

Chapter 3

Local Government in Latvia

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Edvins Vanags and Inga Vilka

1. Legal and Constitutional Basis

Latvia's local government system consists of two levels. The first includes 486 rural municipalities, 70 town municipalities and 7 city municipalities;¹ the second, 26 regional governments and 7 republican cities.² Thus, cities are represented on both levels of local government simultaneously.

The principles of local government reform in Latvia are based on the demands of the European Charter of Local Self-government, which was accepted by the *Saeima* (parliament) on 22 February 1996, and legislation of the Republic of Latvia. Latvia has accepted twenty-six of the thirty paragraphs of the charter. Those not adopted include paragraph 2 of article 6, stipulating the conditions of service, training, remuneration and career development for local government employees; paragraph 2 of article 7, addressing financial compensation and social welfare protection of council members (deputies); paragraph 4 of article 9, requiring sufficiently diversified financial systems; and paragraph 8 of article 9, ensuring access to national capital markets. The *Saeima* did not accept these requirements because its deputies were not convinced that Latvia was ready to realize their terms. In the Declaration on Intended Action of the Latvian Cabinet of Ministers prepared in November 1998, it is stressed that attempts will be made to meet the terms of these remaining four paragraphs.

The highest governing document addressing public administration in Latvia is the law "On Local Governments" passed on 19 May 1994, since no provisions are made on this issue in the *Satversme* (the Constitution of the Republic of Latvia); from article 25, one can only conclude that local governments exist. Therefore proposals on amending the *Satversme* to include an additional chapter on the place and role of local governments in the administrative structure currently are being prepared.

1.1 Brief History of Local Governments

When Latvia was a socialist republic in the former Soviet Union, local governments were subordinate to the centralized administrative and bureaucratic structure. Their role was to implement state plans for economic and social development on their territory. The system of nomenklatura (the "list" of administrative positions that were considered to be crucial to the

soviet system) created top-down management designed to communicate planning directives and passively report compliance with them.

Though residents formally elected local councils, in actuality, local government in the true sense of the term did not exist during the soviet period. This point is demonstrated by the following facts.

1. The selection of candidates was undemocratic. Candidates were “nominated” after being recommended by communist party bureaus and committees. Usually these authorities would indicate the social group, profession, gender and age of the candidate so that those (or the one) nominated would be predetermined.
2. The nominated candidate ran unopposed in the elections.
3. Local governments had no authority; all important decisions were approved through local communist party institutions, and often through such institutions at higher levels, before implementation.

Local governments were “elected” every two and a half years, and working sessions were held at least four times a year. Riga was the only city in Latvia with a two-level local government system. The higher level was the city council and its executive institutions; the lower level was comprised of six district councils and their executive institutions. The number of deputies in all local councils was excessive. In 1987, 500 members sat on Riga’s city council, of which 301 (sixty percent) were workers. Each city district in Riga had from 160 to 250 council members, depending on the number of residents in the district.

The local council elections held in December 1989 were more democratic. For the first time in the postwar period such elections were competitive, with more than one candidate running for each post, and a majority system was implemented. Residents registered in the territory of the corresponding local government exercised active and passive rights of election. In actuality, the races were between supporters of the Latvian Popular Front and those of the soviet procommunist regime. In most cases the representatives of the Latvian Popular Front won.

The deputies of local councils elected in 1989 held office for five years. The number of deputies was less than in previous councils, but still rather high—from fifteen to one hundred twenty members, determined by the number of residents in each territory. One hundred twenty deputies were elected to the Riga city council, and from eighty to one hundred-twenty to each of the city’s district councils.

Local government laws were passed on 15 February 1990, when the Supreme Council of the Latvian SSR adopted three separate laws on district, city and rural (*pagasts*) local governments. These laws were based on those of the first Republic of Latvia on rural municipality (1922) and city (1930) local government, the latter of which also applied to Riga and its districts. The new provisions established the municipal council, which independently could address any issue in the competence of the local government, twenty-seven of which were mentioned in the law.

The council elected its chair, deputy chair and secretary from among its members. The chair represented the council, managed its work, presided over its sessions, authorized its decisions and supervised its activities.

The presidium of the council was established to address organizational issues. It was headed by the chair or deputy chair of the council, and its other members included the council secretary and the chairs of standing committees, as well as other individuals elected by the council if it chose to do so. The presidium of the council fulfilled the following functions:

- announcement and preparation of council sessions, organization of preliminary discussions of draft decisions, publicity of the work of the council;
- coordination of the work of council committees and working groups;
- assistance to deputies in accomplishing their tasks;
- organization of public discussions on draft decisions and other important issues as determined by the council;
- execution of council decisions and instructions.

The executive body of the council was the executive committee, which was established for the term of the council. In its first session subsequent to its election, the council elected the executive committee chair and, upon the chair's proposal, confirmed the deputy chair and members of the executive committee. With the exception of the chair, deputies who were elected to the executive committee resigned from the council.

In practice, the executive committee in most cases was not only an executive organ but also a decision-making body on certain issues. A reasonable distribution of power in local governments between the council chair and executive committee chair often was not achieved. This was the main reason for the initiative to introduce new local government laws.

To address the conflicts that arose from this double system of government, the Supreme Council issued laws "On Town/City Municipalities" and "On Rural Municipalities" on 24 April 1991. Subsequently, a new law on regional government (districts) was introduced on 15 February 1992. In accordance with these laws council presidiums and executive committees were abolished, and local boards were established that serve both executive and decision-making functions. The chair of the council is simultaneously the chair of the board.

These laws also determine that persons who are not deputies can be elected to the board, but the number of nondeputy members cannot exceed one-third of its full membership. This stipulation was introduced because the membership of many local councils did not include enough professional specialists—economists, lawyers, managers, et cetera—to address their responsibilities. However, since the board is invested with not only executive but also decision-making power, the appointment of persons who are not deputies is perceived as undemocratic. A council can delegate some of its functions to the board, the latter of which sets up the administrative structure of the local government. The new legislation also grants councils the option to appoint an executive director.

The law on regional governments reduced the district's control over the municipality. Nevertheless, a certain level of subordination was maintained. District governments can suspend illegal decisions made by municipalities, but only the court can repeal them. District governments are still responsible for allocating state subsidies among municipalities. They also determine the distribution of tax revenue between district and local authorities if such distribution is unregulated by law.

The laws on town/city and rural municipalities and regional governments adopted in 1991 and 1992 were oriented more towards decentralization and independence of local governments in comparison to the laws adopted in 1990 and 1994. From 1990 to 1992 local governments actively participated in the process of renewing the Republic of Latvia and ensuring political stability.

1.2 The Status of the Capital City

Due to the many peculiarities of the city's two-level system, a special law applying to the government of Riga was passed on 10 June 1992 and remained in effect until 1994. Previous to this, Riga's city council and district councils often had serious disagreements.

The institutions of Riga's government were established in accordance with the new law, including:

- the dome;
- the council;
- district (suburb) councils;³
- the board;
- district (suburb) boards;
- auditing commissions of the municipality and its districts (suburbs).

The Riga dome was the highest decision-making institution of the municipal government. It was comprised of sixty deputies, half of which were elected by the council from among its deputies, and half of which were elected by the six district councils (five deputies each). The Riga dome coordinated the activities of local government institutions and decided upon the most important issues concerning the city's development. Its responsibilities included:

- election of its chair, vice-chair and secretary, as well as release of these officers from their duties;
- election of the committee chairs and, upon their proposals, confirmation of the members of committees;
- endorsement of the regulations of the dome;
- suspension of unlawful and inappropriate decisions and orders of the municipal council, district councils and their boards and chairs;
- regulation of the distribution of funding among the municipal council and district council budgets and the reserve fund for the dome.

The establishment of the Riga dome diminished the role of the municipal council. However, the board was granted quite broad responsibilities as the main executive institution. It managed

the property of the municipal government; administered financial resources; established and maintained systems of public transportation, water supply and waste purification, collection and utilization; constructed, maintained and repaired bridges, streets and roads; established and monitored the use of gas supply; supervised educational and health services; and supervised the electrical network and its repair.

The functions of the district boards were also quite broad. They managed property placed under their care, administered the financial resources of the district, maintained and rented living and administrative facilities of the municipal government located in their districts, oversaw the maintenance of streets, supervised educational establishments and sporting and cultural institutions, supervised the work of the registry office and police department of the district, organized social care for the district's population, established local government enterprises, appointed and released the managing staff of these enterprises and resolved questions of adoption and guardianship, among other tasks.

To a certain extent the establishment of the Riga dome improved collaboration between the municipal council and its executive institutions on the one hand and district councils and their executive institutions on the other hand. Unfortunately, the problem was not completely resolved; the organizational structure of the Riga dome was quite inflexible, and the number of deputies to the municipal and district councils was too large. Disagreements continued concerning the division of responsibilities, supervision of property, et cetera.

The territories of the districts were not determined rationally; they were created artificially without consideration for historical neighborhoods or geographical boundaries. Therefore, the provisions of the law on Riga's government were insufficient. Accordingly, the law "On Local Governments" adopted on 19 May 1994 and in effect today created a single-tier local government for the capital.

1.3 Local Government Reform

Local government reform is one of the most important tasks targeted in Latvia's transformation. The concept of reform was accepted by the Cabinet of Ministers on 28 September 1993, which determined its main goals to be the democratization and decentralization of state power and administration, increasing accountability of local governments in fulfilling the tasks delegated to them, improvement of the quality of public services rendered to local residents and increasing public participation in the processes of administration.

The main principles of local government reform in Latvia were:

- democratization and decentralization of administration;
- autonomy of local government from the central government;
- independence of activities within the limits of the law;
- development of municipal and private property;

- establishment of independent local budgets;
- use of market (rather than command) methods of management.

