-government is needed. The council and states approve this application, at least on the question

of stabilization indications, and calculations on the expenses of financial stabilization, and an activity plan is attached to the application. If the decision is passed on beginning of the financial stabilization process of self-government, the Minister of Finance appoints the supervisor of stabilization process.

There are certain problems in Latvia regarding the co-ordination of investments on different levels. Up until now, it was accomplished to achieve sufficient co-ordination neither between sectors, nor between sector policies and regional policy; and further neither between planning regions and national level.

In order to co-ordinate to international financial assistance, the position of the Minister of Special Assignments for Co-operation with International Financial agencies was established. But in order to fulfil requirements of Special Preparatory Programme for the implementation of EU Structural funds, the elaboration of National Development Plan has been started.

3.3.2 Local Borrowing

Self-government rights to take loans and give guarantees to self-government enterprises for the receiving of loans is provided by the law On Self-Government Budgets [5]. But the regulations of the Cabinet of Ministers determine the procedure how self-governments can take credits and divide guarantees [16].

The self-government takes a loan when signing the loan agreement with the State Treasury. The Minister of Finance, when taking into account applications of local governments for implementation of concrete projects, and when evaluating economical development of the state and stability of the finance system, can approve another contractor for a loan. In order to implement the National environment action program of Latvia, self-governments can take loans and give guarantees in the Environment Investment Fund.

Both the taking of loans and the giving of guarantees take place according to a unified procedure, that is self-governments get rights to take loans and give guarantees only after receiving acceptance of the Council of control and supervision of self-government loans and guarantees.

The law determines that self-governments can take loans within the limits and procedure determined by the Cabinet of Ministers, only according to the decision of self-government council. Although the law determines that self-governments can take loans in Latvia or abroad when issuing securities or concluding loan agreements, the above mentioned regulations limit the operation of this law.

Self-governments are not allowed to guarantee loans with properties, which are necessary for the performance of self-government standing functions. In order to implement economic and social programs which need investments, self-governments can take long term loans, such loans cannot be used for the financing of self-government standing (regular) expenses.

Self-governments can take long-term loans and issue guarantees only with the permission of the Ministry of Finance if they have not fulfilled terms of the earlier concluded loan agreement terms on issuing securities.

Self-governments can give guarantees only to those self-government institutions and enterprises where the part of capital of corresponding self-government exceeds 50%, or to institutions, enterprises and companies established by several self-governments, where the sum of self-government shares exceeds 65%.

Self-government enterprises can take loans either in Latvian commercial banks or abroad, but are not allowed to take them from the State Treasury.

In 1997 self-governments took loans and gave guarantees to the amount of 23.4 million Lats, 15.7 million Lats of these were channelled for the improvement of infrastructure and 3.9 million Lats for purchase of fuel. In 1998—18.0 million Lats from which 3.9 million Lats for the purchase of fuel and 12.9 million Lats for the improvement of infrastructure. In 1999 self-governments still take loans and give guarantees for the purchase of fuel as well as invest money in infrastructure development. Regarding credits for purchase of fuel—self-governments buy fuel during the summer months when it is cheaper. In 2000 the total amount of self-government loans was 7 million Lats. But by October 2000 self-governments had already received loans for the amount of 13.4 million Lats. (See Table 5.3.)

Table 5.3
**Self-government Loans and Self-government Requests
for Loans and Guarantees Accepted by the Council of Control
and Supervision of Guarantees for 1999**

Loans	[Lats]	[%]
Administration of Budget and Finance	345 000	2
Purchase of Fuel	1 713 500	9
Power Sector	4 401 871	24
Infrastructure	7 688 500	43
Water Supply	822 894	4
Education	2 440 367	13
Purchase of Transport Means	238 600	1
Others	664 641	4
Total	12 216 272	100

Guarantees	[Lats]	[%]
Power Sector	1 425 000	44
Purchase of Fuel	865 000	26
Water Supply	850 000	26
Others	147 500	4
Total	2 227 600	100
Issued Permissions for Loans and Guarantees in Total	21 802 272	

The state receives a credit from international credit institutions and further through either the State treasury or funds channelled to self-government or the state gives guarantee to self-government for receiving a credit.

The credit is assigned to the Latvian Government and is then assigned to self-governments in order to implement infrastructure investment projects. In separate cases it is possible to assign credit directly to self-government enterprise, if repayment of credit is guaranteed by self-government within its budget means. In the both cases self-government is responsible for the repayment of subordinate credit.

At the beginning and middle of 1990s several foreign companies as, for example, Danish Unibank, the National Energy Administration of Sweden, granted credits to self-governments with a state guarantee for the improvement of district heating systems, water supply systems, treatment facilities. In many cases loans were assigned on favorable conditions: interest-free, with deferred payments et cetera. Now some self-governments have problems with repaying, and the stabilization process has begun. It has happened because at the beginning of 1990s there was no experience in the country on the elaboration of an economically based business plan. Along with this, the number of service beneficiaries has decreased in some self-governments (for example local boiler houses have been established).

There are only separate cases when the state gives guarantees to self-government enterprises. Precedent is state guarantees given to port administrations which are self-government enterprises and are also under supervision of the Ministry of Transport.

It was in this manner, in 2000, that the state gave guarantees to a total amount of 101.8 million Lats including:

- Riga port administration 4 million Lats;
- Joint-stock company "Rigas siltums"(heating company) 60 million Lats;

- Ventspils port 7.5 million Lats;
- Jelgava self-government enterprise 'Water supply and sewerage management' 1.5 million Lats;
- Salacgriva port administration 1.1 million Lats.

In the draft state budget for 2001, state guarantees are envisaged at the amount of 28.6 million Lats—3.8 million Lats which are reserved for port reconstruction.

There are also mixed schemes when self-government or enterprise take credit and also receive also grant from the Public Investment Program or other funds. For example, within the frame of the Ministry of Environment's program, the regional development renovation of water supply and wastewater treatment facilities of small towns is being implemented.

The financing scheme of the program:

- Credit from Public Investment Program 30%;
- Grants from Grants Public Investment Programme 30%;
- Grants from Environment Protection Fund 30%;
- Self-government co-financing 10%.

This financing scheme can be differentiated for each of the self-governments. Self-governments can receive an international grant through the Environment Protection Fund.

There are other schemes of how the state and self-governments can support enterprises:

- Subsidies from state or self-government budgets;
- Measures in the sphere of obligatory tax or social insurance payments;
- Subsidising rates of credit interests;
- Complete or partial relinquish of state or self-governments from dividends in the enterprises controlled by them;
- Writing off of debts;
- Determination of preferential tariffs in use of the services provided by state and self-government enterprises;
- Selling of real estates below market value and buying above market value;
- Other measures with the objective to increase competitiveness of enterprise.

The performance of state and self-government support is controlled by the Commission of supervision of state support, which considers the project of state or self-government support provision and makes decision on conformity of project to the law On Control of State and Self-Government Support to Entrepreneurship and other normative acts [26].

According to Commercial law, each stakeholder of free market has an insured possibility to perform economic activities in conditions of free and fair competition. The Competition Council has been established. The agreements between the market stakeholders, the target or consequences of which hindering, limitation or deformation of competition are forbidden and are not valid [20].

3.5 Methods of Setting User Charges

Self-governments, when approving actual tariffs for public services and not providing to insolvent inhabitants the necessary benefits for apartment maintenance, create a situation in which inhabitants are indebted to enterprises. An enterprise has provided services, has invested in the provision of this service, its means, and forecasts that with payments received from inhabitants for service provision will receive back these means. Unfortunately, the actual solvency of inhabitants is low, and the capacity of self-governments to provide social assistance to inhabitants is also low.

