

Country Profile – Latvia

Multi-level governance of public investment 2017

Table 1. Facts and figures related to direct public investment

2014	General Government	Subnational Governments
USD billion	2.083	0.972
USD per capita	1044.35	487.78
% of GDP	4.44 %	2.07 %
% of public expenditure	11.84 %	20.70 %
% of total public direct investment	100 %	46.71 %

Source: OECD National Accounts.

Figure 1. Trends in direct public investment in Latvia (2004–14)

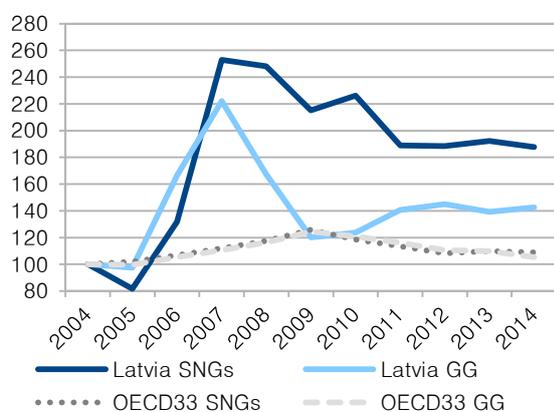
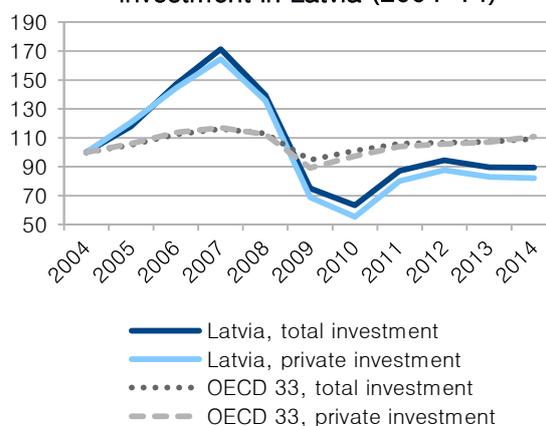


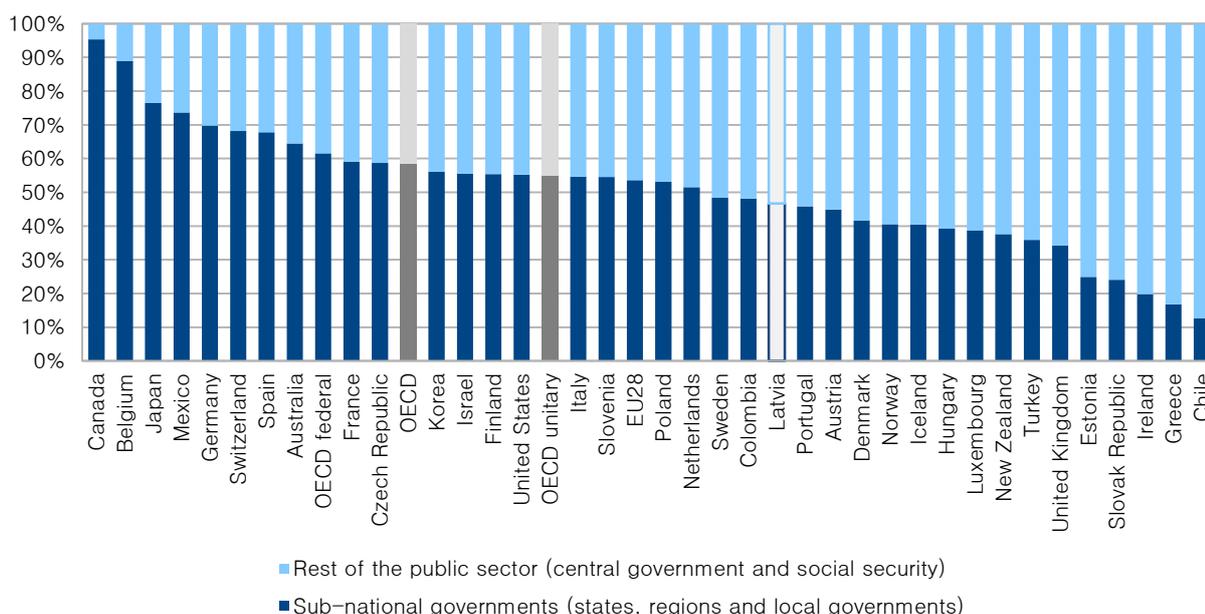
Figure 2. Trends in total and private direct investment in Latvia (2004–14)



Source: OECD National Accounts. In real terms, base 100 in 2004.