The initiatives of local government reform included:

- drafting a new law on local government council elections;
- drafting a new law on local government common to rural and urban municipalities and regional governments;
- administrative–territorial reorganization;
- improvement of the local budget system;
- creation of territorial information systems;
- establishment of training institutions for the deputies and staff of local governments;
- organization of a system for negotiations and communication between the Cabinet of Ministers and local governments.

The legislative results of such initiatives include the following laws:

- “On Elections to the Town/City Dome, Regional Council and Rural Municipality Council” (13 January 1994);
- “On Local Governments” (19 May 1994);
- “On Local Government Budgets” (29 March 1995);
- “On Equalization of Local Government Finance” (29 March 1995);
- “On Administrative Territorial Reform” (21 October 1998).

In order to address the need for qualified deputies and staff of local government, the Project Management and Self-government Training Center of the University of Latvia, the Local Government Training Center of Latvia and regional training centers were established.

The core of local government reform in Latvia was territorial administrative reorganization. The average population for the representative organs of the first level of local government (town/city and rural municipalities) is 4.4 thousand. For rural municipalities alone, the average is 1.7 thousand—in one-third of them, the population is less than one thousand, and only two percent have five thousand inhabitants. Most towns (forty-four of seventy) have less than five thousand inhabitants; two-thirds of all districts (eighteen of twenty-six) are inhabited by less than fifty thousand residents, and only one (Riga district) has more than one hundred thousand inhabitants.

Preference is given to an integrated structure of local government rather than one based on settlements. A “settlement” in Latvia is formulated as the territory in which residents consistently live and in which the material conditions for residence are organized. Thus, settlements in Latvia are characterized as urban (town/city) or rural, the latter of which in turn are divided into villages and individual farms.

There were 73,944 settlements in Latvia at the beginning of 1998. The average number of settlements in one municipality is 131. In 99.8 percent of all settlements the population is less

than one thousand (see annex 3.2). The territories of ninety percent of all rural municipalities do not exceed two hundred square kilometers.

There is greater need for financial resources in small municipalities, which is one argument for reform. Research shows that the share of total budget revenue that is allocated to small municipalities is relatively bigger than that of large municipalities (see table 3.1); the share of grants to municipalities with populations of less than one thousand is one-half of the total budget revenue. Administrative expenditures per capita are relatively largest in the smallest rural municipalities. Such expenditures were *lat*⁴ 19 (USD 33) per capita in rural municipalities with populations of less than 600, *lat* 17 (USD 29) for populations from 600 to 899, *lat* 15 (USD 26) for populations from 900 to 1,199, and *lat* 13 (USD 22) for populations from 1,200 to 1,499.

Table 3.1
**State Grants as a Percentage of Total Budget Revenue
in Latvian Rural Municipalities, 1996**

| Number of Inhabitants | Number of Rural Municipalities | Grants to Total Budget Revenue [%] |
|-----------------------|--------------------------------|------------------------------------|
| 0–999 | 174 | 49 |
| 1,000–1,999 | 224 | 43 |
| 2,000–2,999 | 57 | 24 |
| 3,000–3,999 | 14 | 18 |
| 4,000–4,999 | 10 | 13 |
| 5,000–5,999 | 4 | 7 |
| 6,000–7,999 | 3 | 3 |
| 8,000–9,999 | 2 | 6 |
| 10,000+ | 1 | 0 |
| Total | 489 | 22 |

1.4 The New Law on Local Government

The law “On Local Governments” passed on 19 May 1994 was the first in the history of Latvia that applied to all types of self-government—rural municipalities, town/city municipalities and districts. According to the law a local government is an organ of administration that through elected representation—the council or dome⁵—ensures the execution of functions conferred upon it by legislation, by the Cabinet of Ministers and by local voluntary initiative, taking into consideration the interests of the state and of the inhabitants of the administrative territory. Local governments in the administrative sense are subject to public law, but in the scope of private law they have the

rights of legal persons. They are invested the right to participate in entrepreneurial activities, own and manage movable and immovable property, conclude agreements and engage in other private transactions, bring actions to court and complaints to administrative offices and have access to information from state offices that are located in the given administrative territory.

The economic basis of a local government is the property it owns, manages and uses in addition to its financial resources. Land, waters, forests and other fixed assets may be considered the property of local governments. Their responsibility with regard to such property is to provide the best possible conditions for service to the population, which is accomplished through local government enterprises and organizations.

Local governments may also acquire fixed assets of state and private property, as well as sell, rent and expropriate property in accordance with applicable legislation. Property disputes with state institutions or private individuals are settled in court. Local governments have the right to submit requests to the Cabinet of Ministers on the preemptive acquisition of property needed for public use, such as the construction of roads, streets, squares, bridges, viaducts, wharves, et cetera. Large local government enterprises in the spheres of trade, services and production will be privatized; the remaining should be transformed into nonprofit enterprises.

1.5 Relationship between the State Administration and Local Government

Coordination between the Cabinet of Ministers and local governments occurs on the following issues:

- drafting of laws and regulations that affect local governments;
- determination of general and specific grants allocated to local governments each fiscal year;
- identification of financial sources to administer additional functions expected of local governments;
- any other issues concerning local government.

The Union of Local and Regional Government of Latvia (ULRGL) represents local governments in negotiations with the state. A protocol is formulated annually based on negotiations between working groups formed by ULRGL and representatives of all ministries. The main area of conflict between the central and local governments is related to budget allocations. Negotiations between ULRGL and the Saeima also have been organized in recent years.

1.6 Organization of Middle-Tier Government

In 1992 and 1993 lengthy negotiations were held concerning the number of levels necessary for the local government system. Some heads of municipalities supported a single-level system, promoting the abolition of district governments and the creation of territorial state offices. However, the outcome was the continuation of the two-level system with more strictly defined

roles for each level and a reduction of the district's authority over the municipality. These principles were realized in the law "On Local Governments" passed on 19 May 1994.

In 1996 the central government prepared a proposal to abolish district governments and create territorial state offices. As a result, the law "On Elections to Town/City Dome, Regional Council and Rural Municipality Council" was amended, and only first-level local government councils, not regional councils, were elected in March 1997. The subsequent central government established in summer 1997 did not support this trend, and the law "On Local Governments" was amended in November 1997 authorizing the creation of district councils comprised of the chairs of municipal councils. These councils were charged with executing the functions of regional governments and those delegated by municipalities, as well as providing assistance in coordinating services such as education, health care, social welfare and cultural institutions.

The results of this experiment have revealed that such indirect representation at the regional level cannot ensure its impartial functioning; each deputy first and foremost promotes the interests of his/her municipality rather than those of the district. Thus, there is a new trend supporting a return to the direct election of regional councils by the next local elections in March 2001.

In addition to district governments, a number of ministries and other state institutions have representative offices in each region, including the revenue service, statistics office, police department, agriculture department, environmental inspection office, employment service, et cetera. They execute functions that are nationwide and require uniformity and central regulation through cooperation with district government structures.

In accordance with the law "On Local Governments" consultative councils were established in every district and republican city to coordinate local government and state activities. Such councils functioned from 1994 to 1997. Consultative councils were comprised of representatives of municipal and regional governments and state institutions. Their actions were ineffective mainly for two reasons: decisions required unanimous agreement of all representatives and were, in the end, recommendations rather than directives.

2 Local Politics, Decision Making

2.1 System of Local Elections

The Saeima passed the law "On Elections to the Town/City Dome, Regional Council and Rural Municipality Council" on 13 January 1994. Regular elections to councils are conducted every fourth year on the second Sunday of March. In compliance with the requirements established by the European Charter of Local Self-government, municipal councils are chosen through equal, direct, proportional elections by secret ballot. In 1994 district councils also were selected

by direct election, but due to the amendments in legislation discussed above, from 1997 district councils were comprised of the chairs of municipal councils.

The 1994 law on local elections significantly reduced (three- to four-fold) the number of deputies. The average number of deputies serving on local councils in Latvia is now smaller than that of West European countries and is almost as small as those in the United States. The number of local council deputies is proportionate to the population of the municipality:

- up to 2,000 inhabitants—seven deputies;
- from 2,001 to 5,000 inhabitants—nine deputies;
- from 5,001 to 50,000 inhabitants—eleven deputies;
- more than 50,000 inhabitants—fifteen deputies.

There are sixty deputies in Riga's city council.

The law on local elections also introduced changes in voting rights. In the 1989 elections all residents of what was then the Latvian SSR had the right to vote. According to the new law the right to vote for council deputies is granted to citizens of the Republic of Latvia who have reached the age of eighteen by election day, except:

- persons who are serving sentences in confinement;
- persons detained due to, accused of or charged with a crime if their case is considered to be a security threat;
- persons who legally have been declared incompetent or incapacitated.

Each individual eligible to vote may choose to do so either in the territory in which he or she is a legal resident or in the territory in which his or her real estate is legally registered.

Candidates for council deputy must be citizens of the Republic of Latvia who have reached the age of twenty-one by election day and (1) have been registered as residents of the territory in which they intend to run for office for a minimum of twelve months prior to election day, or (2) have been employed in the territory for a minimum of six months prior to election day, or (3) own real estate in the territory, with the following exceptions:

- persons who are serving sentences in confinement;
- persons who legally have been declared incompetent;
- persons who have been sentenced for especially severe crimes without the possibility of rehabilitation;
- persons who were formerly officials or employees of the KGB or the Ministry of Defense of the USSR;
- persons who do not possess proficiency in the state language at the highest (third) level.⁶

Only registered political organizations or their registered coalitions may submit lists of candidates for republican city council. Lists of candidates for municipal councils may be submitted by registered political organizations, their registered coalitions and voters associations. A voters association is formed by persons who sign a list of candidates signifying their support and by the individuals appearing on that list. A candidate list for municipal council must be signed by at least twenty voters.

The electoral commission accepts candidate lists only from supporters who have paid a security fee. If at least one candidate from the proposed list is elected, the security fee is returned.