All in all, this has created the situation in Latvia that many enterprises become insolvent or they cannot pay back credits taken for the development of enterprise. As a result of which, enterprises stop the provision of public utilities to inhabitants. Such practice is most widespread with regards to the most expensive type of service—heating supply. At first, inhabitants refuse to have such a service as a supply of hot water, or agree with the service provider on a schedule of hot water supply. This schedule can envisage supply of hot water either in fixed hours during the day or in fixed days during the week. In cases when there are very big debts of inhabitants or service provider cannot settle payments to creditors, the heating supply is stopped. That means that inhabitants of big apartment houses have to ensure the heating in their apartments themselves.

When approving lower tariffs for the heating supply than ones calculated by enterprises, self-governments face these enterprises to insolvency. Self-government enterprises have to provide public services, the manager of an enterprise also depends on the self-government because of his or her salary, and the agreement also depends on the self-government as well.

Self-governments of Latvia have possibility with the assistance of the Union of Local and Regional Governments of Latvia to participate in the elaboration of legislation in spheres of self-government interest. When fulfilling these rights the representatives of the Union of Local and Regional Governments participate in working groups on the elaboration of corresponding legal acts. They participate in meetings of corresponding commissions in the Parliament where the draft laws are prepared for reviewing and approval in the Parliament. The representatives of the Union of Local and Regional Governments work in different commissions, councils established by the Cabinet of Ministers and ministries. The most obvious examples of these councils are: the Council of energy-supply and regulation, Central commission on privatisation of apartment houses, and the Council of national economy.

The work of public service enterprises is affected by methodology of tariff calculation approved by the self-government and procedure determined by self-government on the payments of inhabitants for received services.

In the heating supply sector when approving methodology of tariff calculation self-governments can accept one of methodologies of tariff calculation approved by the Regulation council of energy supply. These are the methodologies of unified and divided tariff calculation. The main difference between these methodologies is that when calculating thermo energy tariff according to the methodology of unified tariff, the changing and constant heat production expenses are not separated. Inhabitants pay for received thermo energy only during the heating season.

When calculating the tariff according to the methodology of divided tariff, thermo energy tariff is approved when separating changing and constant expenses. Inhabitants pay for received thermo energy during the heating season, through the determined part of changing tariff and part of constant tariff. But during the summer season only the constant part of the tariff, which is approximately twice smaller than the changing part. It is not determined by the normative act which methodology of tariff calculation has to be used by an enterprise, each municipality determines it. Recently, the divided tariff has become more popular because in the situation when there is low solvency of inhabitants it gives possibility to spread the payment for the heating supply throughout the whole year. Heat production enterprises can also get more stable incomes for supplied thermal energy throughout the whole year, which gives the possibility to these enterprises to prepare the heat supply system for the new heating season.

According to the methodologies of tariff calculation, tariff of thermal energy is calculated as payment for KW in Lats. Only during recent years in Latvia have the producers of thermal energy switched from a unit of measurement Gcal to KW. There are very few heating meters in apartment houses. Due to lack of these meters, and the continued tradition inherited from the Soviet times, the tariff for inhabitants is calculated as payment for one square meter of living space. Table 5.4 shows tariffs approved by self-governments of Latvia for the heating season 1999/2000.

Due to the current situation of no common methodology on calculation tariffs for water supply and sewerage as well as waste management, self-governments have difficulties in motivating inhabitants on approved tariffs. The problem becomes even more urgent because of the wide setting of water consumption meters. At the moment self-governments can determine the price for one cubic meter of used water applying this amount also to sewerage. Inhabitants who do not have these meters pay according to normative for water consumption in 24 hours determined by the self-government. According to the normative consumption of water by one inhabitant per month is calculated and multiplied with the determined price of one cubic meter. These tariffs for year 1999/2000 are shown in Table 5.5.

Table 5.4
Heating Tariffs

	Unit of Measurement	Heating without Meters		
		Average	Minimal	Maximal
Budget Institutions				
Divided tariff				
Winter	[Ls/m ²]	0,29	0,15	0,43
Summer	[Ls/m ²]	0,19	0,10	0,35
Unified tariff	[Ls/m ²]	0,42	0,10	0,65
Enterprises				
Divided tariff				
Winter	[Ls/m ²]	0,30	0,15	0,43
Summer	[Ls/m ²]	0,19	0,06	0,35
Unified tariff	[Ls/m ²]	0,47	0,20	0,78
Inhabitants				
Divided tariff				
Winter	[Ls/m ²]	0,30	0,15	0,46
Summer	[Ls/m ²]	0,17	0,02	0,35
Unified tariff	[Ls/m ²]	0,39	0,10	0,56

The biggest producer of electricity in Latvia is the state share company 'Latvenergo', which deals with the production, distribution and management of electricity and also produces thermal energy. The enterprise has two thermo electro centrals (TEC), three hydro power plants and distribution network of electricity. The Regulation council of energy supply determines the distribution price of electricity of this enterprise. Even here, where there are foreseen tariffs for day and night electricity, they are not applied because there is no corresponding registration of electricity consumption. The negligence of these regulations essentially influence self-governments, because street lighting works only in the darkest period of night

The capacity of electricity production is not sufficient in Latvia to provide the national economy with necessary electricity. Therefore, it is bought from outside, the average purchase price is 1.23 santims per KWh, the prime cost of electricity produced in hydro power plants is 0.8–0.9 santims per KWh. The Regulation council of energy supply has determined the distribution

price for 'Latvenergo' of 3.9 santims per KWh. These different tariffs are equalized with the inter cross subsidies of 'Latvenergo'.

Table 5.5
User Charges in the Water Sector

	Unit of Measurement	Average	Minimal	Maximal
Budget Institutions				
With meters	[Ls/m ³]	0.25	0.08	0.66
Without meters	[Ls/m ³]	0.27	0.09	0.64
	[Ls/institution]	20.00	10.00	30.00
	[Ls/person]	0.47	0.04	1.50
Enterprises				
With meters	[Ls/m ³]	0.30	0.08	1.14
Without meters	[Ls/m ³]	0.33	0.09	1.14
	[Ls/enterprise]	5.95	2.50	16.00
	[Ls/person]	0.74	0.04	2.00
Inhabitants				
With meters	[Ls/m ³]	0.18	0.01	0.38
Without meters	[Ls/person Min]	0.24	0.08	1.90
	[Ls/person Max]	0.65	0.11	1.90

Natural gas in Latvia is distributed by the share company 'Latvija gas', which is the only supply of natural gas. It has all the distribution networks of 'Latvija gas' and storage of natural gas in Incukalns, which operates as an accumulator of natural gas and where during summer period when the consumption is the lowest, gas is pumped in, which will be used in the winter period. This gas storage can provide the whole of Latvia with the necessary gas for one year.

The Regulation council of energy supply approves the price for natural gas. The heat suppliers of Latvia evaluate critically the present policy of gas prices in Latvia. Practically there is no differentiation in the price for gas depending of the purpose and amount of consumption. There is a situation where producers of thermal energy, which produces heat and supplies it to centralized network of heating supply, are not competitive in the thermal energy market. The expenses for

production of these big enterprises of thermal energy production are much higher than of individual producers. The national programme of power industry approved by the Cabinet of Ministers and state and self-government policy in heating supply as well as the Law on energy provides the administrative protection of the enterprises.