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Figure 3. Subnational public direct investment in OECD countries, 2014 (as a share of public direct investment)

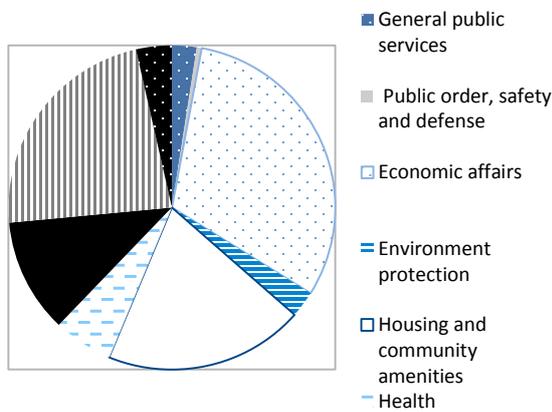


Source: OECD National Accounts.

Note: Data for Mexico: 2013 instead of 2014; Chile: 2012 instead of 2014; Turkey instead of 2014.

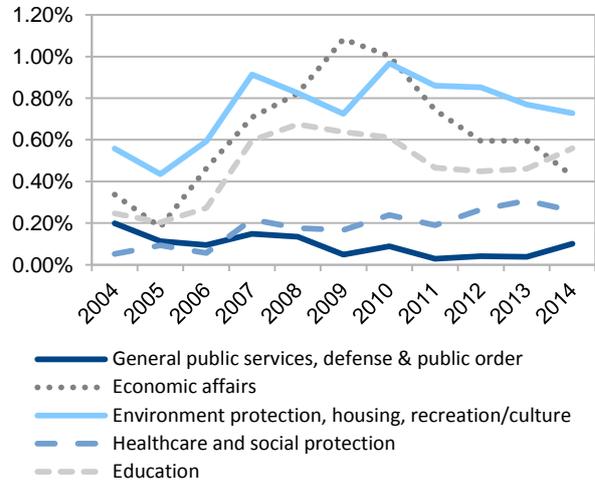
Most of subnational investments in Latvia are dedicated to economic affairs (transport, general economic, commercial and labour affairs, industry, agriculture, etc.). Other major categories of investment spending include education and housing. In contrast, SNGs invest very little in healthcare, general public services or social protection (Figure 4 and 5).

Figure 4. Breakout of subnational direct investment in Latvia by economic function (% of total direct investment, average 2008–14)



Source: OECD National Accounts.

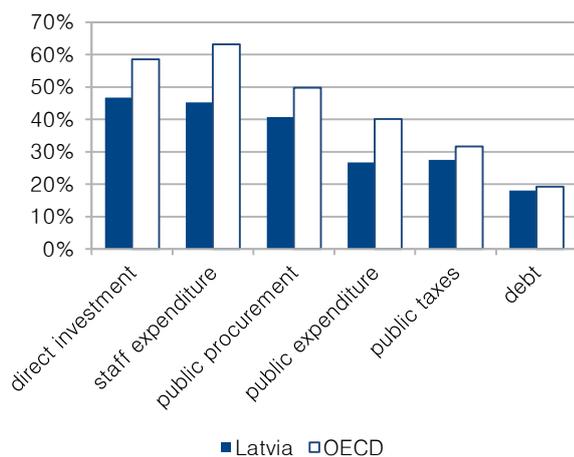
Figure 5. Trends in subnational direct investment by economic function (as a % of GDP)



Source: OECD National Accounts.

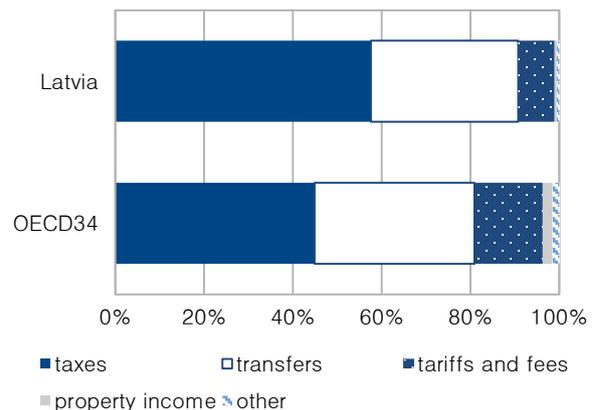
Subnational expenditure is lower in Latvia than the OECD average for most large categories of spending (total expenditure, investments, staff expenditure, public procurement). The share of SNG debt in total public debt is also slightly smaller (Figure 6). However subnational governments benefit from a high share of taxes in their revenue mix (Figure 7), and rely less on transfers from the central government.