On 9 March 1997 elections were organized in all 566 local governments—7 cities, 69 towns and 490 rural municipalities—managed by city, town and rural municipality election committees. For the first time local government budgets financed the elections.

Voter turnout was not high, especially in cities. In local elections, 737,656 voters participated, or 56.8 percent of those eligible to vote, which was lower than in the 1994 elections (58.5 percent). Lists of deputy candidates totaled 1,454, nominating 11,942 candidates for the 4,445 positions. Therefore, on average, 2.6 lists were submitted for each local contest and 2.7 candidates competed for each deputy position.

The distribution of lists and candidates according to political party, coalition and voters association is indicated in table 3.2. Voters associations submitted an overwhelming majority—eighty-five percent—of the total number of lists; parties, fourteen percent; and coalitions, one percent. Voters association lists were also more successful; ninety-five percent of the lists submitted by voters associations and eighty-five percent of those submitted by parties won representation in local councils. Forty-three percent of voters association candidates and only nineteen percent of party candidates were elected deputies. In summary, eighty-eight percent of all deputies elected were nominated by voters associations and twelve percent by parties and their coalitions.

Table 3.2
**Lists of Candidates and Elected Deputies Accordingly to Parties,
Coalitions and Voters Associations in Latvia, 1997**

| Nominating Organization | Candidate Lists | | | Candidates | | |
|-------------------------|-----------------|-------------------------------|--------------------------------|------------|----------------|-----------------|
| | Total | Number Winning Representation | Percent Winning Representation | Total | Number Elected | Percent Elected |
| Parties | 202 | 171 | 85 | 2,442 | 467 | 19 |
| % | 14 | 13 | — | 20 | 11 | — |
| Coalitions of Parties | 19 | 19 | 100 | 315 | 48 | 15 |
| % | 1 | 1 | — | 3 | 1 | — |
| Voters Associations | 1,233 | 1,170 | 95 | 9,185 | 3,930 | 43 |
| % | 85 | 86 | — | 77 | 88 | — |
| Total | 1,454 | 1,360 | — | 11,942 | 4,445 | — |
| % | 100 | 100 | — | 100 | 100 | — |
| Average | — | — | 94 | — | — | 37 |

The major national parties participated in the elections, but in general they are not very involved in local politics. The most active and successful were the Latvian Peasant Union (forty-eight lists won representation and 171 candidates were elected deputies), the democratic party Saimnieks (forty-one lists, eighty-three deputies), the union Fatherland and Freedom (sixteen lists, forty-three deputies) and the union Latvia's Way (thirteen lists, forty-one deputies).

Most candidates (sixty-five percent) and elected deputies (sixty-eight percent) were between the ages of thirty-one and fifty. Only ten percent of the candidates and six percent of the elected deputies were thirty years of age or younger. Seven percent of the candidates and six percent of the deputies were sixty-one years of age or older (see table 3.3). The eldest candidate was eighty-six years old; the two eldest elected deputies were seventy-eight. The eight youngest candidates were twenty-one years of age, and the four youngest elected deputies were twenty-two.

Table 3.3
Age of Candidates and Elected Deputies
in Latvia, 1997

| Age | Candidates | | Elected Deputies | |
|--------------|------------|-----|------------------|-----|
| | Total | % | Total | % |
| 21–30 | 1,155 | 10 | 282 | 6 |
| 31–40 | 4,123 | 34 | 1,565 | 35 |
| 41–50 | 3,586 | 30 | 1,459 | 33 |
| 51–60 | 2,267 | 19 | 903 | 20 |
| 61–70 | 714 | 6 | 219 | 5 |
| 70+ | 97 | 1 | 17 | 1 |
| Total | 11,942 | 100 | 4,445 | 100 |

Fifty percent of all elected deputies had earned a higher education, and forty-six percent have comprehensive or secondary specialized education. Only three percent do not have higher or secondary education (see table 3.4).

Sixty-one percent of all elected deputies were men; thirty-nine percent were women. Ninety-four percent were nominated as candidates from place of residence, five percent from place of employment, and one percent from place of real estate ownership.

Table 3.4
**Level of Education of Candidates and Elected Deputies
 in Latvia, 1997**

| Level of Education | Candidates | | Elected Deputies | |
|-----------------------------------|------------|-----|------------------|-----|
| | Total | % | Total | % |
| Higher Education | 5,613 | 47 | 2,229 | 50 |
| Incomplete Higher Education | 178 | 2 | 58 | 1 |
| Comprehensive Secondary Education | 1,879 | 16 | 591 | 13 |
| Incomplete Secondary Education | 161 | 1 | 55 | 1 |
| Secondary Specialized Education | 3,820 | 32 | 445 | 33 |
| Basic Education | 291 | 2 | 67 | 2 |
| Total | 11,942 | 100 | 4,445 | 100 |

2.2 Forms of Direct Democracy

Forms of direct democracy (local referendum, public hearing, et cetera) are not very popular in Latvia. There is no law on local referendum, but the recognition of the political importance of public opinion appears to be accepted, especially concerning the issue of territorial administrative reform. In some local governments—for example, in Riga—public hearings have been organized on the concept and plan for territorial development.

2.3 Distribution of Power among Different Levels of Government

The system of government in Latvia is subdivided into two groups: state administration and two-tiered local government. The general principles of the distribution of responsibilities between local and central governments are:

- subsidiary—the best solutions to problems are found at the level closest to the people; no task is solved at a level higher than necessary;
- decentralization of authority;
- division of responsibilities for the execution of concrete functions;
- direct correlation between responsibilities and financial resources.

The division of responsibilities between municipal and regional governments is based upon the principle that if an issue demands the combining of financial, material, informational or human resources of many municipalities, the task is transferred to the jurisdiction of the district government.

As established by the Satversme of the Republic of Latvia passed in 1922 and reinstated in 1993, Latvia has a typical democratic parliamentary system. Ultimate responsibility lies with the head of the government—the president of ministers—while the president of state performs mainly representative functions. The president of state chooses the president of ministers, who nominates the ministers of the cabinet. The Saeima must endorse the nomination of the president of ministers and the proposed government with a vote of confidence. The cabinet is comprised of the president of ministers, ministers and state ministers.

A ministry is a central institution of executive power that assists the cabinet in realizing tasks determined by the Satversme and by law. Ministries and other state administrative institutions in some cases have territorial offices, mainly at the regional level, that work in close cooperation with district and municipal governments.

The main responsibilities of the central government are:

- legislation and state administration;
- economic policy;
- foreign affairs;
- defense;
- public order and law enforcement;
- long-distance communication and transport;
- employment;
- energy resources;
- social insurance;
- higher education and scientific research.

The overall function of local government is to provide for the social, economic, cultural and educational needs of its population (see section 3.2.1). To fulfill its functions a local government is obligated to:

- develop a social and economic plan and master plan for the territory;
- draft and approve its budget;
- manage and use rationally and effectively its real estate and movable property;
- collect taxes and duties;
- use its financial resources rationally and effectively within the parameters of the accepted budget;
- inform the ministries and the cabinet about issues related to the activities of the territory.

In performing its functions a local government has the right to:

- form institutions and enterprises and participate in entrepreneurial endeavors;
- obtain and expropriate movable property and real estate, privatize local government property, conclude agreements and engage in other private transactions;
- introduce local duties and levies, establish tax rates and exemptions;
- submit claims to the court and complaints to administrative institutions;
- receive pertinent information from state institutions.

Municipal councils have the right to approve binding regulations and to enforce them, if not provided by law, on the following issues:

- construction;
- maintenance and protection of public forests, waters, natural reserves and cultural monuments;
- trade in public places;
- public order;
- maintenance and renovation of buildings and their grounds;
- sanitation;
- placement of promotional materials, posters, advertisements and other information in public areas;
- use of public transport;
- maintenance of public spaces, parks and natural reserves;
- cattle-raising;
- protection of engineering networks;
- other tasks assigned by law and by regulations of the Cabinet of Ministers.

Rural municipal councils also have the right to issue and enforce binding regulations on the use and storage of chemicals and fertilizers.

District councils and republican city councils have the right to issue and enforce binding regulations, if not provided by law, on the following issues:

- preventative measures against the spread of epidemics;
- preventative measures against and public order in cases of natural disasters or other extraordinary situations;
- protection of natural reserves and cultural monuments.

Such regulations are binding for all residents and legal persons in the respective administrative territory.

2.4 Internal Structure of Local Government Decision Making

The representative body of local government is the council. The distinction between the formation of municipal and district councils is the following: the former is comprised of directly elected deputies and the latter of the chairs of municipal councils. The council chair is elected by secret ballot from among the deputies of the respective council by simple majority.

The council may review any issue that is in the competence of the local government, and it has the exclusive right to:

- approve its statutes;
- approve the local budget and its amendments and report on budget expenditures;
- approve the plan and prospective programs of social and economic development and environmental protection of the administrative territory, as well as the master plan for territorial development;

- make recommendations for and approve changes in the borders of the administrative territory and subsequently in the composition of the local government;
- approve the territorial division of the local government and its administrative institutions;
- form, reorganize and liquidate local government enterprises and organizations, approve their regulations and charters and appoint and dismiss their heads;
- elect and recall the council chair, vice-chair, members of standing committees, and the chair and members of the audit commission;
- appoint and dismiss the executive director;
- determine the compensation of deputies and the salaries of the council chair, vice-chair and local government employees;
- determine the local tax structure in accordance with the law;
- determine fees for services rendered by the local government and its enterprises and organizations;
- approve administrative regulations of the local government and establish penalties for their violation;
- decide on issues concerning the sale and purchase of real estate and procedures for conducting other transactions with local government property; accept and manage donations, bequests and loans; and undertake other economic obligations on behalf of the local government;
- repeal illegal and inappropriate orders and decisions of the council chair and the heads of local government enterprises and organizations;
- elect representatives to local or state unions, committees, boards and working groups;
- determine the organization of and procedures for elections;
- elect court assessors;
- make decisions on other issues as stipulated by law.