Table 5.6
Sewage Tariffs

	Unit of Measurement	Average	Minimal	Maximal
Budget Institutions				
With meters	[Ls/m ³]	0.32	0.05	1.14
Without meters	[Ls/m ³]	0.42	0.08	1.20
	[Ls/institution]	39.67	9.00	65.00
	[Ls/person]	0.62	0.04	1.61
Enterprises				
With meters	[Ls/m ³]	0.38	0.05	1.29
Without meters	[Ls/m ³]	0.49	0.08	2.28
	[Ls/enterprise]	6.43	1.00	16.00
	[Ls/person]	0.72	0.04	1.61
Inhabitants				
With meters	[Ls/m ³]	0.22	0.05	0.85
Without meters	[Ls/m ³]	0.32	0.08	1.90
	[Ls/person]	0.74	0.13	2.15

The situation can change in the nearest future because the Parliament in the second reading has approved amendments to the Law on energy which provide:

- 1) that municipalities, when performing the permanent function stipulated by the law, organise the heating supply within their administrative territories as well as provides competition in the heating supply and fuel market.
- 2) connecting or disconnecting to or from the district heating system cannot disturb the process of delivering heat to other consumers. . Connecting or disconnecting to or from a district heating system is determined by the regulations of the Cabinet of Ministers.

At the moment, hard discussions are taking place to make these changes which are put forward by the share company 'Latvija's gas'. 'Latvija's gas' interest is to achieve the increase of consumption of natural gas, the interest of the Parliament members is to create the possibilities of free choice for inhabitants on the methods of heating their flats, including the flats which are in apartment houses.

4. SOCIAL POLICY ASPECTS OF TRANSFORMING LOCAL PUBLIC UTILITIES

The public utilities sphere is on the borderline between the market economy and social tasks of public power. On one hand in the sector, development concepts elaborated by sector ministries and approved by the Cabinet of Ministers have declared the following principles:

- Beneficiaries of services fully cover expenses of services;
- Cross subsidies within sector are forbidden;
- Social assistance applies to a person beneficiary of public utilities) not to enterprise;
- The task of regulators is to promote competition.

On other hand, the norms of social character frequently turn the real development of sector in another direction. The examples of such 'anti-market legislation' are shown in the laws "On Social Security" [21]; On the Rental of Apartments [22] and On Social Apartments and Social Apartment Houses [23].

The state, according to the law [21] has an obligation to provide part of state means for self-government social benefits. Unfortunately, this norm during six years after its approval is not still fulfilled. This method of implementation of this law, rather than its content, lays bare its 'anti-market' character.

Self-government social benefits are:

- Social benefit for families in need;
- Benefit for maintenance of apartment;
- Care benefit;
- Funeral benefit;
- Other benefits according to the view of the self-government.

With these, there is not enough financial means to pay full value benefits for the maintenance of apartments, and self-governments try to decrease the incomes of public utilities providers. This becomes apparent in the economically unfounded decrease of payments for public utilities.

According to the law [22] an allowance is made to include in rent payment:

- 1) expenses necessary for the maintenance of apartment house (tidying-up, regular repair of house, maintenance of service staff);
- 2) expenses for insurance of apartment house;
- 3) real estate tax;
- 4) deductions to cover expenses of house depreciation;
- 5) administrative expenses;
- 6) payment for services that are provided by owner to tenants according to agreement of apartment rent.

Payment for public utilities (heating, water supply, sewerage, gas, electricity and other services) is not included in apartment rent if these public utilities are not provided by lessor.

The structure of payment for rent is stipulated as the possibility of the house-owner to maintain a building but does not envisage having profit. Thus house-owning with the purpose of having profit is changed from legal activity into illegal activity. The rights of the house-owner to turn against non-payers are limited by the separation of payments for rent and public utilities. The tenant has the rights to independently make up accounts with the provider of public utilities for received services according to the procedure set by the Cabinet of Ministers. The provider of public utilities has no rights to stop the provision of public utilities to those tenants who do not have debts for public utilities.

The factor hampering the apartment market is the circumstance that councils of self-governments determine the maximum level of rent in corresponding administrative territory.

The law On Privatization of State and Self-Government Apartment Houses [9] determines that everybody who lives in state or self-government apartment house has rights to privatize his or her flat. Theoretically if all inhabitants would use these possibilities then self-governments will not have dwelling fund at their disposal. In such a situation there are so many variants for the social apartment policy—it would be logical to give subsidies to those needy tenants who cannot pay for apartments. But legislators have chosen another way when setting in the law On Social Apartments and Social Apartment Houses [23]. The task here is for the self-government to maintain social apartments.

The rights to rent social apartment are envisaged for person (family) which is socially needy or socially unprotected and to whom one of the following conditions apply:

- 1) through a court verdict the person/family has been evicted from a property;
- 2) the person/family rents an apartment which is the property of self-government and has expressed wish to rent social flat;
- 3) the person is an orphan and is not provided with an apartment.

A self-government can determine looser terms for admitting a person (or family) to have the right to rent a social apartment. The person (or family) loses the rights to rent a social flat if it does not correspond to the terms of this article. The rent of a social apartment is determined by the corresponding self-government. It has to be at least three times lower than the rent, which is determined to self-government apartments of corresponding category. Self-government can also cover part of the payment for public utilities.

The regions of Latvia are characterized by high disproportions of unemployment rates. If the unemployment rate in Riga does not exceed 2% than in several districts of Latgale region it sometimes exceeds 20% and comes close to 30% of all inhabitants at working age. It causes different attitude towards privatisation.

If social considerations dominate then employment is considered to be the most important social value. Therefore it is very important to keep the existing job places or to create the new ones. According to this philosophy it is more advantageous to hire four people the salary of each of them being 100 Ls than one whose salary is 200 Ls, and the remaining 200 Ls invest each month in progressive technologies.

In several spheres of public utilities, where still there are self-government enterprises or companies where self-government capital dominates, the above mentioned tendency is preserved. That regards management of housing, waste collection and disposal, heating supply, road maintenance. At least for a short period self-governments feel better if they do not have to think about social assistance to people without work.

Since public utility services belong to the regulated ones then no big increases or decreases of price and tariff are observed. Up until now the ceiling of rent, tariffs of heat supply and other public utilities, bus tickets and various other tariffs are approved in self-governments also if private companies provide these services. Special contract prices are observed only in the case with some exclusive services.

In Latvia since 1995 the process of privatisation of state and self-government apartment houses is in the process of implementation, the aim of which is to find the owners for apartment houses built during Soviet times, and involve the inhabitants of these apartment houses in the maintenance of the houses. The concrete apartments and shares of premises of common use are privatized. Such privatization creates such owners who consider the premises of common use in the apartment house, staircases and basements not to be their property and do not want to participate in the maintenance of these premises with their own financial means. The existing legislation determines that the owners of these flats have the rights to come together and establish societies (associations, boards) for the management of the house. But it has been proved in practice that inhabitants are not willing to use these rights and there are several reasons for that:

1. The payment charged to the owners of privatised apartments according to the legislation in force cannot exceed the rent which is determined by the self-government in its territory;

2. Inability or unwillingness of inhabitants to pay for received communal services and to settle rent payments. There are several reasons for this, for example the low solvency of inhabitants and insufficient financial means of self-governments to provide the necessary social assistance and the long lasting procedure of recovering the debts from non-payers, which creates disbelief in the solvent band, who are willing to pay the owners of apartments for the sustainability of established house management societies.
3. In the cases when it is necessary to take credits for renewal of premises of common use, such management societies cannot provide to the banks the asked guarantee for credit. Another case is with renewal of flats where each owner of the flat can receive credit in the bank while pledging as security his flat.

