

ANALYSIS OF POLICY COORDINATION SYSTEM IN LATVIA USING INSTITUTIONAL THEORY

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Abstract. A policy coordination system is a complex network of agents, policies and institutions that are supporting the process of policy coordination. Smooth policy coordination enables synergy or at least prevents overlapping and conflicts of sector policies, which is increasingly important due to growing complexity of many policy issues. Moreover, policy coordination is crucial for the “strategic” (consistent with policy priorities) allocation of limited budget resources. Institutions play an important role in policy coordination because the extent of cooperation depends on both formal framework and de facto behaviour of the involved parties. This article analyses the policy coordination system in Latvia from the institutional perspective and proposes solutions for the promotion of comprehensive and coherent, whole government perspective instead of narrow and sectoral perspective.

Keywords: development planning, planning policy, policy coordination, institutions, public administration.

Jel classification: H83, O21

1. Introduction

“Addressing issues that respect no organisational boundaries in an effective cross governmental way is probably the most shared concern of governments today”, stated the research report “A Potential Governance Agenda for Finland” (Bouckaert et al. 2000). The complexity and interdependence of policy issues require enhanced policy coordination. The key societal challenges - competitiveness, environmental sustainability, information society, international crisis management, etc. - are cross-sectoral and do not correspond to ministerial structures (Boston 1992, Pelkonen 2006; Pelkonen et al. 2008).

Literature shows that despite international assistance transition economy countries are often unable to ensure sustainable socio-economic development due to inadequate governance e.g. lack of administrative coordination, undeveloped competences and deficient procedures (Saner *et al.* 2008). Low level of trust and social capital makes it even more challenging task for transitions economy countries, including Latvia.

Undoubtedly, also Latvia as a transition economy and a small country in globalised world faces the challenge to make its government small, effective and efficient. Policy coordination is one of the ways to achieve that. The object of the research is policy coordination system in Latvia. The goal of this research is to analyse the policy coordination system in Latvia from the institutional perspective and propose solutions for the development of a

comprehensive government perspective and its linkage to the state budget.

The authors focus on the latest findings in the particular field. Research methods include document analysis (scientific articles, research papers and policy papers), comparative statistical analysis and a participant observation of the monitoring of Latvia’s National Development Plan 2007-2013 and the drafting of Sustainable Development Strategy of Latvia till 2030 (2008-2010).

The structure of the paper is as follows. Section 2 outlines various aspects of policy coordination. It discusses the concept of policy coordination, policy coordination as an organisation form, the governance levels where policy coordination takes place and the differences between positive and negative, as well as administrative and strategic policy coordination. Section III introduces the basics of the institutional economics and stresses the need to take into account not only formal institutions (formal regulation), but also informal institutions (norms, beliefs and values, which arise from culture and history). Section IV analyses policy coordination system in Latvia by outlining the current trends in policy coordination, stressing the low level of social capital and analysing the unsuccessful implementation of National Development Plan 2007-2013 - the central policy coordination document in Latvia. Section V concludes suggesting that the main reason for unsatisfactory operation of the policy coordination system in Latvia is scepticism and insufficient motivation of

the ministries to coordinate their policies with each other and with the national level priorities. Low levels of trust make it an especially challenging task. The last section also includes proposals for the development of a comprehensive government perspective and its linkage to the state budget.

2. Policy coordination

Policy coordination is a continuous procedural value that aims at (1) avoidance or at least minimisation of duplication, overlapping and inconsistency of government policies, as well as bureaucratic and political conflict; (2) promotion of comprehensive and coherent, whole government perspective and set of priorities instead of narrow and sectoral perspectives (Braun 2008; Boston 1992, Metcalfe 1994). Thus policy coordination enables “the whole to perform better than the sum of the parts or at least prevents disintegration and fragmentation” (Metcalf 1994: 278).

Policy coordination is not an all of nothing matter; it can be limited in terms of domains and time. “Policy coordination as such does not absolutely need a whole-government perspective, but it implies at a minimum a perspective that is agreed upon by a number of political actors” (Braun 2008: 230-231). Moreover, the implementation of a government-wide perspective requires that “national governments are treated as totally unified policy-making systems in which ministries are merely technically convenient instruments...” which seems unrealistic (Metcalf 1994: 284).