The statutes of local government, formulated in accordance with the law “On Local Governments” and model statutes approved by the Cabinet of Ministers, determine the organization of the work of the council, which is conducted at its meetings and by standing committees. Council meetings must be convened at least once a month and must be open to the public. A decision can be adopted if the meeting is attended by more than one-half of the deputies. Unless law stipulates other provisions, decisions of municipal councils must be approved by a simple majority of the deputies. Procedures for decision making at the district level are as follows:

- if none of the deputies expresses objection to a proposal, the decision is adopted without a vote;
- if any of the deputies objects to a proposal, a vote is taken.

Decisions of the council must be made public to every resident in accordance with procedures set forth by the local government’s statutes.

The council elects the membership of standing committees from among its deputies. These committees prepare issues for review at council meetings, submit statements on issues that are within their competence, oversee the work of local government enterprises and organizations,

review budget drafts, et cetera. Two standing committees—financial, and education and cultural affairs—are compulsory for every local government. Other standing committees may be set up in accordance with the statutes of the local government.

Each voters association or political organization must be represented on each committee proportionate to the results of the council elections. Every deputy has to be a member of at least one committee. The work of committees is conducted at closed meetings. A committee's members elect its chair, with the exception of the financial committee, which is headed by the chair of the council.

The council may establish boards, commissions or working groups comprised of deputies and residents of the municipality.

The chair of the council oversees its work, coordinates the review of issues by committees, represents local government in all capacities, authorizes decisions of the council and signs agreements and other legal documents on behalf of the local government. The chair is a full-time employee of the local government. During his or her term, the chair may not pursue other employment with the exception of scientific, pedagogical or creative endeavors. Upon proposal by the chair, the council appoints an executive director who is responsible for the activities of local government institutions, enterprises and organizations. The executive director cannot be a deputy. If a local government does not nominate an executive director, the chair of the council performs these duties

The law “On Local Governments” established new procedures for the election of the auditing commission. Previously the council elected the members of the auditing commission from among its deputies. Now the municipal council elects members of the auditing commission not from among its deputies, but from among the voting population of the municipality; representation of each political organization or voters association is proportionate to the number of their delegates to the council. The district council elects the members of its auditing commission from among the chairs of the municipal auditing commissions.

The main tasks of the auditing commission are to monitor the council's spending within the approved budget and to oversee the legality and appropriateness of financial and economic activities of local government institutions, enterprises and organizations.

2.5 Public Participation in Decision Making

Residents of an administrative territory have the right to attend local government council meetings. The meetings of the council must be held in venues appropriate to host residents, representatives of the media and officials of municipal and district institutions. The public has the right of free access to any decision of the council or auditing commission, orders of the chair and the protocol of open meetings of the council.

The council chair, deputies and the executive director have office hours at least once a week during which residents may approach them with questions, concerns or proposals. Not only deputies but also residents may be members of boards, commissions or working groups set up by the council.

The laws of the Republic of Latvia provide the right for residents to establish and participate in social organizations and political parties, to lodge formal complaints and applications, to question administrative documents of government institutions, et cetera. One such law is “The Order of Reviewing Applications, Complaints and Proposals in State and Local Government Institutions” passed by the Saeima on 27 October 1994.

Residents participate in local government activities through open roundtable discussions and other meetings, sociological questionnaires, discourse through newspapers and other forms of mass media and participation in interest groups, advisory councils, et cetera.

The extent of public participation in decision making depends, to some extent, on access to information. The central government has proposed the preparation of a state-supported program to inform inhabitants on territorial administrative reform and other processes involving local governments.

2.6 Ethnic Issues, Multicultural Government

Latvia is a multinational and multicultural state. Latvians comprised 55.5 percent of the population on 1 January 1998—more than in 1989 (52.0 percent), but less than in 1935 (77.0 percent). The national composition of the remainder of Latvia’s population included Russians (32.4 percent), Belarusians (3.9 percent), Ukrainians (2.9 percent), Poles (2.2 percent), Lithuanians (1.3 percent), Jews (0.4 percent), Estonians (0.1 percent), Germans (0.1 percent) and other nationalities (0.9 percent).

The proportion of Latvians in Riga was 38.7 percent, and of Russians, 47.2 percent; in Daugavpils (the second largest city in Latvia) Latvians comprised 14.3 percent of the population, and Russians, 58.5 percent. In other districts, the vast majority of the population was Latvian: Ventspils—95.3 percent, Talsi—91.1 percent, and Kuldigas—89.4 percent.

In 1998, almost twenty percent of Latvian males and nineteen percent of Latvian females had spouses of a different nationality. The proportion of residents who were citizens of Latvia was 72.7 percent, citizens of the former USSR, 26.6 percent; and citizens of the Russian Federation, 0.5 percent. Many Russians and other minorities possess Latvian citizenship. Foreigners or noncitizens applying for naturalization must be residents in Latvia for at least five years from 5 May 1990 and must pass an examination demonstrating Latvian language proficiency, basic knowledge of Latvian history and the Satversme, and the words of the national anthem.

According to the law “On Local Governments,” councils may set up standing committees on the affairs of foreigners and noncitizens if at least one-fourth of the inhabitants registered in the administrative territory fall into this category.

Russian is the primary language of instruction in 99 preschools (seventeen percent of the total), and in 114 preschools Latvian and Russian or Latvian and Polish are the languages of instruction (nineteen percent). At the beginning of the 1997–98 academic year, thirty-two percent of school-age children (108 thousand) studied in schools in which the language of instruction was Russian, and twelve percent (41.3 thousand) attended courses taught in Latvian and Russian or Polish, Ukrainian, Lithuanian or Belarusian.

2.7 Local Government Associations and International Contacts

By law, local governments have the right to cooperate on issues of common interest and may establish public organizations or join such organizations to do so.

The law “On Local Governments” states that local government organizations that include representation of more than half of the municipalities and more than half of the districts have the right to represent local governments in negotiations with the Cabinet of Ministers. One such organization is the Union of Local and Regional Governments of Latvia (ULRGL), which was organized in May 1992. By the end of 1998 ULRGL membership included 494 local governments: 399 rural municipalities, 71 town/city municipalities and 24 districts. In order to join ULRGL, a council must formally decide to pursue membership and pay membership dues. According to the ULRGL’s statutes, its goal is to unite local authorities on a voluntary basis, seek resolution to their common problems and create policies for local authorities in Latvia. The ULRGL has the rights of a legal person. Its main tasks are to:

- represent and protect the interests of local government in state administrative institutions;
- ascertain and represent a common point of view on policy questions regarding local authorities;
- promote cooperation among local authorities;
- provide local governments with necessary information and services;
- organize the training of deputies and staff of local governments;
- organize the creation of a joint data processing system for local governments;
- promote the establishment of enterprises to resolve common problems of local governments;
- facilitate the social protection of local government employees;
- promote collaboration with local authorities and their associations in other countries and with international institutions.

Its first years of activity indicate that ULRGL is a strong institution and has been successful in protecting the interests of local government. In collaboration with the Local Government Training Center of Latvia, Self-government and Project Management Training Center of the University of Latvia and other such programs, ULRGL organizes courses, conferences and seminars for deputies and local government staff. ULRGL also publishes the monthly journal *Logs* (Window) and a weekly information bulletin.

The ULRGL maintains contacts with national associations of local authorities in Denmark, Sweden, Estonia and Lithuania and is involved in PHARE and other international programs and projects. In October 1998 the ULRGL was admitted as a member of the Council of European Municipalities and Regions (CEMR) and the International Union of Local Authorities (IULA). ULRGL also participates in the European Council (EC) as a member and in the European Union (EU) as an observer.

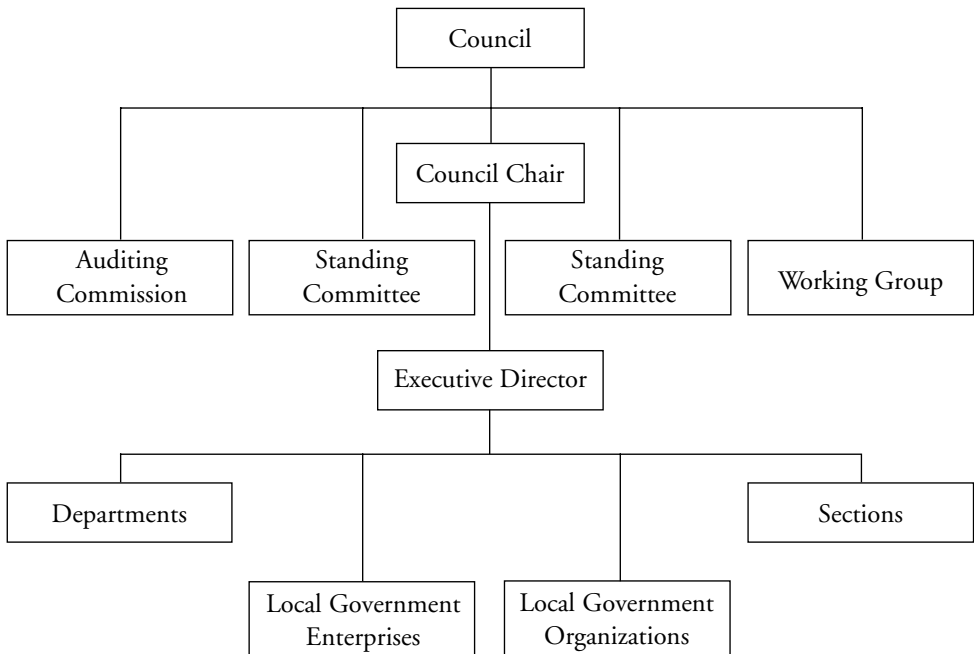
3. Local Administration, Service Provision

3.1 Structure and Operation of Local Administration

There are no restrictions on the formation of administrative structure for Latvian local governments in the law “On Local Governments”; rather, each local government’s statutes determine it. A model of this structure is shown in figure 3.1. Administrative offices in cities and towns usually are divided into departments and sections, but such divisions do not exist in most rural municipalities, as their staff in most cases does not exceed five to seven employees. Each local government institution and enterprise has its own internal governing structure.