This creates a vicious circle—inhabitants end up paying more for public utilities, especially for the heating supply. If renovation works could be done in the apartment house, it would decrease the payments for public utilities, but in order to do that it is necessary to take the credit and there is no guarantee, and inhabitants, because of their low solvency, do not agree to take credit. At the same time, their payments for rent or the management of a house does not cover the current expenses of the management of apartment house.

5. TENDERING AND CONTRACTING RULES AND PRACTICES

The law On Tendering and Contracting Rules and Practices shall apply to all self-government procurement, whereby goods are supplied, work is performed and services are provided, with payment for them, in part or in full, from the state or local government resources (excluding resources obtained by business activities of the state and local government enterprises or companies).

The conditions of this law regarding tendering procedures (i.e. competitions) shall not be applied to self-government procurement: if the estimated value of the government procurement or the expected amount of state or local government resources in the case of partial financing of the supply of goods or the provision of services (except construction work) is less than 5 000 lati, or for construction work less than 50 000 lati, or for construction design less than 10 000 lati. In such cases, a written contract shall be entered into between the state or local government contracting authority (hereinafter—government contracting authority) and the supplier (i.e. the performer of work).

The self-government has the obligation to verify the qualifications of tenderers in order to determine their suitability for performance of supply or work, or the provision of services.

5.1 Rules and Practices

Assessment of qualifications may be done prior to the submission of tendering procedure (i.e. competition) documents, prior to the acceptance of tenders, or concurrently with the examination of the submitted tenders in the tendering procedure.

All qualification requirements shall be set out beforehand in the tendering procedure regulations or in separate regulations upon the assessment of qualifications (if such are to be prepared); and they shall apply equally to all tenderers.

If the tendering procedure regulations provide that qualification assessment documents are to be examined concurrently with the submitted tenders, then the qualification assessment documents may be submitted later than the tender itself, but not after the deadline specified for the submission of tenders.

The government contracting authority shall announce its decision (acceptance or rejection) to each tenderer individually; tenderers who have been rejected shall, pursuant to their request, also be notified of the reasons for their rejection. The government contracting authority shall, pursuant to a request, notify representatives of the press, or anyone interested, of the list of tenderers accepted (but not those rejected) to further the tendering procedure.

Government procurements shall be awarded independently of the nationality of the tenderer, the place of registration and activities of the enterprise, the type of enterprise or nationality of its ownership, and having adhered to the conditions of paragraphs four to six of this section.

All tenderers shall be provided with equal opportunity to compete for the right to perform self-government procurements. Transparency shall be maintained at all stages of awarding the government contracts. The exchange of information between the government contracting authority [the tendering procedure commission appointed by it] and the tenderers shall be in writing.

The basic method of awarding self-government contracts is by the tendering procedure, but other methods may also be used:

- awarding on the basis of competition;
- awarding by conducting a request for quotations; or
- awarding by examining the tender of only one supplier.

A decision for performing the work or providing the services in-house shall be made by the government contracting authority, taking into consideration cost estimates.

All or part of the work shall be performed in-house if:

- this means of performing the work is less expensive;

- the nature, quality or urgency of the work requires this means of performance; or
- repeated tendering procedures has not provided the results desired.

An invitation to tender with the right to submit in relation to the supply of goods, performance of construction work, construction design or the provision of services, and an invitation for prior assessment of qualifications (if it is provided for) shall be prepared by the government contracting authority and submitted to the Ministry of Finance. The Ministry of Finance, within a period of three working days after the receipt of the invitation, shall examine its content and, if of the invitation conforms to the requirements of this Law, places it on the Internet, as well as sending it to the newspaper '*Latvijas Vēstnesis*'. If the invitation does not conform to the requirements of this law, then the Ministry of Finance shall request explanations or additions, and following the receipt of such place the referred to invitation which conforms to requirements on the Internet web, as well as sending it to the newspaper *Latvijas Vēstnesis*.

Each tenderer, who considers that a government contracting authority has caused it losses or other harm by violating of the conditions of this law in the process of awarding the government procurement, shall have the right to submit a complaint, except in cases mentioned in paragraph three of this section. Complaints may be submitted for administrative review in accordance with the Cabinet regulations on the review of complaints with respect to the awarding of government contracts. The decisions of self-government institutions, regarding examination of complaints submitted for administrative review, may be appealed in accordance with procedures set out by law.

The Cabinet, the State Audit Office, and the respective local governments shall conduct supervision and control regarding the observance of regulatory enactments and the interests of ministries and local governments in the process of awarding government contracts.

If an enterprise makes a procurement for its financial means, it has the right to choose the performer of service, supply or construction insofar as it is not restricted by the law On Construction Work, Supply, Leasing and Services for the Needs of Public Service Undertakings which meets EU requirements.

The law applies to an undertaking (i.e. company)—the undertaking which operates on the basis of exclusive rights provided by the law or other regulatory enactments, or on the basis of a licence issued by a state authority or a local government, which permits one or more such undertakings (companies) to operate in a specified field within a particular administrative territory, or which occupies a natural monopoly position within a particular administrative territory, in one of the following fields:

- a) the energy supply;
- b) the acquisition and supply of drinking water, or the acquisition or supply of drinking water to the drinking water distribution networks of public significance;

- c) its transportation through such networks to the consumer, and the management of such networks;
- d) the construction and management of sewerage networks and purification equipment;
- e) the administration of an airport or a seaport;
- f) the exploration of oil or gas deposits in Latvia or its economic zone;
- g) the maintenance and administration of public telecommunications networks and provision of telecommunications services;
- h) the maintenance and management of the railway infrastructure for public use;
- i) carriage of passengers by buses, trams, and trolley buses.

In the selection of tenderers and the choice of tenders, a public service undertaking shall not discriminate against any performer of construction works, supplier of goods, lessor or provider of services.

If the estimated price without value-added tax in a contract for supply, leasing or the provision of services exceeds 250 000 lats or the price without value-added tax in a contract for construction work exceeds 3 million lats, the public service undertaking shall apply the methods for the selection of tenderers and for the choice of tenders:

- 1) an open competition—when a public service undertaking publicly invites tenderers to submit tenders;
- 2) a restricted competition—when a public service undertaking invites tenderers pursuant to its own choice on the basis of market research; and
- 3) negotiations—when a public service undertaking conducts negotiations (consultations) with one or several tenderers regarding the conditions of a contract.

If a public service undertaking selects tenderers utilising the methods of competition or negotiations, it shall set equal objective requirements for all the tenderers.

A public service undertaking may substantiate the requirement, on the basis of objective needs, to reduce the number of possible tenderers to a level which allows for a balance between the procedures for the selection of tenderers and their nature, with the resources necessary for carrying out such procedures. The selected number of tenderers shall be enough to ensure competition.

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The estimated contract price for supply shall be determined on the basis of the amount of the particular transaction. It shall not be permitted to divide the estimated contract price into parts without good reason, or to utilise special methods for determining it.

A public service undertaking shall choose either the most economically advantageous tender in which such factors as the term for the supply or the performance of the contract, the costs, the effectiveness, the quality of the tender, the aesthetic and functional characteristics, the technical conformity, the exploitation expenditures, the availability of spare parts, the security of supply, the price and other factors have been taken into account, or also the tender with the lowest price. At least once a year, when publishing informative notices in the newspaper *Latvijas Vēstnesis* and in any other periodical press publication, a public service undertaking shall, at all times, inform of:

- 1) in the case of supply contracts—the estimated total contract price in respect of each type of production, if any of the contracts exceed 400 000 lats and their total estimated contract price exceeds 600 000 lats, and such contracts are expected to be entered into within the following 12 months; or
- 2) in the case of construction work contracts—the essential elements of such construction work contracts which the public service undertaking intends to enter into over the following 12 months, if the specified contract price is not less than 4 000 000 lats.

