

ACCESSIBILITY OF RURAL DEVELOPMENT PROGRAMME SUPPORT FOR SMALL RURAL FARMS IN LATVIA AND LITHUANIA

Armands Veveris¹, Dr.oec.; Vaida Sapolaite², Mg.oec.

¹ Institute of Agrarian Resources and Economics, Latvia

² Lithuanian Institute of Agrarian Economics Affiliation

Abstract. The small rural farms are an important part of the social and economic situation of Latvia and Lithuania; however, they have not been sufficiently evaluated so far. The aim of the research is to study the availability of public funding for the development of rural farms of Latvia and to compare the situation with the one in Lithuania. The paper analyses the RDP project measures that are targeted at the development of rural farms, and the author uses the available statistical data. The research indicates that the small farms in Latvia are supported disproportionately little, and as a result, they do not utilize their development potential. There are few support measures suitable for the small farms. In addition, the public funding in them is very limited. In Lithuania the funding for different groups of farms is spread more proportionally, which is reflected in the contribution of these farms to the country's economy. This allows conclude that a large part of Latvian farms is economically small just because their potential (land, labour, a.o.) is not utilized sufficiently, but the current areas would provide the opportunity to manage more efficiently, as a result these farms would contribute significantly more to the economy.

Key words: agriculture, support, small farms.

JEL code: O13, Q18

Introduction

The paper studies the opportunities of the availability of public funding for the development of small rural farms in Latvia, as well as compares the situation with the one in Lithuania. The significance of the problem is highlighted by the large number of the small farms and their share in the structure of rural farms. This means that they have a critical role in maintaining the density of rural population. However, there is a question, if the current state policy in agricultural and rural development is aimed to maintaining and economic strengthening of these farms. The research hypothesis is that the current opportunities of rural farms to receive developmental support are insufficient.

The aim of the research is to study the availability of public funding for the development of rural farms of Latvia and to compare the situation with the one in Lithuania. To attain the research aim, the following tasks have been set:

- to show the significance of small farms in the total structural of rural farms;
- to study the available types of public funding;
- to compare the funding intensity for small farms with the other groups of farms and to evaluate its impact on the development of these farms.

The paper applies both quantitative and qualitative research methods. The main applied ones are analysis and synthesis as well as the monographic method. The paper analyses the research on small rural farms and their development opportunities conducted in Latvia up to now. There are used official statistics (Central Statistical Bureau data (CSB)), data of paying agencies, Farm accountancy Data Network (FADN) data and also information published in the website of the Ministry of Agriculture of the Republic of Latvia.

The novelty of the research is the study of the funding opportunities for small farms and comparison of the funding intensity with the other groups of farms, conducting also an international comparison. Lithuania was selected as a country for comparison considering that its structure of farms and its historical situation are similar to the ones in Latvia.

Although in the recent years several studies on the importance, opportunities and problems of small farms have been conducted in Latvia (Pilvere I., 2013; Tisenkopfs T..., 2015; Leimane I. ..., 2014 etc.), their number and the covered issues are still is not sufficient. Therefore, research in this field should be extended. Due to the scope limitations, the present research

focuses on the funding of the Rural Development Programme, which should be considered the main source of public funding for investment in rural farms since 2007.

Research results and discussion

1. Characteristics and significance of small farms in the rural areas of Latvia

To evaluate the significance of small farms in Latvia, a clear understanding of what they are is necessary. Taking into consideration the industry specifics, a particular classification of farms is used in agriculture. This classification differs from the definition of a small enterprise in other industries. There does not exist an official classification in either Latvian or European level that would allow for an unequivocal definition of 'small' farms as compared to others; however, the existing classifications allow for an approximate separation of this group so that when applying various criteria, different results can be obtained.

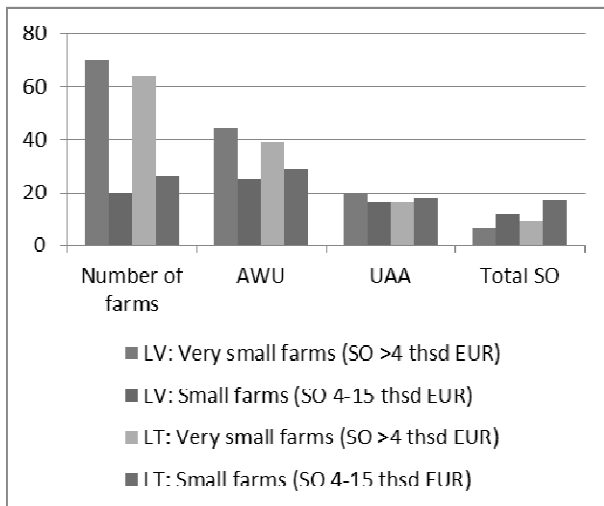
The most popular and the most precise criterion by which to evaluate the size of rural farms is the economic size. Since 2010, it is measured by standard output (SO). At the European level, it is recommended to consider farms with SO below EUR 8 thou as very small, but farms with SO from EUR 8-25 thou as small. According to this threshold, about 90 % of rural farms in Latvia should be considered small and very small, but 77 % - very small (CSB). There also exists the so-called *semi-subsistence farm* definition. Farms that sell not more than 50 % of their production belong to them (European Parliament, 2013). 75 % of all farms in Latvia are in this group. In addition, almost two thirds of them do not produce anything for selling.