Figure 3.1

Model Organizational Structure of Latvian Local Governments



According to the law “On Public Civil Service” adopted on 21 April 1994 local government administrative institutions are included on the list of public civil service positions. To date, however, local government employees have not taken the qualification examination or participated in the training program for civil servants.

Local government statutes also state whether or not the position of executive director exists in each administrative territory. The executive director:

- fulfills the terms of regulations and other normative acts issued by the council;
- supervises the heads of local government institutions;
- prepares proposals to the council concerning the repeal of illegal and inappropriate decisions of local government institutions;
- recommends the appointment or dismissal of heads of local government institutions and enterprises;
- makes recommendations on the formation, reorganization and liquidation of local government institutions and enterprises;
- manages local government property and financial resources and concludes business transactions in accordance with procedures and frameworks approved by the council;
- drafts the plan for social and economic development, for construction in the territory and for the budget of the corresponding local government and submits them to the council;
- performs other duties as determined by the local government statutes and decisions of the council.
- In local governments where the executive director is not nominated, such duties are performed by chair of the council.

3.2 Control, Audit and Supervision of Local Governments

The auditing commission monitors internal control of local government; it is elected by the council of the administrative territory for a four-year term. Its membership is proportionate to the number of deputies from each political organization or voters association elected to the council.

The main tasks of the auditing commission are to:

- monitor the spending of local government finances in accordance with the adopted budget;
- ensure the legality and effectiveness of the financial activities of heads and officials of local government institutions and enterprises;
- ensure that the local government’s financial resources, real estate and movable property are managed in accordance with decisions of the council and the interests of residents;
- conduct audits organized by the State Audit Office.

The auditing commission must perform an audit of every local government institution at least once annually.

The State Audit Office and the Ministry of Environmental Protection and Regional Development also supervise local governments. If the chair of the council violates the Satversme, laws, regulations of the Cabinet of Ministers or court orders, the minister responsible for local government affairs may suspend his or her official duties. The suspension results in dismissal if upheld by a court or if the affected chair does not appeal the suspension in court within two weeks.

The Saeima may dismiss a local government council if it:

- repeatedly violates the Satversme, laws, regulations of the Cabinet of Ministers or court orders;
- repeatedly passes decisions or pursues activities that are the competence of the Saeima, the Cabinet of Ministers, ministries, other state administrative institutions or the courts;
- does not elect a chair, vice-chair and standing committees or does not establish an auditing commission within two months of its first meeting or upon resignation of the officials or dismissal of institutions in question;
- fails to attract a working quorum (a simple majority of the deputies) to three meetings in succession.

3.3 Local Service Delivery

3.3.1 Functions

According to the law “On Local Governments” the responsibilities of local governments in Latvia are:

- administrative, socioeconomic and cultural tasks stated in the law “On Local Governments” that are permanently binding;
- the administrative, socioeconomic and cultural tasks stated in other laws that are binding for a specified period of time;
- state administrative functions that have been delegated to the local government in accordance with the procedures stated in the law “On Local Governments”;
- functions that have been delegated to the local government by other local governments in accordance with the procedures stated in the law “On Local Governments”;
- single tasks assigned by state administrative institutions in accordance with the procedures stated in the law “On Local Governments”;
- voluntary initiatives.

These functions, their legislative background, institutions responsible for their oversight and sources of financing are illustrated in table 3.5.

The execution of functions that are assigned by the law “On Local Governments” is financed fully from the budget of the corresponding local government. When additional functions are delegated by law that cause an increase in expenditures, new sources of income to fulfill these

responsibilities must be stated in that law. The execution of additional functions may be legally delegated to local governments for a specified period of time if the sources of additional financing simultaneously are identified to provide for any increase in expenditures. Local governments organize the execution of such functions and are responsible for assuring their realization. Currently, the most common temporarily delegated function of local governments is the denationalization of property and land.

Table 3.5
Local Government Functions in Latvia

| Function | Legal Background | Responsible Institution | Financing Source |
|---|---|---|---|
| 1. Compulsory | | | |
| Permanent Governments” | Law “On Local | Local government budget | Local government |
| Temporary | Other laws | Local government source must be stated in the law | Additional financing |
| State administrative | Laws or regulations of Cabinet of Ministers | State administrative institution | Budget of state administrative institution |
| Individual | Decisions of Cabinet of Ministers | Local government | Cabinet of Ministers or local government budget |
| 2. Delegated from Other Local Governments | Contract between local governments | Local government that delivered the function | Financing source must be stated in the contract |
| 3. Voluntary Initiatives | Decision of local government council | Local government | Local government budget |

If stipulated by law or by the regulations of the Cabinet of Ministers, local governments may be authorized to execute the responsibilities of state administrative institutions. In such instances, financial resources simultaneously must be allocated from the budget of the state administrative institution to the local government to cover the cost of the assignment. The local government organizes the execution of such delegated functions, but the state administrative institution is responsible for assuring its completion.

On the basis of a written contract, local governments can engage one another in the execution of functions that are within their competence. The sources of financing for these functions must be envisaged in the concluded contract. In such cases, the local government to which these

functions have been delegated is responsible for their execution and oversight. Functions that are the exclusive competence of the council and those delegated to a particular local government by a state administrative institution may not be delegated to another local government.

The Cabinet of Ministers or individual ministries may delegate specific tasks to local governments. In delegating such tasks the Cabinet of Ministers or the relevant ministry accordingly must transfer financial means to the local government, or the local government voluntarily may support the task through its own resources.

State administrative institutions do not have the right to delegate functions and tasks to local governments if financing is not ensured. In practice, however, demands for commensurate financial resources to support the functions of local governments are not observed.

According to the law “On Local Governments,” the main functions of municipalities are to:

- organize municipal services to inhabitants (water supply and sewage networks; heating; collection and disposal of household waste; collection, disposal and purification of sewage);
- maintain its administrative territory (construction, reconstruction and maintenance of streets, roads and squares; provision of lighting for streets, squares and other public areas; collection and disposal of industrial waste; establishment and maintenance of cemeteries);
- regulate the use of public forests and waters;
- provide education and promote culture (registration of children of compulsory school age and administration of educational institutions; establishment and maintenance of institutions to support extracurricular activities; protection of the right of access to primary and secondary education; provision of resources and maintenance of museums and cultural monuments; establishment and maintenance of public libraries);
- provide health care for inhabitants;
- ensure social assistance for underprivileged families and socially unprotected persons (families with many children, orphans, abandoned children, the politically repressed, the disabled, pensioners, the unemployed, et cetera);
- oversee adoption and guardianship issues;
- establish and maintain an accommodation fund and render assistance to inhabitants concerning accommodation issues;
- promote entrepreneurial activity in the administrative territory (restricting monopolies and promoting competition, issuing permits and licenses for entrepreneurial activities, et cetera);
- take measures to prevent unemployment, including the temporary assignment of public jobs to the unemployed;
- maintain public order;
- manage construction in accordance with the master plan of the administrative territory;
- collect and provide information necessary for state statistics;
- oversee the registration of marriages;
- organize civil defense.

The last function is also compulsory for district governments.

District governments have other functions as stated in the law “On Local Governments”:

- management of public transportation services;
- representation of the district government in the regional health insurance fund;
- organization of continuing education for pedagogical employees and support for research.

In addition to the functions stated in the law “On Local Governments” municipal and district governments execute local administrative, socioeconomic and cultural functions for a specified period of time as stated in laws (see annex 3.4).

3.3.2 Different Forms of Service Delivery

Local governments have the right to establish institutions and enterprises, to cooperate with public and private companies, to contract the private sector to manage projects, to cooperate with other local governments and to privatize local government property in order to perform municipal services.

In the period from 1992 to 1 July 1998 local governments privatized 1,137 retail trade, public catering and consumer services units (see table 3.6), the selling price of which was lat 14,259 thousand or USD 24,584 thousand. Eighty-two percent of national property (932 units) was privatized by legal persons, and eighteen percent (205 units) by individuals. A vast majority of property was sold from 1992 to 1994 in the first wave of privatization. The privatization of retail trade, public catering and consumer services units is almost complete.

Table 3.6
**Privatization of Local Government Retail Trade, Public Catering
and Consumer Services Units in Latvia**

| Year | Privatized Units | | | |
|-------------------|------------------|--------------------|-----------------------|-------------------------|
| | Total | Retail Trade Units | Public Catering Units | Consumer Services Units |
| 1992 | 302 | 157 | 29 | 116 |
| 1993 | 423 | 189 | 42 | 192 |
| 1994 | 231 | 125 | 31 | 75 |
| 1995 | 68 | 29 | 8 | 31 |
| 1996 | 45 | 24 | 8 | 13 |
| 1997 | 45 | 19 | 6 | 20 |
| 1998 (first half) | 23 | 16 | 3 | 4 |
| Total | 1,137 | 559 | 127 | 451 |

SOURCE: Privatization Process in Latvia, *Statistical Bulletin* (Central Statistical Bureau of Latvia, Latvian Privatization Agency) 2:8 (1998).

As a result of privatization, the share of local government ownership in public services has been greatly reduced and in fact is currently less than the share of the private sector, with the exception of preschool establishments (see table 3.7). But privatization of local government apartments has been initiated only for 121 thousand flats, or twenty-nine percent of the total; 40 thousand of these (fourteen percent) are in republican cities. Privatization was possible by voucher until 1999.