If a public service undertaking has published an informative notice, the invitation to submit tenders regarding specific construction work, supply of goods, leasing or services shall be published not later than within 12 months after the publication of such notice.

A public service undertaking, which has selected tenderers and chosen tenders pursuant to this law shall preserve, for four years from the day of the selection, all the information and documents on the basis of which they have taken decisions.

The supervision of purchase is done by the Purchase Supervision Bureau, which is under the supervision of the Ministry of Finance and acts in accordance with this law, the operations of the Bureau are financed by the state budget.

A tenderer may submit to the Bureau a complaint regarding the activity or a public service undertaking in respect of the selection of tenderers and the choice of proposals, and the decision of the public service undertaking regarding the results of such procedures, and request the review of such activities and decisions, if the referred to tenderer considers the public service undertaking to have violated the law and the interests of the tenderer to have been affected.

The control mechanism in the organization of public services is not precisely defined in Latvia. But during the practice, it has developed that no matter how self-government organizes public services, it can perform the control of these services directly or indirectly.

1. Direct control:

- when performing control on how self-government enterprises observe the norms determined in the law On Construction Work, Supply, Leasing and Services for the Needs of Public Service Undertakings [19] on openness and publicity when choosing constructors, suppliers

and lessors. This law determines the procedure of how the provider of public services has to organize selection of bidders for construction works, supply of goods and services, lease. The methods of choosing the bidders are determined which include closed or open tenders and negotiations.

- with using rights to determine tariffs for public services, for part of public services these rights are determined in the law On self-governments[1], in the heating supply sector they are delegated according to the Energy law [38]. Before tariffs are approved by self-government an enterprise has to prove the validity of calculated tariffs.
- subsidizing public transport services: in Latvia, a the subsidy system is established for passenger transportation with buses. These transportations are subsidized from the state road fund where the procedure of use is regulated by the regulations of the Cabinet of Ministers under "The Procedure on Management and use of State Road Fund" [41].
- with revision commissions in self-governments when implementing financial revisions of self-government enterprises.

2. *Indirect control:*

- Through different (but not self-government) institutions which are directly linked with inhabitants, where these institutions hear out the claims of inhabitants and points of views of interest groups gathered in non governmental organizations and expresses their dissatisfaction mainly with tariffs and quality of services. These institutions are as follows:
- Non-governmental organizations such as associations of tenants, or the associations of protection of consumers' rights, Associations of house owners as well as House maintenance organizations, which can be both the private enterprises as well as non-governmental organizations.
- State institutions—Bureau of protection of consumers' rights which operates according to the law "On Protection of Consumers' Rights" [42].

The provision of control depends on how the services are organized. If the services are organized:

- Self-government service (department) or its institution—in this case the direct control of service provision is done.
- Self-government enterprises—the control is performed when influencing the director of enterprise appointed by self-government through self-government revision commission.
- Companies with limited liability and joint-stock companies—the control is done when following the implementation of the terms of the signed agreement. If self-government has invested in this enterprise then the control is strengthened via person authorized by the self-government.

The situation will change starting in 2001, as amendments were prepared in Parliament on the law On Self-Governments [1], while deleting the chapter on self-government revision commissions

and determining that self-governments for the performance of any revision have to invite independent auditors. The Commercial law also came into force [18] as well as the law on Public Service Regulators [3] and the law will be passed in the Parliament on state and self-government capital shares and share companies. According to these laws, in the future, self-government enterprises will not exist, they will be transformed into share companies, which can be private with or without the participation of self-government capital, or with 100% participation of self-government capital. Self-governments will be able to represent their interests in these enterprises via authorized persons, the rights of whom will be determined in the law, and also in the agreement concluded between self-government and this authorized person. The approval of tariffs for public services will be transferred into the competence of a self-government regulator. In order to control the provision of these public services the law On Public Service Regulation determines, that commercial activity in the provision of public services has to be separated from other commercial activities of an enterprise.

The essential mechanism of controlling public services is the licensing of enterprises and the issuing of licenses for service provision. At the moment, self-governments perform such licensing when issuing licenses to the enterprises of public transport. This procedure will also be retained in the future. Otherwise, it is with other types of public services—heating and water supply, sewerage and waste management—when further implementing the law On Public Service Regulators when these enterprises will continue to be licensed. This licensing will be done by an independent regulator established by a self-government.

The law On Public Service Regulators determines the regulator co-operation with public organizations of the protection of consumer rights. These are established according to the procedure set in the law On Protection of Consumer Rights, which protects the rights of consumers in the regulated sectors, as well as with supervision and in the control of institutions of consumer rights. Representatives from these institutions have the right to participate in the meeting of the regulator in a consultative status, if during the meeting of the regulator the issues are reviewed on rendering, or the provision of public services in the corresponding regulated sector.

When fully implementing the procedures set by the Commercial law, the law on state and self-government capital shares and share companies, as well as the law On Public Service Regulators the competence of self-governments to perform direct control over the provision of public services in its territory will decrease to the minimum and in the future this control can be implemented in the following ways:

- via authorized representatives in share companies where the self-government has capital shares;
- when analyzing annual reports of self-government regulators on its work in the previous year along with a complete finance review checked by certified auditor.
- when performing the control over the implementation of the agreement concluded with an enterprise or issued license.

5.2 Dealing with Monopolies and Large Service Organizations

The Concession law [13] was passed by the parliament in January, 2000. It determines that the concession is the transfer of rights of service provision or the exceptional rights to use the resources of the concession which are given to a certain time period in charge of the concedent and concessionaire, while signing the concession agreement. The resources of concession is state or self-government property, things or community of things which can be given or which are given in charge of concessionaire according to the concession agreement. The corresponding self-government passes the decision on the transfer of concession resources to the concession and approves the terms on assigning the concession. The concessionaire can have, for the period of the concession agreement to secure the concession agreement or some following burdens on real estate, which are the resources of concession in land register. Before assigning the concession, the self-government has to organize either a competition of applicants or an auction. The concession agreement is concluded in a term which does not exceeds 30 years.

The above mentioned conditions, and the conditions provided in the law on the guarantees for implementation of concession agreement and possibilities of breaching the concluded agreement, create the possibility for self-governments to separate part of its property in order to transfer this property to entrepreneurs for providing the public services determined by self-government. Self-governments then get the possibility to decentralize the provision of public services while not establishing self-government enterprises. This possibility is essential for those self-governments which provide public services with the help of its services and institutions.

Another important law, which will have important impact on self-government competence in regulation of public services is the law On Public Service Regulators[3] which determines the general procedure of the regulation of public services and the basic principles of establishment and operation of regulation system. With this law, it is determined that the state establishes the unified regulator, which will regulate the provision of public services as entrepreneurship in the following sectors:

- the power industry except heat supply where during the production electricity is not produced;
- telecommunications;
- post;
- railway transport (including passenger transportation by railway).

But self-governments, when performing one of regular functions determined in the law—, organization of public services to inhabitants, establishes a regulator of public services on its administrative territory, which will regulate the provision of public services as entrepreneurship in the following spheres:

- household waste management except treatment of household wastes;
- water supply and sewerage;
- heating supply where during production process electricity is not produced.