As there are policy issues of high and low interdependence, each requires choice of the most appropriate methods and processes. The same organisations in some spheres may act independently, and in others in a close cooperation with other organisations. Consequently different spheres require different levels of coordination capacities. If a simple method of coordination is sufficient, there is no need to use a more sophisticated and complex methods (Braun 2008; Metcalf 1994). Last but not least, changes to enhance policy coordination do not need all to be structural, as changes in the culture of government are essential (Bouckaert *et al.* 2000).

We agree to the definitions given above and define policy coordination as a continuous process of merging, balancing and prioritising objectives of different policy domains, e.g. economic, social, cultural and ecological objectives in order to enable synergy. We also believe that the preferable level of policy coordination depends on the sophistication of the issue and that the informal aspects (e.g. organisational culture and social capital) play a crucial role in the process of policy coordination.

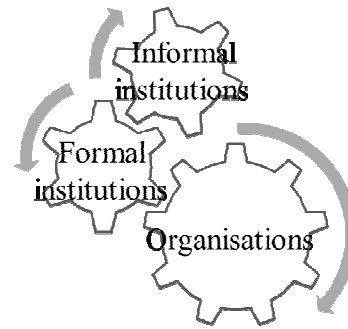


Fig.1. Policy coordination system (Source: developed by the authors)

We define the policy coordination system as a complex of organisations (the cabinet of ministers, ministries, and agencies) and formal (regulations, policies) and informal (norms, beliefs, culture) institutions, which ensure that particular mode of behaviour is maintained (Fig. 1). The overall objective of the policy coordination system is to promote a sustainable and balanced development of the state by implementing the principles of comprehensiveness, coherence and proportionality in policy making and implementation. Thus policy coordination raises the effectiveness and efficiency of administrative action and budget execution.

2.1. Policy coordination as an organisational form

Authors refer to vertical and horizontal policy coordination. Vertical policy coordination focuses on the relationship between the levels of government from policy making to policy implementation. It ensures that policy is translated into organisational responsibilities and budget implications (Bouckaert *et al.* 2000; Pelkonen *et al.* 2008). Horizontal policy coordination focuses on managing policies across the sectors. Horizontal policy coordination means that policies tend to integrate with each other. For example, integrated innovation policy means that not only the objectives of innovation policy are integrated in policies of other domains, but also that aspects and objectives of other policies are integrated in innovation policy (Pelkonen 2006; Pelkonen *et al.* 2008).

In a broader sense, coordination can be achieved through markets, networks and hierarchies. The government is usually seen as a hierarchy (Bouckaert *et al.* 2000). However, we believe that hierarchy as an organisational form corresponds to vertical coordination, whereas horizontal coordination corresponds to network type organisational form. When analysing vertical and horizontal policy coordination, differences between these two modes of organisation should be taken into account.

Table 1. Vertical and horizontal policy coordination as an organisational form

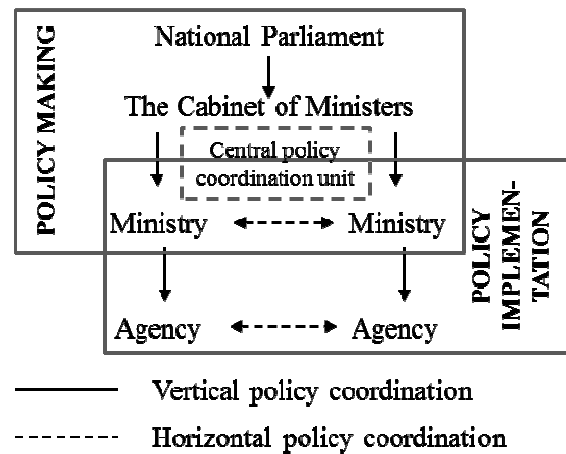
Characteristic	Vertical coordination	Horizontal coordination
Organisational form	Hierarchy	Network
Agency relations	Agent-principal relationship	Agent-agent relationship
Decision making	Centralised	Decentralised
Control mechanism	Multi-level monitoring	Group reputation
Prevailing values	Individualistic values (sectoral perspective)	Collectivist values (whole government perspective)