Figure 6. The role of subnational governments in public finance in Latvia, 2014



Source: OECD National Accounts.

Figure 7. Indicators of subnational fiscal revenues in Latvia, 2014



Source: OECD National Accounts.

Examples of good practices or recent developments for effective public investment

Vertical co-ordination

The “Reducing Greenhouse Gas Emissions in Lighting Infrastructure in Public Territories of Municipalities” programme provides financial support to municipalities in introducing lighting infrastructures to reduce electricity consumption, thus reducing GHG emissions. The programme started in 2012; it finances up to 70% of total eligible costs of investment projects (from LVL10000 to LVL350000).

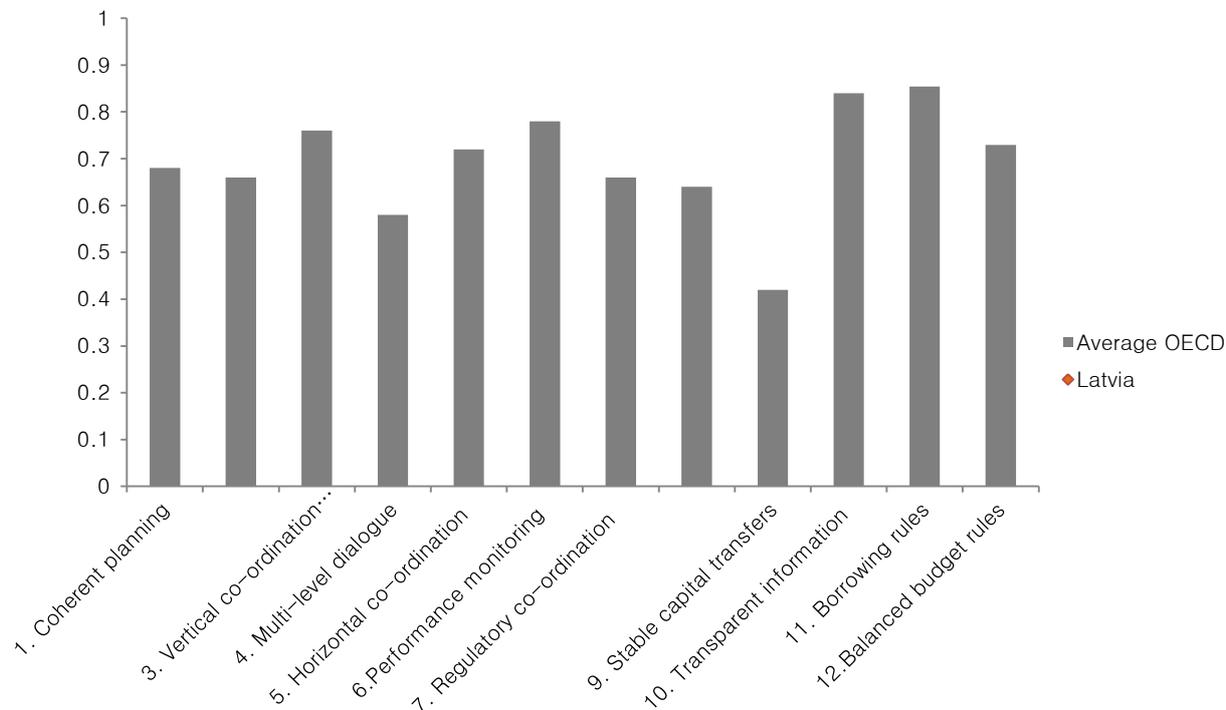
The investments must comply with the following requirements:

- They have to be within the territory of municipality;
- They have to provide the performance of the autonomous functions of the municipality in accordance with the laws and regulations of municipalities;
- They have to contain activities which are supported within the framework of the tender.

Latvia also introduced specific funds (EUR 6.6 million) to attract specialists for planning regions, cities, towns, and counties, in order to increase planning capacities at the regional and local levels. By the end of 2014, more than 200 specialists had been recruited.

Preliminary indicators of MLG of public investment for regional development

Figure 8. Indicators for the coordination of public investment for regional development



Note: See Annex 1 for more detail on the indicators.

Source: OECD (2016b), Answers to the Regional Outlook Survey and OECD (2016c).