Table 3.7
**Sale of Selected Market Services
in Latvia by Form of Ownership, 1997 [%]**

| Market Services | Total Turnover | Public Sector | | | Private Sector |
|---|-------------------|---------------|-------|-----------|-------------------|
| | | Total | State | Municipal | |
| Repair of Personal and Household Goods | 100 | 2 | 0 | 1 | 98 |
| Laundries, Dry Cleaners, Hairdressers, Beauty Shops and Other Personal Services | 100 | 8 | 2 | 6 | 92 |
| Preschool Establishments | 100 | 95 | 1 | 94 | 5 |
| Other Private Educational Services | 100 | 60 | 50 | 8 | 40 |
| Health Services | 100 | 56 | 19 | 30 | 44 |
| Culture, Recreation and Sports | 100 | 7 | 5 | 0 | 93 |
| Advertising Services | 100 | 9 | 8 | 0 | 91 |
| Legal, Accounting, Copying and Other Commercial Services | 100 | 33 | 26 | 3 | 67 |

SOURCE: Privatization Process in Latvia, *Statistical Bulletin* (Central Statistical Bureau of Latvia, Latvian Privatization Agency) 2:8 (1998).

3.3.3 Cooperation between Local Governments

Local governments may cooperate in order to perform the functions that they have been assigned and in which they are interested. Such cooperation is possible if contracting is allowed by the local government statutes and within the framework of the local government budget.

A very important amendment was introduced on 14 October 1998 allowing local governments with mutual interests and by mutual agreement to establish common institutions to execute common tasks. All local councils involved must agree upon and approve the same statutes in

accordance with which the common institutions are able to act. Local governments in Latvia cooperate mainly in the following spheres:

- education;
- culture;
- health and social care;
- water supply;
- collection and disposal of waste;
- repair and maintenance of roads;
- student transportation;
- public order;
- organization of common building boards and rural municipal courts,
- common territorial development plans;
- common information systems.

An example of such cooperation is the establishment of the Local Government Training Center of Latvia. Wider cooperation among local governments also helps to determine in which cases cooperation is sufficient and in which the amalgamation of municipalities would be more beneficial.

4. Local Finance, Economic Development

4.1 Local Government Economic Basis

The economic basis of local governments is composed of the property and possessions owned by the municipality as well as financial resources accumulated from:

- the share of tax payments of legal and individual persons that is allocated to local government budgets;
- general (block) grants and specific (targeted) grants from the state budget;
- loans;
- local duties and other payments;
- fines;
- revenues from the management of local government property and business activities of local government institutions and enterprises;
- voluntary contributions of legal and individual persons;
- other revenues.

Local government property is separate from state and other types of property. Local governments manage, utilize and administer their property as set forth by law. It must be used to satisfy the needs of the inhabitants of the respective administrative territory either through public use (roads, streets, squares, parks) or by establishing institutions and enterprises that satisfy the rights of inhabitants and render necessary services to them.

Local government enterprises providing public services function according to the principles of nonprofit organizations. The local government may use part of its property in business transactions to acquire income necessary to satisfy the needs of the population or privatize or expropriate such property in accordance with procedures established by law. Municipalities have preemptive acquisition rights if real property is being expropriated in the administrative territory of the local government that is deemed necessary to the provision of public services.

Data concerning local government expenditure of gross domestic product (GDP) and general government expenditure are shown in table 3.8.

Table 3.8
**Local Government Expenditure to GDP
and to General Government Expenditure in Latvia [%]**

| Year | Local Government Expenditure ^a to GDP | Local Government Expenditure ^a to General Government Expenditure |
|------|---|--|
| 1994 | 10.3 | 26.0 |
| 1995 | 10.8 | 26.2 |
| 1996 | 11.7 | 26.2 |
| 1997 | 9.4 | 24.2 |
| 1998 | 9.4 | 25.2 |

a. Including local government basic and special budgets.

The basic local government budget covers expenditures foreseen during the year and is generated from all revenues with the exception of those earmarked for specific purposes, gifts and donations, which are allocated to a special budget that supports projects linked specifically to these revenues.

As seen in table 3.8, the percentage of local government expenditure to GDP in 1998 was the same as in 1997 but decreased relative to 1996. The share of local government expenditure to general government expenditure increased by one percent compared to 1997, but decreased by one percent compared to 1996. It is expected that the proportion of local government expenditure to GDP will be about ten percent in 1999, and to general government expenditure, about twenty-three percent.

Division of competence between the state and local governments in general corresponds to the principles of decentralization. But the state now entrusts new functions, such as central heating, social care, et cetera to local governments without the allocation of corresponding financial resources. Rather than increasing the portion of local government funding from the general state budget, the opposite tendency is observed.

4.2 Structure of Revenues and Expenditures of Local Government Budgets

The structure of local government budget revenues and expenditures in 1998 is exhibited in table 3.9 and table 3.10. More than half of total local government revenues consists of tax revenues, with the exception of district governments; 91.1 percent of their total revenues are grants. But on average for all types of local government the share of grants is about one-third of total revenue. The main source of tax revenue in local governments is personal income tax—41.2 percent. The next largest sources of tax revenue are from property (7.2 percent) and real estate and land (4.8 percent).

Table 3.9
Revenue Structure by Type of Local Government in Latvia, 1998 [%]

| Type of Revenue | Republican Cities | Town and Rural Municipalities | District Governments | Total |
|-----------------|-------------------|-------------------------------|----------------------|-------|
| Tax Revenue | 70.6 | 45.8 | 0.0 | 54.1 |
| Nontax Revenue | 9.6 | 14.7 | 8.4 | 11.6 |
| General Grants | 1.6 | 11.8 | 40.6 | 9.3 |
| Specific Grants | 18.0 | 24.0 | 50.5 | 23.4 |
| Mutual Accounts | 0.2 | 3.7 | 0.5 | 1.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Table 3.10
Expenditure Structure by Type of Local Government in Latvia, 1998 [%]

| Type of Expenditure | Republican Cities | Town and Rural Municipalities | District Governments | Total |
|--------------------------|-------------------|-------------------------------|----------------------|-------|
| Financing of the Economy | 27.2 | 19.9 | 2.8 | 21.9 |
| Social Security | 8.9 | 6.3 | 16.3 | 8.5 |
| Health Care | 2.5 | 1.6 | 1.2 | 2.0 |
| Education | 43.6 | 50.5 | 56.7 | 47.7 |
| Culture | 4.3 | 6.5 | 7.4 | 5.5 |
| Administration | 9.5 | 12.5 | 14.7 | 11.3 |
| Other Expenditure | 4.0 | 2.7 | 0.9 | 3.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Formally, only state taxes are collected in Latvia. In 1995 and 1996 there were three types of taxation—personal income, property and land—that were fully delegated to local government budgets. From 1997, however, only land taxes and property taxes are exclusively local; a proportion of personal income taxes now remains in the state budget. It has been proposed that taxation of property be unified rather than the current system of separate land and real estate taxes.

The largest local government expenditure is education (47.7 percent). From 1997 health care mainly is financed from the state budget. Local government administrative expenditure is 11.3 percent and is larger in municipalities (12.5 percent) than in republican cities (9.5 percent).

4.3 Organization of the Local Budget

According to the law “On Budget and Finance Management” passed on 24 March 1994, local governments have the right to draft and approve their budgets independently and to raise budget revenue privately in order to ensure a permanent and secure financial base. Furthermore, the law “On Local Government Budgets” of 29 March 1995 grants local governments the right to adjust tax exemptions for payments to local budgets as well as to impose local government duties and determine their rates in accordance with the law “On Taxes and Fees.” Municipalities have the right to impose duties on:

- local government services;
- entertainment in public places;
- tourism;
- trade in public places;
- keeping certain animals;
- transportation across special zones;
- advertisement in public places;
- ownership of boats, motorboats and yachts;
- use of the local government symbol.

Local authorities also have the right to claim a part of the revenue from some state taxes—personal income tax, natural resources tax and excise tax. The rate of personal income tax is twenty-five percent. Since 1997 it is shared; 71.6 percent is allocated to the local government and 28.4 percent to the state health care budget. Natural resources tax is levied on pollution within the boundaries of particular territories, on pollution above acceptable limits and on the excessive use of natural resources. Forty percent of such tax payments is allocated to the state budget and sixty percent to local budgets for environmental protection. Part of the excise tax on diesel fuel is paid to local governments to support the maintenance of motorways.

Local authorities receive special grants from the state in order to carry out projects such as investment in territorial planning. General grants from the state may be distributed as the local authorities see fit. Many local governments receive general grants in addition to those from the state from more wealthy districts through the local government financial equalization fund.

Briefly, the criterion for allocating general grants to local authorities is the difference between level of expenditure and level of revenue per capita, taking the age structure of the population into consideration. The system of local government financial equalization was introduced in 1995 based on recommendations of the European Council and on the Danish experience. The goal of this equalization system is to provide financial resources that ensure approximately equal opportunities to meet the needs of all residents.

Local governments also have the right to take short- and long-term loans and to make loan guarantees as determined by the laws “On Budget and Finance Management” and “On Local Government Budgets.” In accordance with the latter, local governments may take loans in the amount and according to procedures determined by the Cabinet of Ministers, which may be used only as appropriated. Local governments are not allowed to guarantee loans by properties that are necessary for the fulfillment of their responsibilities. Short-term loans may be sought to offset short-term deficit. Loans from the state budget must be repaid by the end of the fiscal year. Long-term loans may be sought to fund economic and social programs. Such loans may not be used to finance recurrent expenses of the local government. Almost one-third of the total number of loans borrowed by local governments in 1998 via the treasury was used to invest in the reconstruction and repair of heating systems.

Since 1995 the central government has gradually reduced access to private capital markets by local governments. Today local governments borrow mainly from the treasury but also from the environmental investment fund and the local government credit fund and, in special cases, with the permission of the minister of finance, from commercial banks. Such restrictions contradict the demands of the European Charter of Local Self-government on free access to national capital markets. For the most part, local governments are unable to undertake many large-scale projects because the proportion of their budgets allocated for investment is only a small percent of total financial resources.