Hierarchy is a form of organisation where decisions are centralised and the action of each agent is monitored by the principal. Individualistic values prevail in hierarchies. By contrast, in networks each member of the network makes his decisions independently and collectivist values prevail, as the networks depend on group reputation (Table 1). Hierarchies tend to be based on contract enforcement and information required to evaluate agent's reputation, whereas networks tend to be based on economic self-enforcing collective punishment and supported by an in-group social communication network. (Greif 2000).

However, even in hierarchies one cannot expect that the decisions taken by the Cabinet of Ministers will flow smoothly to the agency level. In hierarchies bargaining takes place as well and mutually beneficial solutions need be found. Therefore straightforward policy reform is unlikely to happen (Braun 2008). So policy coordination should bring mutual benefits to ministers and ministries in order to induce network relationships, because the agent-principal relationship is not sufficient.

2.2. The governance levels of policy coordination

Policy coordination is a multi-level and cross-organisational process, which includes numerous organisations in different levels of governance. It involves organisations from at least three levels (Fig. 2): (1) the Cabinet of Ministers plays a fundamental role in the quest for a government-wide perspective; (2) the sectoral level of ministries proposes policies and activities to implement them; (3) the agency level executes implementation (Braun 2008; Boston 1992). The national parliaments tend to play an increasingly important role in policy coordination, e.g. the Special Parliamentary Committee for the Future in Finland (Bouckaert *et al.* 2000).

**Fig.2.** Policy coordination levels (Source: developed by the authors)

Some of the literature emphasizes the importance of the centre of the government (central policy coordination unit) under the Prime Minister (Bouckaert *et al.* 2000; Boston 1992). It should be strengthened on a project basis, appointing a small number of political secretaries under the Prime Minister. Their task would be to bring together relevant actors and build a shared policy planning and implementation in the most important issues (Bouckaert *et al.* 2000). Centralised policy coordination may ensure more coherence but lose some of the technical expertise because central coordinators lack comprehensive expertise and risk favouring certain interest. In contrast, consensual coordination systems increase the probability of dilution of action and resources, as well as blocking policy initiatives where consensus cannot be reached (Bouckaert *et al.* 2000; Panke 2010). However, some authors argue that the creation of central policy coordination unit to handle cross-sectoral issues should be considered only when coordination capacities without a coordinator are sufficiently developed (Metcalf 1994).

We believe that the most important actors in policy coordination are the prime minister and central policy coordination unit, who are responsible for setting cross-sectoral objectives and achieving an agreement among sectoral policies, the cabinet of ministers, who are responsible for sector policy, and the implementing agencies, who ensure the implementation of agreed policies. In this article we are going to focus our attention to the policy planning level – the interaction between prime minister, the ministers and the central policy coordination unit.

2.3. Positive and negative policy coordination

We already mentioned that policy coordination aims at (1) avoidance or at least minimisation of

duplication, overlapping and inconsistency of government policies, as well as bureaucratic and political conflict; (2) promotion of comprehensive and coherent, whole government perspective and set of priorities instead of narrow and sectoral perspectives. The latter is named positive policy coordination as it brings added value due to synergy and the former – negative policy coordination as it decreases overlapping or inconsistent activities.

Thus negative policy coordination aims at avoiding or hiding disagreements among ministries. It might be done by setting a clear jurisdiction on the domains of ministries, by exchanging information and making consultations with other ministries in order to avoid or hide disagreements etc. A third party (e.g. the Prime Minister or central policy coordination unit) might be involved in resolving conflicts if ministries are unable to reach an agreement voluntarily. If no third party involves in managing such conflicts, it can happen that no decision is taken at all (Panke 2010, Metcalfe 1994).