ANNEX 1

Indicators for the coordination of public investment for regional development

1. Coherent planning across levels of government

The country has regional development policies/strategies to support regional development and local investments.

- a No explicit national policies to support regional development
- b Explicit national policies to support regional development in all or parts of the country
- c Explicit national regional development policies completed by regional investment strategies aligned with it

2. Co-ordination across sectors in the national planning process

The country has mechanisms to co-ordinate across sectors national policies and investment priorities for regional development

- a No mechanism
- b At least inter-ministerial committee and/or cross-ministerial plan
- c Inter-ministerial committee and/or plan + other mechanisms

3. Vertical co-ordination instruments

The country has mechanisms to ensure co-ordination across levels of governments (regional development agencies, national representatives in subnational governments, and contracts or agreements)

- a None of these
- b At least one of these mechanisms
- c At least one of these mechanisms involving many sectors

4. Multi-level dialogue to define investment priorities for regional development

The country conducts regular dialogue(s) between national and subnational levels on regional development policy including investment priorities

- a No regular dialogue
- b Formal or ad hoc dialogue
- c The platform has decision-making authority

5. Horizontal co-ordination across jurisdictions

The country has formal horizontal mechanisms/incentives between subnational governments to co-ordinate public investment

- a No mechanisms
 - b Formal horizontal co-ordination mechanisms at the municipal level
 - c Formal horizontal co-ordination mechanisms at the municipal level and other subnational levels (state, regions)
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6. Performance monitoring and learning

The country has mechanisms in place to monitor and evaluate regional development policy

- a No mechanisms
- b The country has indicators to monitor the effectiveness of regional development policy
- c The country has conducted evaluations of regional development policy

7. Regulatory co-ordination across levels of government

The country has mechanisms to co-ordinate regulations across levels of government

- a No intergovernmental co-ordination mechanisms
- b Formal co-ordination mechanisms between national/federal and state/regional governments
- c Requirement of national government to consult subnational governments prior to issuance of new regulations that concern them

8. Co-financing arrangements across national and subnational levels

There are co-financing arrangements for public investment

- a No co-financing arrangements
- b Co-financing arrangements exist but funds are not tracked
- c Co-financing arrangements exist and funds are tracked

9. Subnational governments benefit from predictable capital transfers over time

Variations in total capital transfer from one year to the next

- a Large variation: more than 20%
- b Medium variation: between 10% and 20%
- c Little variation: less than 10%

10. Transparent information across levels of government

Subnational fiscal situation is publicly available

- a Not available for any type of subnational government
- b Available for regions/states/some level of subnational government only (on an individual basis)
- c Available for each subnational government individually

11. Fiscal stability: rules for subnational governments

There are limits on subnational borrowing

- a No limits on subnational government borrowing
- b Non-binding borrowing constraints
- c Binding borrowing constraints

12. Safeguarding capital spending at subnational level

Balanced budget rules protect subnational capital spending

- a No balanced budget rule
 - b Balanced budget rule with no exception for capital spending
 - c Balanced budget rule protecting capital spending (type golden-rule)
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ANNEX 2

Definitions and sources

Definitions:

- **General government (S.13):** includes four sub-sectors: central/federal government and related public entities (S.1311) federated government ("states") and related public entities (S.1312) local government i.e. regional and local governments and related public entities (S.1313) and social security funds (S.1314). Data are consolidated within S.13 as well as within each subsector (neutralisation of financial cross-flows).
- **Subnational government:** defined here as the sum (non-consolidated) of subsectors S.1312 (federated government) and S.1313 (local government).
- **Direct investment:** includes gross capital formation and acquisitions, less disposals of non-financial non-produced assets. Gross fixed capital formation (or fixed investment) is the main component of investments.

Sources:

Latvia National Reform Programme 2015.

OECD (2016a), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

OECD (2016b) Regional Outlook Survey.

OECD (2016c) Overview and Preliminary Proposal on Indicators of Co-ordination of Public Investment for Regional Development, Room document discussed in the April 2016 RDPC meeting, unpublished material.

OECD (2015a), OECD National Accounts Statistics (database), <http://dx.doi.org/10.1787/na-data-en>.

OECD (2015b) Implementation Toolkit, Effective Public Investment Across Levels of Government <http://www.oecd.org/effective-public-investment-toolkit/>

OECD (2011), OECD Network on Fiscal Relations across Levels of Government Survey on Sub-national Fiscal Rules and Macroeconomic Management, OECD, September 2011, updated in March 2015.

http://www.lvif.gov.lv/?object_id=30388.