4.4 Local Economic Development

One of the most important functions of local government is the promotion of economic development. The following local economic development initiatives are in progress:

- privatization of local government property and enterprises;
- organization of public-private ventures;
- job creation incentives;
- assistance to businesses for land acquisition;
- tax breaks and exemptions;
- formation of special organizations that promote economic development (for example, support centers for small and medium-sized enterprises);
- development of technical and social infrastructure;
- enhancement of the economic environment;

- collaboration on local economic development programs;
- promotion of international trade and investment.

A local government is responsible for conceptualizing a long-term social and economic development plan, which is then used as the framework for the territory's spatial development plan. Such policy is closely connected with state national planning and EU regional policy, since Latvia hopes to join the EU in the near future. Matters of district economic development are significant particularly due to enormous regional disparities. Positive changes in the conceptualization and implementation of district policy have been observed since 1996, when the concept "On the Facilitation of Regional Economic Development" was prepared. Subsequent legislation (the laws "On Regions Deserving Special Support" and "On Territorial Development Planning") and other normative documentation were prepared in 1997 and 1998, and eighty-four districts and municipalities were granted the status of regions deserving special support. The regional fund was formed, the basic purpose of which is to promote entrepreneurial activity in these areas by financing investments, making interest payments and providing loans and credit guarantees to support enterprises.

5. Next Steps in the Transition Process

Further reform is necessary to strengthen local government and to ensure wide and qualitative service to residents. Future initiatives include:

- implementation of democratic territorial administrative reform;
- encouragement of cooperation among local governments;
- development of the local budget system;
- improvement of territorial statistical systems;
- improvement of methods for social and economic planning;
- creation and implementation of district economic policy utilizing EU prestructural and structural funds;
- introduction of the principles of strategic management, total quality management and business administration;
- greater participation by local inhabitants in the decision-making process;
- reinstatement of direct elections for district councils;
- amendment of the Satversme to include the principles of local government;
- creation of a code of ethics for deputies and staff of local governments.

Some of these tasks are included and detailed in the "Declaration on Intended Action" of the Cabinet of Ministers prepared in November 1998. The main issues concerning the further development of local government mentioned in the declaration follow.

1. The Cabinet of Ministers will continue to pursue adherence to the articles of the European Charter of Local Self-government that Latvia to date has been unable to fulfill.
2. By 31 December 2000, new concepts will be prepared:

- on granting free access to credit markets for local governments;
 - on the role of local governments in investment;
 - on the stabilization and supervision of local government finances.
3. A permanent and stable tax base for local governments will be determined.
 4. Financial independence and responsibilities of local governments will be increased.
 5. The share of the general state budget allocated to local governments gradually will be increased.
 6. A concept on the development of supervision over local government actions and audit systems will be prepared by 31 December 1999.
 7. In the sphere of territorial administrative reform the Cabinet of Ministers will support the amalgamation and cooperation of local governments, and by 31 December 1999, the following will be prepared:
 - a concept on state support for ensuring action in planning regions;
 - a state support program proposal on involving inhabitants in territorial administrative reform and other processes concerning local governments.

On 21 October 1998 the Saeima passed the law “On Administrative Territorial Reform.” Its goal is to create administrative territories run by municipal and regional governments capable of economic development that will provide quality services to their inhabitants. This plan is to be realized by 30 November 2004 in two stages, the first (by 31 December 2003) headed by local government initiative and the second (from 1 January 2004) supervised by the Ministry of Environmental Protection and Regional Development. The following initiatives are planned in preparation of such reform:

- analysis of territorial administrative reform;
- preparation of cooperative projects among local governments;
- realization of cooperative projects among local governments.

An analysis of administrative territories will be undertaken in accordance with methodology approved by the Council on Administrative Territorial Reform and will include the following:

- reporting on the social and economic situation of administrative territories;
- evaluating the attitude of inhabitants towards territorial administrative reform;
- formulating the criteria for new territorial formation;
- formulating the tasks for cooperative projects among local governments.

The preparation of cooperative projects among local governments in accordance with methodology approved by the Council on Administrative Territorial Reform will involve:

- evaluating the effectiveness of local government activities and preparing suggestions for the reform of local governments;
- designing proposals for the reform of territories;
- designing structural projects and cooperative agreements for newly created local governments;
- organizing public discussions on cooperative projects.

After such evaluation is carried out, the following administrative territories will be introduced:

- regions (districts, *apriņīti*);
- areas (*novadi*);
- rural municipalities (*pagasti*);
- towns (and republican cities);
- the capital.

An “area” is a new territorial administrative division formed by the amalgamation of rural municipalities, town municipalities or a combination of the two that operates under one local government. The local governments that carry out such reform in accordance with this law will be awarded an extraordinary grant from the state budget in the amount of one to five percent of the total sum of the annual budgets of the amalgamated local governments.

The following criteria must be provided for the territorial administrative reform of municipalities:

- long-term development of the territory;
- financial revenue base;
- infrastructure for performing the functions of local government;
- number of inhabitants;
- economic, geographic and historical basis for unification of local governments;
- access to local government services;
- other conditions proposed by the district council.

The state will be divided into regions that are required to provide:

- functions of district governments;
- regional functions of the central administration;
- regional planning and development;
- cooperation with regional governments and state administrative institutions.

The Cabinet of Ministers will prepare drafts on the division of the state’s territory into regions, on regional state administration and on regional government functions and will submit the drafts for local government discussion by 31 December 2000. Accordingly, when determining the division of responsibilities among state administrative institutions, regional governments and municipal governments, the subsidiary principle will be observed.

To coordinate this reform, the Cabinet of Ministers established the Council on Administrative Territorial Reform. The council is comprised of an equal number of representatives from the Union of Local and Regional Governments of Latvia and from state administrative institutions. The Council on Administrative Territorial Reform will:

- provide evaluation of administrative territories and cooperative projects and drafts of normative acts concerning territorial administrative reform;
- confirm the methodology of analysis and design of cooperative projects;
- prepare proposals based upon the analysis of the administrative territories and cooperative projects.

To support territorial administrative reform in the region, each district council will:

- perform the necessary activities for analysis listed above;
- provide resolutions on the results of such analysis;
- provide local governments, state institutions and inhabitants with information on the progress of such analysis.

The first attempts to amalgamate small and medium-sized municipalities in 1992 and 1993 were unsuccessful because they were prepared “from above,” without participation of the local governments, and proposed compulsory cooperation. The new law and reform initiatives are based on serious analysis of the economic, social and political background of reform and voluntary amalgamation of local governments.

Research in some districts of Latvia shows that heads of local governments, deputies and staff as well as inhabitants in most cases are against compulsory amalgamation of municipalities by the central government. Territorial administrative reform, accompanied by financial reform and regional development policies, cannot be successful without involvement of local governments and residents.

There has been a tendency towards financial centralization in Latvia. In order to improve local government finance, it is necessary in the future to:

- ensure free access to the national capital market;
- work out the normative execution of functions between local governments and the state and methods to ascertain optimal proportions allocated between the state and local government budgets;
- introduce local government taxes by law and real estate and personal income taxes as local taxes;
- transfer the administration of local taxes to local governments;
- reduce the number of tax exemptions;
- ensure stability of the systems of taxation and budget management;
- improve the system of equalization of local government finances.

Recent Publications on Local Government in Latvia (in English)

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“Privatization Process in Latvia.” *Statistical Bulletin* (Central Statistical Bureau of Latvia, Latvian Privatization Agency) 2:8 (1998).

Pukis, Maris. "Self-governments in Latvia since 1989." Paper presented at the fourth session of CLRAE, Strasbourg, 3-5 June 1997.

The Results of Local Government Elections on 9 March 1997. Riga, 1997.

"State and Local Government as Promoters of the Economy: Collection of Articles." *Humanities and Social Sciences* (University of Latvia) 2:15 (1997).

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Streips, Karlis L. "Basic Information on Local Governments in Latvia." In *Local Governments in the CEE and CIS*. Budapest: Institute for Local Government and Public Service, 1994.

Towns and Civil Parishes in the Administrative Districts of Latvia. Two volumes. Riga: Central Statistical Bureau of Latvia, Latvian Statistical Institute, 1998.

Vanags, Edvins. "Local Self-government in Latvia." *Local Government in Eastern Europe: Establishing Democracy at the Grassroots*. Brookfield, Vt.: Edward Elgar Publishing Company, 1995.

———. "Local Government Reforms in Latvia and Other Baltic States." *Public Finance and Comparative Public Administration Curricula Development and Teaching Methodology*. Stara Lesna: NISPAcee, 1995.

Vanags, Edvins and Howard R. Balanoff. "After the Fall of the Soviet Union: The Changing Status of Local Governments in the Republic of Latvia." Paper presented at the Fifty-fifth Annual ASPA Conference, Kansas City, Missouri, 23-27 July 1994.

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Notes

- ¹ Hereafter, all three are referred to as “municipalities” unless otherwise noted.
- ² Hereafter, both are referred to as “districts” or “regional governments” unless otherwise noted, except for section 1.2 on the capital, which discusses “districts” that are subunits of the municipality of Riga. A republican city is one that has the status of a district.
- ³ In this section, the term “district” refers to subunits of the Riga municipality.
- ⁴ The *lat* is the Latvian currency.
- ⁵ According to the law, the body of elected representatives of a rural municipality or district is called a “council”; of a town/city municipality, a “dome.” Hereafter, the term “council” is used to indicate the basic elected representative local government unit for all three categories.
- ⁶ Language skills are tested through examination by a special commission.