Positive policy coordination aims at seeking consensus on policies. Ministries voluntarily search for an agreement on common priorities and government wide perspective, e.g. by introducing inter-ministerial committees, jointly drafting policy papers or managing policy-programmes. A central coordination unit may play an important role in establishing priorities and main lines of policies (Metcalf 1994). However, literature is sceptical about voluntary policy coordination actions by ministries. Cross-sectorality presents a threat to sectors and its stakeholders because sectors have gained a specific balance of power to assign rights and benefits (Krott *et al.* 2006). As distributional interests are very strong “win-win” and Pareto-optimal solutions are required (Braun 2008). To overcome it information (persuasion) and power in form of pressure or financial incentives may be used (Krott *et al.* 2006).

2.4. Administrative and strategic coordination

Policy coordination includes both administrative (functional) coordination and strategic (policy) coordination. Administrative coordination is concerned with ensuring smooth cooperation within and between organisations, whereas strategic coordination is about the development of consistent policies, the determination of a set of priorities and formulation of strategies to implement them (Braun 2008; Boston 1992).

Administrative coordination is a crucial precondition for strategic coordination, as perspectives and strategies cannot be drafted and implemented without administrative support. Moreover, emphasis should be put on the political / adminis-

trative balance, especially in countries with coalition governments, weak premiership and insignificant role of national parliament in policy making and implementation.

A Senior Executive Service, which members are being managed as a resource of the whole government and thus acquire experience in different domains and levels of government might help to overcome sectoral barriers and promote co-operation. Also a flattening of civil service hierarchies might contribute to raise administrative capacity by increasing flexibility and motivation due to more responsibilities (Bouckaert *et al.* 2000).

3. Institutional perspective

Institutional economics argue that institutions and their enforcement mechanisms are the fundamental cause of differences in development. Institutions are “the rules of the game in society” (North 1990: 3). They consist of (1) formal, public-order institutions as laws, constitutions and (2) informal, private-order institutions as values, norms and beliefs. Their enforcement mechanisms ensure that a particular mode of behaviour is maintained. Enforcement mechanisms might be based on coercive power of state or on social sanctions and the loss of reputation (North 1993; Greif 2000).

Institutional economics (North 1993; Greif 2000; Djakov *et al.* 2003) stress the role of culture, social capital and historical context. Therefore there cannot be a universal design of state intervention that fits every country and such “implantation” often fails. The crucial role of institutions is often illustrated using game theory and the fundamental problem of exchange. This problem arises from the fact that no party would involve in a mutually profitable exchange unless assured that the other party will not cheat. If players do not trust each other and there is no third party that will enforce the exchange to take place, players will rather renege than cooperate.

Therefore not only formal institutions (formal regulation), but also informal institutions (norms, beliefs and values, which arise from culture and history) should be taken into account when analysing policy coordination. For example, if the ministers and ministries are ready to cooperate closely without formal instructions, formal instructions are not necessary. In contrast, without enforcement and informal consent, regulations will not achieve their objective. Also the adoption of coordination approaches that work well in West Europe may fail because of different historical and cultural experience.

4. Latvia's experience

The boundary-spanning principle (expansion of activities beyond frameworks of individual sectors and formal borders of a state) is stressed in the formally most important policy papers – Conceptual document A Growth Model for Latvia: People First, Sustainable Development Strategy of Latvia until 2030 and National Development Plan 2007-2013 (hereinafter - NDP) (National Parliament 2006; National Parliament 2010; Cabinet of Ministers 2006). National legislation states a clear hierarchy and interdependence among different term and level policy papers and territory planning documents, as well as their linkage to budget planning via institution action plans (National Parliament 2008a).

In contrast, the unsatisfactory implementation of NDP 2007-2013 – the central policy coordination document – shows that policy making and implementation is not integrated and coordinated to implement united mid-term development strategy that is stated in the NDP 2007-2013 (Cabinet of Ministers 2008, State Chancellery 2011). It suggests that the strengths of mechanisms for inter-ministerial coordination are rather low.

4.1. Background information

Latvia has a tradition of rather short-term coalition governments (the average duration of a government is a year and 4 months) and a relatively weak premiership. The Cabinet of Ministers is collegial and together takes the responsibility for state's policy (National Parliament 2008b).