Regarding the heating supply, it is foreseen that according to procedure set in the law On Self-Governments [1] the state authorizes self-governments to implement regulatory function of a centralized heating supply and can authorize self-governments to implement a regulatory function of other public services in sectors regulated by the state if corresponding self-governments are in agreement with that.

The main functions of self-government public service regulator in sectors regulated by self-governments are:

- to determine tariffs;
- to issue licenses for providing of public services;
- to do the preceding review of disputes out of court;
- to facilitate competition in the regulated sectors and supervise the correspondence of public services to the conditions of license, certain quality and environment protection requirements, technical regulations and standards as well as terms of agreement.

According to the law [2] self-governments have to provide the regulation of public services starting with 1 September 2001.

The newly established regulators of public services will be independent. Self-government establishes the regulator with the decision of the council when determining its structure. Self-government appoints the chairman of the regulator and at least two members chosen according to competition for four-year period. The chairman and the members of regulator cannot be dismissed during their authority period.

The legislator has foreseen the possibility for local governments on the base of mutual agreement to establish the common regulator. This possibility is very essential for small self-governments, which because of lack of specialists of proper level can have difficulties to establish the regulator. The problems can arise also with financing of the regulator of small self-governments. The law determines that for the provision of the regulation of public services all providers of public services of regulated sectors pay a state fee for regulation of public services the annual rate of which cannot exceed 0.2% from a net turnover of public services provided by the enterprises in the previous fiscal year.

This condition on the size of the state fee and condition on necessary competence of the members of regulator creates threats to self-governments to implement correctly the functions assigned by this law for the regulation of public services. According to provisional calculations the establishment of the regulator with sufficient financial base is possible only in five regions of the state, when amalgamating approximately 100 local governments. Even the law foresees that with such possibility, it is very difficult imagine how 100 local governments will come to co-ordinated decision on the establishment of a common regulator. It is not possible that the Cabinet of Ministers passes the decision on the establishment of a regional self-government regulator. The division of competences

between the central and local government determines that the Cabinet of Ministers cannot pass the decisions binding for self-governments, if it is not provided in the law. The present schedule that the self-government regulator is established immediately after self-government elections creates doubts that this regulator will be completely independent from self-governments

Even in the law [3], the provision of competition in a regulated sector is mentioned as one of the functions of the regulator. However, the implementation of this function is limited in the same law when determining the regulations on the licensing of public services. The licence in the meaning of this particular law is not only the definition of the terms of regulator regarding the quality and quantity of services provided by the enterprise but also regarding the issuing of guarantees to the enterprise during the time period covered by the licence, when it meets the requirements of the agreement to work in the conditions of monopoly. The features of competition can be observed only in the cases when the enterprises of public services do not fulfil the regulations of the licence and therefore the licence is nullified. In such case, the self-government has a possibility on the basis of competition to offer the service provision to another entrepreneur.

The Parliament when passing the Concession law and the law On Regulators of Public Services[3] has created the possibility to stand apart from direct provision of public services while keeping the possibilities to control the services. At the same time enterprises become more independent - either they will be private or self-government companies or companies with self-government shares. The possibilities to do lobbying in the sphere of public services are decreased to the minimum.

Basically in both of these laws the mechanism for the limitation of competition is elaborated. In the implementation of possibilities set by this law, the important role in retaining competition in public service sector is played by the cCompetition council, the work of which and procedure of establishment, is set in the Competition law [20]. With this law it is determined that the main tasks implemented by the Competition Council are:

- 1) to supervise the observation of the prohibition on malicious use of exceptional status and unfair competition of market actors;
- 2) to pass decision on consolidation of market actors and in these particular cases on regulations, which have to be obligatory, implemented by market actors;
- 3) to review the submitted reports on agreements and consolidation of market actors;
- 4) within the frame of its competence to co-operate with self-governments and provide assistance to them in issues regarding protection, retaining and development of competition.

Thus, the important activities regarding the enterprises, which are in a monopoly situation are in the case with street lightning of self-governments. There is a complicated situation in Latvia regarding this service. The essence of the problem is different forms of 'lighting nets'. Some self-governments own these 'nets'. In this case, the self-government has to organize the maintenance of the nets and pay for the used electricity to the state share company 'Latvenergo'. There are

also self-governments where the existing street lighting nets belong to the state share company 'Latvenergo'. In this case, the self-governments have to cover costs of electricity used for the lighting of streets and expenditure in relation to the operation of the nets.

The problem arises regarding the covering of operation costs. The state share company 'Latvenergo' requires that self-governments cover the costs of these works, but according to the legislation in force, self-governments do not have the rights to make payments for the maintenance of works on someone else's property. 'Latvenergo' base their demand to cover these operation costs in this type of situation. The Council of Energy supply regulation when approving electricity tariffs, did not foresee that in these tariffs would be the payment for expenses of operation of lighting nets. There are also self-governments where there are two owners of the lighting nets: the self-government and 'Latvenergo'.

All this limits self-governments to implement its one functions—the provision of street lighting. The conflict arises as whilst the self-governments are interested in the economic lighting of the streets, 'Latvenergo' is interested in selling more electricity and to receive higher payments for maintenance of nets of street lightning, which are its own property.

It is foreseen that in future the operation of public service enterprises, their consolidation process, which can be linked with the decrease of job places will be influenced by trade unions. But at a moment, trade unions in Latvia are not strong. Their biggest activities are linked with the provision of social guarantees of working and needy inhabitants. The biggest activities performed by the trade unions are with regard to the establishment and improvement of a pension system, and the increase of pensions.

6. PUBLIC ACCESS TO INFORMATION

The law On Information Publicity determines the common procedure on the rights of physical and legal persons to obtain information in institutions of state administration and self-governments, and how to use it. The aim of the law is to insure for society the access to information, which is at the disposal of institutions of state administration and self-governments, for the implementation of functions determined to them in normative acts.

Generally accessible information is given to anybody who requests it, taking into account the equality of persons with access to information. The claimant does not especially have to indicate the motivate in requesting such information, and that cannot be asked.. The regulations of the Cabinet of Ministers regulate the procedure on how the information, which is at the disposal of institutions is given publicity as well as an amount of copies, reproduction, duplicates and extracts

of information from documents and other sources of information. If an information body contains the information of limited access, then the institution issues only that part of such information which is of general access. The information can be requested in written form or orally.

All requirements in written form have to be registered. An institution can determine the procedure as to how to register oral requirements for information and the content of issued information.

The information of general access, which does not have to be additionally processed, is issued free of charge. The charge for issuing of information cannot exceed expenses for the searching of documents or information, additional processing and copying. Any claimant can ask to be exempt from the payment of the service, and the institution can make a decision on lowering or exempting the charge for the issuing of information.

The institution, which has received the request for the information in written form, has an obligation to give an answer within the term determined in the law On Procedure of Considering Petitions, Complaints and Proposals in State and Self-Government Institutions.

The state or self-government institutions, which has received a petition, complaint or proposal has to register it, according to the procedure determined by the regulations of the Cabinet of Ministers and has to pass one of the following decisions:

- within seven days of sending the petition, complaint or proposal to another institution which is competent in the particular issue when informing the claimant on that, if consideration of this petition, the complaint or proposal is not in the competence of this state or self-government institution;
- to give an answer to the claimant if the consideration of petition, complaint or proposal does not need additional check-up or requirement for additional information;
- to give an answer to the claimant if the consideration of petition, complaint or proposal needs additional check-up or requirement for additional information, in such cases the claimant has to be informed on additional check-up.