The other sometimes applied criteria are such as utilized agriculture area (UAA) or the number of employees, which should be considered insufficient because they have very little relation to the economic potential of farms. For example, a 4-ha large intensive vegetable farm yields a much higher revenue than a 10-ha extensive cattle breeding farm. The number of employees

and its changes do not bring a sufficiently proper idea of the size of the farm either, taking into account the fact that under the impact of technological modernization the need for employees has significantly reduced. For example, in 2001 there were 67 % of farms with the number of employees less than 5 in Latvia, but in 2013 there were more than 98 % of such farms (CSB). That is explained by the fact that the average number of employees has significantly reduced in farms, but the other economic criteria (production volume, revenue, UAA) approve that the average size of the farm has significantly increased. A common trend is that the number of small farms and their proportion in the total structure of farms is gradually decreasing, but it is still very high. In addition, at the European level, the proportion of small farms is big. According to the SO criterion, 70 % of EU-27 farms can be considered very small (with SO up to EUR 8 thou), but this proportion differs significantly among both the old and the new Member States and regionally – between the north and the south. EU-15 states have the lowest proportion of small farms, except for Greece, Italy, Spain and Portugal (24 %), but it is the largest in the new Member States that accessed the EU in 2004 and 2007 (EU-12) – 86 %. Among all EU-27 in Latvia the proportion of such farms is the 5th largest (77 %) after Rumania (94 %), Bulgaria (92 %), Hungary (86 %) and Lithuania (85 %) (European Parliament, 2013). This means that Latvia belongs to countries that need a special policy for funding small farms, considering their large socially economic significance.

The share of small farms in the total structure of Latvian and Lithuanian agriculture is depicted in Figure 1. According to the statistical published division, small farms are divided in two groups: with SO up to EUR 4 thou (in both countries, these farms are considered very small or self-consumption farms; they are below the FADN

threshold), as well as with SO from EUR 4 to 15 thou.



Source: author's calculations based on Farm Structural survey's data

Fig. 1. Share of small and very small farms in Latvian (LV) and Lithuanian (LT) agriculture (% , 2013)

It can be observed that very small farms form 70 % of the total number of farms in Latvia and 64 % in Lithuania. The extremely high share they make up in employment as well as about 40 % of the number of employees in full-time units (AWU) in both countries. The proportion of the UAA and standard output of these farms is significantly lower. The contribution of the next group (with SO of EUR 4-15 thou) is already more even: 20 %-28 % regarding both the number of farms and AWU, while 12 % of the standard output in Latvia and 17 % in Lithuania. In total, the largest importance of both these groups is exactly in employment: they form almost 70 % of the total number of agricultural employment (AWU) in both countries. This means that these farms are of very large significance in developing the density of rural population because it can be considered that they together with families comprise at least half of the total number of rural inhabitants (in Latvia 629 thou people, CSB 2016). In addition, researchers (Tisenkopfs T. ..., 2015) who have studied the viability of small farms of Latvia, first of all see the contribution of small farms to society in maintaining the density of rural population

(including the borderland and less beneficial territories) and rural viability, local culture and social life. A significant aspect is also the fact that these farms serve as a social security network providing people with work, income, self-expression and food in the circumstances when the opportunities for alternative employment in agriculture are limited. In addition, it is less apprehended, but a significant contribution of these farms is providing of local food if contrasted to the dependence on global import, market speculations, as well as potentially rather easily hurt food supply via concentrated supermarket chains.

2. Funding opportunities

According to the Common Agricultural Policy (CAP), agriculture funding is divided into two pillars. The first pillar is the so-called guarantee payments that are directly related to agricultural production with the aim to ensure revenue support and facilitate manufacturing of market-oriented production. In recent years, in order to prevent overproduction and to facilitate environmental conservation, these payments are mostly separated from direct production and are related to the historical production volume, UUA etc. (Cantore N..., 2011). In Latvia, the most widespread payment of this type is single area payment. This payment is proportional to the area of UAA and the money is paid if particular requirements are met. The funding of the first pillar more has a maintenance role not that of a development facilitating. It is understandable that small farms (in area and volumes) do not receive so large maintenance funding to develop the farm significantly and to increase revenues.

The second pillar is the rural development policy. It is exactly this direction from which to expect that taking into consideration the large significance of small farms in the density of rural population, funding for small farms to increase their competitiveness and diversifying of economy would be one of its priorities.

However, in both the previous (2007-2013) and this (2014-2020) programming period, the opportunity for small farms to use the measures of the Rural Development Programme (RDP) is limited. There are few measures that would correspond to the opportunities of these farms.