Table 2. Trust in public sector in Latvia (2011)

	Latvia	EU-27	Estonia	Finland
Trust level in				
National parliament	14%	27%	40%	58%
National government	19%	24%	49%	56%

Trust in national parliament and government is low (Table 2), especially in comparison to its northern neighbour Estonia and also Finland whose experience in policy coordination could be used in Latvia due to similar political construction – coalition governments and weak premiership (Bouckaert *et al.* 2000, Eurobarometer 2011a; Eurobarometer 2011b). Low trust in public administration corresponds to low level of social capital in society and low satisfaction with democracy and life in general (Table 3) (Eurobarometer 2005).

Table 3. Social capital in Latvia (2005)

	Latvia	EU-25	Estonia	Finland
Trust level in most people	15%	30%	33%	61%
Satisfaction with the way democracy works	23%	49%	38%	79%
Satisfaction with life	65%	87%	74%	96%

Trust and legitimacy, which are the main elements of social capital, “allow developing proactive and positive societal projects and reduces negative and costly monitoring, inspection and repression instruments...” (Bouckaert *et al.* 2000: 23). And values change rather slowly - in large corporations or government the change of values takes about 10-15 years, whereas in the society – at least one generation (Greif 2000).

We believe that the low level of social capital makes the policy coordination an even more challenging task for transition countries, including Latvia. If the politicians and public administration officials do not trust each other, the probability of mutual coordination decreases significantly. It also stresses the importance of adjusting Western European policy coordination methods to local circumstances before their adoption. Otherwise their implementation will fail because of cultural differences and a different historical experience.

4.2. Policy coordination in Latvia

Policy papers and regulations give much information about formal coordination procedures in Latvia - cross-sectoral policy documents and programmes, inter-ministerial working groups and other consultative bodies, mechanisms for integrating policy and budget planning etc.

We have analysed the current policy coordination system and concluded that policy making and implementation remains strictly sectoral, lacks synergy and runs a risk to become contrary to each other, major investment planning documents – EU funds planning documents – are drawn up separately from the national development planning system and the link between development planning and budget planning is still not sufficient. Moreover, policy papers, budget planning documents and EU funds planning documents each have their own performance indicator system. Last but not least, the coordination, continuity and relevance of the national development planning system are strongly influenced by the lack of political will to agree on

and then to implement the agreed upon strategy (Vītola *et al.* 2010).

We have proposed solutions to improve the formal part of the coordination process - include NDP specify achievable results and appraisal of financing to implement it; assign high level expertise in setting and monitoring achievable results and integrate performance management systems in a unified system; establish national investment programmes for NDP period or improve budget planning by supplementing medium term budget with cross-sectoral achievable results (Vītola *et al.* 2010; Vītola *et al.* 2011). Our recommendations largely correspond to recommendations by other researchers and recent development in policy coordination system in Latvia, including the establishment of the Cross-sectoral Coordination Centre as the central policy coordination unit directly under Prime Minister (State Chancellery 2011; Cabinet of Ministers 2011).

Still there is rather limited knowledge about coordination practices that might deviate from formal instructions. In general, public administration is critical about the operation of a policy coordination system in Latvia. If some of sectoral level policy documents are considered to be successful, none of cross-sectoral documents are. The reason for that is the lack of political will to prioritise and correspondingly assign budget resources; the unwillingness of ministries to cooperate, partly due to political influence in coalition governments; the inability of government to act as a team and the lack of political continuity due quite rapidly changing governments. Also the undeveloped policy monitoring illustrates low administrative capacity and also political will in policy coordination (State Chancellery 2011).

4.3. National Development Plan 2007-2013

Cross-sectoral policy documents may play an important role in enhancing policy coordination. At the same time, a certain level of policy coordination capacities has to be already there before drafting and implementing such documents. Otherwise political energies may be exhausted in drafting policy documents that cannot be implemented because the capacity of policy coordination is too weak (Metcalf 1994).