Annex 3.1

Major General Indicators

| | |
|--------------------------------|---|
| Size of territory | 64,600 square kilometers |
| Population density | 38.1 inhabitants per square kilometer |
| Population (1 January 1998) | 2,458,403 |
| Pensioners | 651.5 thousand (26.5 percent of population) |
| of which old-age pensioners | 511.2 thousand (20.8 percent of population) |
| Children under 18 years of age | 609.9 thousand (24.8 percent of population) |
| Major ethnic divisions | |
| Latvians | 55.5 percent |
| Russians | 32.4 percent |
| Others | 12.1 percent |

Per capita GDP (at current prices) 2,242.24 USD

Note: This figure was calculated on the basis of an exchange rate of USD 0.58 per *lat*, the Latvian currency. This rate was in effect in December 1998.

| | |
|--|---------------|
| Data on annual general government budget [%] | |
| General government budget revenue (1997) | 100.0 percent |
| of which | |
| Central government basic budget | 43.6 percent |
| Central government special budget | 37.6 percent |
| of which | |
| Special social security budget | 30.1 percent |
| Local government basic budget | 16.5 percent |
| Local government special budget | 2.3 percent |

Central government debt
as percentage of GDP (end of 1997) 12.2 percent

Unemployment rate
—registered unemployed as share of
economically active population (1997) 7.5 percent

Inflation rate (1997) 8 percent

Annex 3.2

Population, Settlements and Administrative Units

Table 3A.1
Settlements by Population Categories in Latvia

| Population | Number of Settlements | Percentage of Settlements | Number of Inhabitants | Percentage of Inhabitants |
|-----------------|-----------------------|---------------------------|-----------------------|---------------------------|
| 0–1,000 | 73,796 | 99.8 | 627,687 | 25.5 |
| 1,000–1,999 | 64 | 0.1 | 89,246 | 3.6 |
| 2,000–4,999 | 49 | 0.1 | 146,248 | 6.0 |
| 5,000–9,999 | 12 | 0.0 | 96,250 | 3.9 |
| 10,000–49,999 | 18 | 0.0 | 350,198 | 14.3 |
| 50,000–99,999 | 3 | 0.0 | 226,247 | 9.2 |
| 100,000–999,999 | 2 | 0.0 | 922,527 | 37.5 |
| 1,000,000+ | — | — | — | — |
| Total | 73,944 | 100.0 | 2,458,403 | 100.0 |

Table 3A.2
Municipalities by Population Categories in Latvia

| Population | Number of Municipalities | Percentage of Municipalities | Number of Inhabitants | Percentage of Inhabitants |
|-----------------|--------------------------|------------------------------|-----------------------|---------------------------|
| 1–1,000 | 181 | 32.1 | 137,844 | 5.6 |
| 1,000–1,999 | 224 | 39.8 | 312,400 | 12.7 |
| 2,000–4,999 | 111 | 19.7 | 321,645 | 13.1 |
| 5,000–9,999 | 23 | 4.1 | 175,011 | 7.1 |
| 10,000–49,999 | 19 | 3.4 | 362,729 | 14.8 |
| 50,000–99,999 | 3 | 0.5 | 226,247 | 9.2 |
| 100,000–999,999 | 2 | 0.4 | 922,527 | 37.5 |
| 1,000,000+ | — | — | — | — |
| Total | 563 | 100.0 | 2,458,403 | 100.0 |

| | |
|--|---------------|
| Average population of a town/city and rural municipality | 4.4 thousand |
| Average population of a rural municipality | 1.7 thousand |
| Average population of a district | 47.0 thousand |

Table 3A.3
Local Government Units in Latvia, 1 January 1998

| Type of Municipality | Number |
|----------------------|------------|
| Rural | 486 |
| Town | 70 |
| City | 7 |
| District | 26 |
| Total | 589 |

Number of administrative personnel in public administrative institutions (1998, third quarter)

Employed by the state 7,912

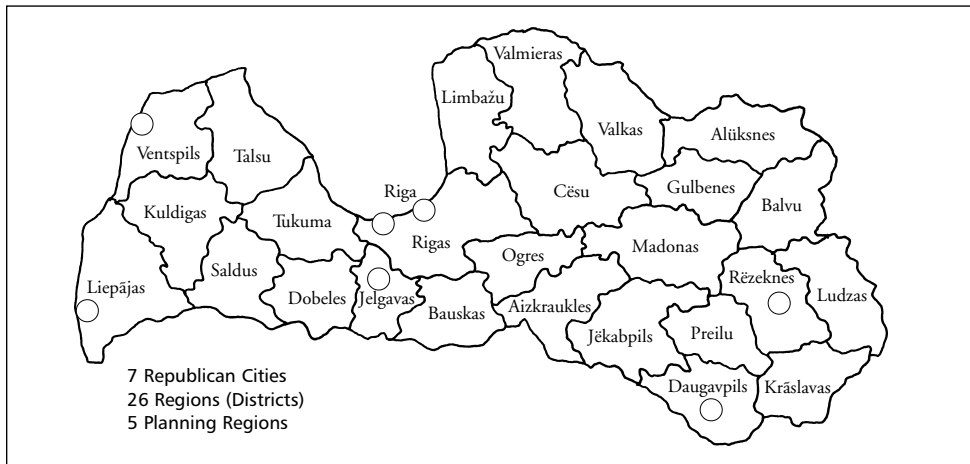
Employed by local governments 8,304

Number of other public employees in public administrative institutions (1998, third quarter)

Employed by the state 7,193

Employed by local governments 1,078

Figure 3A.1
Administrative Map of Latvia



Annex 3.3

Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Latvia (presented in chronological order of adoption; date of adoption is given in brackets):

- Law on Elections for the Town/City Dome, Regional Council, and Rural Municipality Council (13 January 1994)
- Law on Taxes and Fees (2 February 1994)
- Law on Budget and Finance Management (24 March 1994)
- Law on Public Civil Service (21 April 1994)
- Law on Local Governments (19 May 1994)
- Law on Order of Reviewing of Applications, Complaints and Proposals in State and Local Government Institutions (27 October 1994)
- Law on Local Government Budgets (29 March 1995)
- Anticorruption Law (10 November 1995)
- Law on Regions Deserving Special Support (22 May 1997)
- Law on Equalization of Local Government Finance (5 March 1998)
- Law on the Status of Deputy of Town/City Dome, Regional and Rural Municipality Councils (17 March 1998)
- Law on Territorial Development Planning (15 October 1998)
- Law on Administrative Territorial Reform (21 October 1998)

Annex 3.4

Responsibilities of Administrative Tiers

Table 3A.4
Specific Functions of Local Government Units in Latvia

| Functions | All Municipalities | District Governments | Central or State Territorial Administration | Other Government | Remarks |
|--|--------------------|----------------------|---|------------------|--------------|
| I. EDUCATION | | | | | |
| 1. Preschool | X | | | | also private |
| 2. Primary | X | | | | also private |
| 3. Secondary | X | | | | also private |
| 4. Technical | X | | X | | |
| 5. Other, especially further education of pedagogical employees | | X | | | |
| II. SOCIAL WELFARE | | | | | |
| 1. Nurseries | X | | | | also private |
| 2. Kindergartens | X | | | | also private |
| 3. Welfare Homes | X | | | | |
| 4. Services for the Elderly and Handicapped | X | | | | |
| 5. Special Services (for the homeless, families in crisis, etc.) | X | | | | |
| 6. Social Housing | X | | | | |
| 7. Other, especially assistance for the politically repressed and the unemployed | X | | X | | |

Table 3A.4 (continued)
Specific Functions of Local Government Units in Latvia

| Functions | All Municipalities | District Governments | Central or State Territorial Administration | Other Government | Remarks |
|---|--------------------|----------------------|---|------------------|--------------|
| III. HEALTH SERVICES | | | | | |
| 1. Primary Health Care | X | X | | | also private |
| 2. Health Protection | X | X | X | | |
| 3. Hospitals | X | X | X | | also private |
| 4. Public Health | X | X | X | | |
| 5. Other, especially regional sickness insurance fund | | X | | | |
| IV. CULTURE, LEISURE, SPORTS | | | | | |
| 1. Theaters | X | | X | | also private |
| 2. Museums | X | X | X | | also private |
| 3. Libraries | X | X | X | | also private |
| 4. Parks | X | | X | | |
| 5. Sports, Leisure | X | | X | | also private |
| 6. Cultural Centers | X | X | X | | also private |
| V. PUBLIC ACTIVITIES | | | | | |
| 1. Water Supply | X | | | | also private |
| 2. Sewage | X | | | | also private |
| 3. Electricity | X | | X | | |
| 4. Gas | | | X | | |
| 5. Central Heating | X | | | | |
| VI. ENVIRONMENT, PUBLIC SANITATION | | | | | |
| 1. Refuse Collection | X | | | | also private |
| 2. Refuse Disposal | X | | | | also private |
| 3. Street Cleaning | X | | | | |
| 4. Cemeteries | X | | | | |
| 5. Environmental Protection | X | X | X | | |

Table 3A.4 (continued)
Specific Functions of Local Government Units in Latvia

| Functions | All Municipalities | District Governments | Central or State Territorial Administration | Other Government | Remarks |
|---|-----------------------|-------------------------|--|---------------------|--------------|
| VII. TRAFFIC, TRANSPORTATION | | | | | |
| 1. Roads | X | | X | | |
| 2. Public Lighting | X | | | | |
| 3. Public Transportation | X | X | X | | also private |
| VIII. URBAN DEVELOPMENT | | | | | |
| 1. Town Planning | X | | | | |
| 2. Regional/Spatial Planning | X | X | X | | |
| 3. Local Economic Development | X | X | X | | |
| 4. Tourism | X | X | X | | also private |
| IX. GENERAL ADMINISTRATION | | | | | |
| 1. Authoritative Functions (licenses, etc.) | X | | X | | |
| 2. Other State Administrative Matters (electoral register, etc.) | X | | X | | |
| 3. Local Police | X | | | | |
| 4. Fire Brigade | X | | X | | |
| 5. Civil Defense | X | X | X | | |
| 6. Consumer Protection | | | | X | |