Heads of state and self-government institutions or their authorized persons periodically, but not less than once in a month have to receive visitors in time convenient for the visitors, and accordingly their competence have to consider a complaint or proposal expressed orally.

The law On Self-Government Budgets determines that the process of preparation and use of self-government budget is open. The information is freely accessible for inhabitants of corresponding self-governments, journalists of any mass media and officials of the state and self-government institutions in corresponding administrative territory [5].

Society can freely obtain information on enterprises (companies). The enterprise 'Register of the Republic of Latvia and Finance Inspection' has to provide documents and information freely

accessible and any person, when having paid state duty, can request it. The mentioned institutions for pay have to give references on documents and information as well as copies and extracts of these documents if the application or request has been received in a written form from the concerned person.

Society can freely obtain the following documentation and information:

- Foundation agreement and statutes.
- Any amendments in foundation agreement and statutes.
- Complete text of agreement and statutes after each change of foundation agreement and statutes.
- At least once in a year-size of registered, announced and paid equity capital.
- Annual account and report and other legal information.

All annual accounts of enterprises and reports of the management are subject to obligatory auditor control.

Enterprise, which in operation amount bring in a net turnover exceeding 2.4 million Lats, total balance is of 1 million Lats and the average number of employees in review year exceeds 250, submit an annual report and copy of auditor conclusion for publishing in official government newspaper.

One of the most efficient ways of informing society, is the involvement of society in processes, which are connected with decision-making in matters essential for society. The involvement of inhabitants includes any process in which the inhabitants influence public decisions, which are connected with their and other inhabitants' life quality. Participation can be active—when inhabitants mutually co-operate with elected officials or when self-government employees influence the political decisions. Either participation can be comparatively passive—when inhabitants simply attend open meetings or receive information on status of self-government programmes as well as participate and vote in elections.

From the point of view of society, involvement of inhabitants in decision-making process in time, especially those one who will be directly affected by this issue or programme can improve understanding, decrease possible conflicts and create favorable conditions for the unanimous decision of wider society. When involving inhabitants in the elaboration of a new policy and program of self-government in time, it is ensured that the thoughts of people are heard and considered, thus guaranteeing better serving to the interests of the whole society. Generally speaking, when involving inhabitants in a decision-making process, self-governments become more open and accessible. If inhabitants consider self-governments as always being open to people, then there is much more possibility that they will understand further, and will obtain more knowledge on self-government issues and, therefore will be more able to assist in solving these issues.

Participation of inhabitants help in decision making, improves understanding, co-operation and positive evaluation on the work done by self-government, reduce conflicts, creates support to implementation of projects or plans of local society and makes self-government more open towards the problems of inhabitants, doubts and questions. For democratic society, the involvement of inhabitants is a basic necessity. [45].

For example, inquiring the view of society and involvement in the process of impact on environment assessment is part of democratic public administration. The topical problem in Latvia is disposal of hazardous wastes. There is a negative attitude in society towards the placing the hazardous wastes treatment facilities on the territory of self-government. Very often this attitude is well founded, but in many cases is based only on emotions because of lack of information.

Inhabitants can obtain information on all issues, which relate to public service sphere in public organizations and self-government enterprises of protection of consumer rights.

Thus, the information is available there on heating supply, energy efficiency, district heating, legislation on protection of energy consumer rights, prices for heating supply services, determination of charges for hot water, its accounting and distribution, as well as quality.

According to the law On Energy, the Council of Energy Regulation has delegated all self-governments to making calculations of thermal energy tariffs according to which self-government approves the prices for thermal energy and linked services. The consumer has the rights to request from the self-government a heating supply enterprise:

- Annual report on results of tariffs approved by the self-government;
 - Calculation of thermal energy tariffs on the base of which self-government decision is based;
 - Expenses of maintenance and repair of inner heating and hot water nets;
- Average expenses of heating per one square meter of heated space in heating season.

When society participates in environment protection issues the chance appears to influence politicians that they take into account the interests of society and to achieve this way introducing of amendments in normative acts.

When involving society in solving problems it should be taken into account:

- Publicity—it has to be said openly to people why and how the problem is solved in concrete case in order they can understand and accept what is happening;
- Co-operation—the main thing, which makes the co-operation with society successful is precise choice of target audience and investigation of the problem;
- Principle of partnership and responsibility;

- Information has to be understandable, simple and easy perceptible. Co-operation with society has to be continuous learning process both from the part of society and the organisers, because this way the experience and ability to evaluate the weak points is obtained.

In Latvia, the procedure on informing society on issues of self-government competence is regulated by the law On Self-Governments. It is stipulated in the law that self-government council meetings are open. In the statutes of self-government, those issues can be pointed out which will be revised at closed meetings. The announcement on place, time and agenda of regular self-government council meeting has to be exposed in a place accessible and seen by everybody in premises of municipal house or near it, and if possible has to be published in the local newspaper [1].

Non governmental organizations play an important role in informing inhabitants on public utilities tariffs. In order to draw the attention of the whole society, any involvement of inhabitants needs to do work with mass media (newspapers, radio and TV). During the initial stage of inhabitant involvement, the mass media gives support when announcing information on a problem, and invites society to co-operate. In the middle of the activities reporting is on the status of initiative, and at the final stage it is on the informing of results and the introduction of tariffs. Sometimes self-governments have to facilitate the work of the mass media in order to include them in inhabitants involvement programs. The most frequent methods used in the self-governments of Latvia, are the announcements to the press and press conferences. These methods allow the mass media to obtain the most important facts with minimal efforts.

At the same time, there is certain competition going on between the mass media and civil servants on creation of negative stories. Nine-tenths of all information on the work of institutions of public power and administration are with negative character. Very rarely are there any news on some progressive reforms or attempts to improve something. The myths are based on the high salaries of civil servants, for example 'total corruption' and other such negative hype. Responding to this pressure, employees of public administration are not willing to give information to journalists.

One of the reasons of this insufficient level of information is that public administration functions are quite often performed by companies established according to private legislation, which refuse to give information on the use of public finances while referring to the commercial secret'. That is one of the reasons why these institutions in future have to be transferred into public agencies. The contradictory rights regarding information distribution also cause the problem. Thus the law On Protection of Data on Physical Persons particularly protects the immunity of private life with regard to personal data processing.

According to the law On Information Publicity, the information of limited access is the information which is meant for a limited circle of people with regards to the implementation of work obligations, and where the loss or handing out of this information, due to its character or content, may burden the work of the institution, creating harm to the legal interests of a person.

The information of limited access is the information:

- if such status of information is determined by the law;
- which is foreseen and determined for inner use of institution;
- on secrets of entrepreneurship;
- on private life of physical person;
- which regards certification, exams, submitted projects, competitions and similar kind of evaluation.

When indicating the motivation foreseen in the law, the author of information or head of institution has the right to determine with its direction the status of information of limited access.

Thus the legal obstacles have been created for free circulation of information in many spheres. What regards to the self-government, then it feels a lack of information. The reasons of this drawback are several:

- centralization policy, which regards the establishment of primary state registers separately from self-governments;
- commercialization policy, which foresees the charge from self-governments for information from state database. Thus, many self-governments cannot receive the information necessary for their work because insufficient financial means;
- policy of information protection, when in the name of basic rights, commercial secret or official secret the information circulation is exaggeratedly limited.

As a result, self-governments do not have enough data on taxpayers, enterprises and owners on self-government territory. This essentially obstructs the elaboration of well-founded development and spatial plans. Therefore the big expectations are linked with the establishment of a self-government information system.