The initiative to draft NDP 2007-2013 came from the need to develop a strategy for the implementation of EU funding, which is allocated for the period of seven years. The decision was taken to include in the plan all sectors not only those sectors funded by EU funding (Karnitis *et al.* 2009). NDP should set strategic development goals for a sustainable and balanced development

of the state and its territories and the strategy and priorities for public investments. It would be financed by EU funded operational programmes, which would be drafted according to NDP, and national programmes, financed by central and local government (Ministry of Regional Development and Local Government 2004).

In practise, NDP included rather broad recommendations and no specific instruments for its implementation. It did not include all sectors, e.g. agriculture and foreign affairs were left out. Consequently, public administration officials reveal that they did not use NDP in sector policy making or referred to it formally and suggest that NDP most likely did not change anything in their policy domain. Some officials even argue that NDP was never seriously meant to be implemented (State Chancellery 2011). Consequently, NDP become another illustration of the insufficiently developed policy coordination system in Latvia.

NDP's monitoring process was provided by the Ministry of Regional Development and Local Governments and the National Development Council – an advisory body formed by the members of cabinet, chairs of planning regions, academics, members of indirect public administration, National Parliament and NGO's (Cabinet of Ministers 2010). NDP's monitoring process was supported by NDP Expert Forum - out-sourced consultants from academic and public sector who regularly prepared reports of NDP issues (Cabinet of Ministers 2007). Scientific, problem solving arguments may reduce the importance of distributive arguments that prevails in the political circles. At the same time, advisory bodies are often detached from political discussion (Braun 2008).

Top level advisory bodies may play a significant role in policy coordination, e.g. the Science and Technology Policy Council of Finland is internationally recognised to be a good practise example. Although its decisions are not binding, ministries mostly take their recommendations into account (Pelkonen 2006). However, taking into account sceptical attitude from public administration and missing authority to ensure implementation of NDP, also the monitoring process of NDP was rather formal. The recommendations of NDP Expert Forum were either too broad (academic) or very specific to their domain. There was also no bottom-up demand for such forum from ministries, as they perceived forum's recommendations as a critique and regularly consult their sectors stakeholders by themselves.

Still public administration and society in general tends to think that medium term planning is needed. Officials propose that the next NDP should focus on few priorities that are discussed and ac-

cepted in the highest political level. These priorities would be used in planning policy and allocating resources for their implementation (State Chancellery 2011).

5. Conclusions

The scientific and administrative discussion regarding policy coordination so far has focused on its formal side – policy documents, regulation and procedures, as well as advisory bodies. It has proposed drafting new documents and establishing new organisations. Undoubtedly, it would help to mitigate some of the policy coordination problems. But recent research shows that the main reason for unsatisfactory operation of policy coordination system in Latvia is scepticism and insufficient motivation of ministries to coordinate their policies with each other and with national level priorities. Low levels of trust in society make it an especially challenging task.

We believe that Latvia should focus the work of its central policy coordination unit on enhancing policy coordination in particular areas, which are especially important for the future of Latvia, instead of another rehearsal to draft and implement a medium-term strategy that covers all sectors. A limited number of domains to coordinate will increase the probability of success. Thus it could serve as an example of good practise and decrease the scepticism in public administration. Moreover, specific performance indicators could be set in these particular areas for the next three or four years. Included in the medium term budget, they would link the cross-sectoral priorities with state budget resources. They should also be integrated in EU funds planning documents, ensuring that EU financing is used for the implementation of the most important cross-sectoral issues.

Financial motivation of policy coordination is a crucial precondition as it counteracts distributive interests of sectors. Therefore EU financing could be allocated to cross-sectoral programmes or projects, which require close cooperation of ministries. Moreover, policy coordination capacity – both formal and informal – should be significantly increased, e.g. by appointing highly qualified personnel in the central policy coordination unit, promoting exchange of experience in policy making, establishing informal networks of officials, introducing rotation of senior staff. Last but not least, more emphasis should be put on values that promote serving the collective interests of government, e.g. during the yearly evaluation of the work of officials, the opinion of colleagues in related ministries could be taken into account.

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