Since 1998, the Public Investment Program has been instigated. This foresees the establishment of a common state and self-government information system. Regarding self-governments it foresees:

- Internet access in each self-government;
- The possibility for each self-government to have information exchange with state basic registers (Population register, Commercial register, Land register, Taxpayers register and others);
- To transfer the processing of primary information of several registers directly to local governments;
- The establishment of a 'One stop agency' in each municipality when providing the necessary exchange of information to their work;
- The establishment of common self-government portal, which would be an instrument for settling relations of any inhabitant with public power.

Unfortunately, this particular system has a very slow development because of an insufficient amount of assigned finances. There are similar plans at the central government level. These processes work in parallel, and are more competitive than co-operation relations.

In relation with public administration reform the expected improvements are unclear. The European Commission promotes the centralization of administration in Latvia which promotes the tendency of a formation of a closed civil servant caste. In many cases as a result of reforms, it is expected that efficiency of administration will actually decrease, as these different administration methods are not characteristic of a modern age. Equally, there are negative aspects to excessive administration, control and regulation tendencies, which creates a favorable environment for corruption.

7. POLICY MAKING PROCESS

The policy of public power is formed on several levels, including the local (rural municipality and towns), district and national levels. The self-government competencies include the preparation of development plans and spatial plans based on development planning. The planning of self-governments at all levels includes the public utilities sector. It also includes the level of planning regions. At the moment, five voluntary established planning regions cover the whole territory of Latvia.

Since the Parliament elections of 1993, there has never been one party government which could implement its pre-election promises. Quite often, the ruling coalition is formed of parties, which have quite different programmatic viewpoints. Therefore there is a tradition that together with the composition of the government, which is submitted by the Prime Minister invited by the President to the Parliament for acceptance, the Declaration on the intended work of the government is also submitted for approval. During the period of one government, the Declaration becomes the guidelines of the government and activity program approved by the Cabinet of Ministers is co-ordinated with this Declaration.

The Declaration is usually the compromise among the programs of several parties. Quite often the compromise is in the way that in the common program there are promises to do such works which no one of parties considers to be good, following 'the principle of lesser harm. These declarations are also influenced from the heritage of the sector.

In the law on the system of the ministries, policy making is mentioned as one of the tasks of the ministries. Several ministries are responsible on national policy in public utilities sector—Ministry of Economy (power industry), Transport ministry (post, telecommunications, roads, passenger transportation, railway), Ministry of Environment Protection and Regional Development (housing,

waste collection and treatment). This national policy appears in the form of sector development programmes. recently there is attempt to establish integrated National Development Plan.

According to the competence of the Cabinet of Ministers determined in their own Constitution, the Cabinet of Ministers is the one which passes decisions on issues which concern the interrelation of several ministries. The Cabinet of Ministers also reviews sector development programs. Sometimes, the Cabinet of Ministers 'approves' such a program. In the case of approval, it becomes binding to civil servants and other persons who work in public administration, but the policies cannot be the base for administrative acts. In other cases the Cabinet of Ministers 'accepts the information' on the sector programs. In such case the program is not binding even internally, it has the role of the 'intention protocol' of the ministry.

The implementation of state policy is fulfilled in the manner of:

- Normative documents (laws, regulations of the Cabinet of Ministers);
- Establishment of corresponding institutions;
- assigning the financial means for implementation of objectives set in policies.

Self-governments are efficient lobbying institutions both in the preparation of policy and during the stages of implementation.

Already for several years there is a tradition that the representative of ULRGL participate in weekly meetings within state secretaries where the draft normative acts, which are in the preparation in the government are 'announced'. The 'announced' project is sent to sector ministries, State Control and the ULRGL, if it so requires such an opinion. The opinions are summarized and attached to the corrected wording of draft normative act, which are submitted for review to the committees of the Cabinet of Ministers. If the ministry, which is submitting the draft does not agree with opinion of the ULRGL, then its obligation is to prepare disagreement protocol, which is attached to the draft project

The representative of the ULRGL has the rights to participate with consultative rights in the meetings of the committees of the Cabinet of Ministers, and to defend the point of view of self-governments. Civil servants participate in these meetings with the same rights. Further down the line, the government decision is passed in the meeting of the Cabinet of Ministers, where the representative of the ULRGL can be invited by the Head of State Chancellery (according to the decision passed in the meeting of state secretaries) or the Prime Minister.

Regular negotiations take place from spring until autumn. On the first stage (March–April) the agreement is reached with each of ministries on topics of negotiations. On the second stage (May–June) there are negotiations with ministries. During these negotiations its corresponding committee represents the ULRGL, but from the side of ministry there is the management staff

of corresponding department. The negotiations are lead by the chairman (vice-chairman) of the ULRGL from one side and the minister (state secretary) of the sector from another side. Each round of negotiations is concluded with agreement or disagreement protocol.

During bilateral negotiations between the ULRGL and the ministry, the arisen problems are discussed, the points of view on proposed changes in legislation and expenditure of new functions are fixed. The protocols of these negotiations become the base for annual negotiation protocol, which is prepared together with legislative package of budget for submission to the Parliament. The Prime Minister with mandate of the Cabinet of Ministers and the chairman of the ULRGL with mandate of the Council of the ULRGL sign annual protocol.

Special form of negotiations is extended committee meetings of the Cabinet of Ministers, which are foreseen in the regulations on the internal procedures of the Cabinet of Ministers [7]. The members of this committee are persons (ministers) nominated by the Prime Minister and persons (members of the board, heads of committees) nominated by the ULRGL, which discuss most important issues related to self-governments. Annual negotiation protocol and most significant reform issues are discussed I these committees.

The ULRGL participate also in other type of negotiations like as participant in three parties negotiation system between the government, employeers and trade unions. One another form of consultation is Consultative Committee of National Economy established at the Ministry of Economy.

The ULRGL tries to influence the development of draft legislative acts up to the third reading in the Parliament. It is achieved with active participation in the commissions of the Parliament as well as using personal contacts with the Parliament members and fractions. The majority of issues in public utilities sector are reviewed in Commissions of National Economy, Agriculture, Environment and regional policy of the parliament during the meetings of which the point of view of the ULRGL is regularly presented. The ULRGL delegates its experts to working groups formed by both the government and the Parliament.

Many issues important for local inhabitants are solved not on a national but on a local level. It particularly regards the spatial planning and construction. The spatial plan usually foresees a division in zones, when each zone is characterized with certain burdens of private property rights. The change of zoning is caused also by self-government investment activities. When changing the character of the use of territory the obligation of self-government is to organize an opinion poll.

The obligatory character of such an opinion poll is determined in the law On Administratively Territorial Reform, and in the regulations of the Cabinet of Ministers on territorial planning. Each inhabitant of corresponding territory has the rights to express his or her opinion on planning issues. These opinion polls have not yet become usual and general practice, but with every year they take place more and more often and are becoming more and more popular.

In order that the negotiations with government would become more efficient the legal status of them should be precise. Thus, the ULRGL suggests further on to approve the negotiation protocol of the ULRGL and the government in the Parliament.

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5. On Local Government Budgets, Law, Parliament, 29/03/1995.
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39. On Reorganisation of Heat supply Enterprise of Riga Self - Government and Establishment of Joint Stock Company "Riga Heat Supply", Decision, Riga City Council, 19/09/1995.
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NOTE

- ¹ 558 questionnaires were sent out to 77 cities and towns and 481 rural municipalities. 225 rural municipalities (47%) and 39 cities and towns (51%) responded.