The measures include the compensatory area payments, but their character corresponds more to the 1st Pillar payments; therefore; the analysis in this paper is focused on the project measures which are aimed at increasing competitiveness and at development.

Only less than 20 % of the supported rural farms in Latvia are very small farms (SO up to EUR 4thou) in the RDP 2007-2013. Among them, a significant number of farms participated in only one measure. In addition, this measure (Measure 122 - "Improving the Economic Value of Forests") is not related to agriculture and the average support funding was less than EUR 3 thou. Only a small number of these farms (181) have been supported by Measure 141 "Supporting Semi-subsistence Farms Undergoing Restructuring", which should be considered the main measure in fostering structural changes. In the given measure, the determined amount of support was EUR 7500 over five years, and every farm could participate in the measure only once. In addition, the support for afforestation of unutilized agriculture area (Measure 223) has been received, but afforestation, of course, does not create remaining workplaces and income to be yielded in a near future. Not more than several tens of very small farms have participated in other measures, which is an insignificant number if compared to the total number of these farms - 57 thou (Table 1).

The farms of Group 1 (SO EUR 4-15 thou) also constitute approximately 20 % of the total number of supported farms. Considering that the proportion of these farms in the total structure of farms in the country is also quite similar to this, it can be observed that these farms have been

supported comparatively more actively than Group 0 farms.

Table 1

Number of small farms that participated in Latvian RDP 2007-2013 measures (during the whole period)

Measures		Size of farms	
Nr.	Description	<4 thou EUR	4-15 thou EUR
122	Improving value of forests	1024	564
223	The first afforestation	212	126
141	Semi-subsistent farms	188	429
121	Modernization	50	410
312&313	Diversification & tourism	40	45
226	Restoring forestry potential	67	40
411	Leader	19	72
112	Young farmers	3	50
x	Others	59	53
x	Total (unique)	1638	1743

Source: author's calculations based on data of paying agency

However, it is important to note that the farms of all the other (bigger) groups have been supported more intensively.

In addition, initially, in 2007-2013 it was planned to allocate a significantly larger funding for restructuring semi-subsistence farms, but with the amendments to the RDP, the funding was reduced more than 5 times - from EUR 51 mill. to under EUR 10 million. This way, in total, only 1462 farms received support for restructuring, which constitutes only 2 % of the small farms (Group 0 and Group 1). According to the requirements of the Measure, only farms with the annual turnover of at least EUR 3000 could participate in this measure. This requirement did not provide the possibility for approximately 90 % of the small farms, including almost all the very small farms (Group 0), to participate. This means that the measures of 2007-2013 programme involved only about one fifth of Group 1 farms, but, in reality, they were not oriented to the group that contained the largest number of farms, Group 0 or the very small

farms. Already some years ago there were studies what indicated that such a policy does not quite correspond to the respective goal of rural development – "A prosperous man in sustainably inhabited rural areas" (Veveris A., 2014 etc.), which means orientation to the support of not only the richest rural enterprises, but also those small enterprises (including rural farms) that perform the social function – develop the density of rural population and the social environment. Since the end of 2014, the new rural development programme for 2014-2020 has been opened, but it does not contain any principal changes regarding the support for small rural farms. In the sub-measure "start-up aid for the development of small farms", one round with the funding of approximately EUR 20 million has been announced up to now. This is single sub-measure provided for the development of small rural farms. In this period, the requirements have changed: instead of net turnover a standard output of at least EUR 2000 in the year before the project is required (Cabinet of Ministers, 2015). Such a requirement should be evaluated more positively than the turnover requirement because it allows such farms to participate that have been producing for their own consumption so far. This means that 47 % of the total farms (those with SO below EUR 2 thou) stay outside the range of the support candidates, but 43 % of the total number of Latvian farms can apply, the ones whose SO is from EUR 2 thou to 15 thou. However, in reality, the opportunity to apply is limited by the public funding allocated for the sub-measure, which in the edition of the RDP 2014-2020 that is currently in force is planned to be EUR 34.7 mill. EUR (Ministry of Agriculture, 2016). That is 3 times more than in the RDP 2007-2013, but it still significantly falls behind

the initially planned amount in the previous period. The fact that already in the first round more than half of the total funding planned in this period was made available and that many applications did not receive support due to the lack of funding shows that the allocated total amount is not sufficient.

3. Previous results

The available FADN information about the utilization of funding in various groups of rural farms of Latvia, classified by their size, is summarized in Table 2. According to the FADN threshold, these data are available about farms, starting with Group 1; thus, data about the farms whose SO is below EUR 4 thou (very small farms) are not available. However, Groups 1 to 6 that are included in FADN demonstrate a very sharp difference regarding the received funding: if the average amount of funding received by Group 1 farms is only 4 % of the total average of FADN farms, then for Group 6 it is 10 times bigger than the average funding. Also, calculating per one UAA hectare, the amount of the received funding increases with every next group and in the larger farms it is five times bigger than in the small ones. This difference should be considered large, and, in fact, it distorts competition, relatively worsening the situation of small and also medium farms.

Division by the measures reveals that there is an explicitly sharp difference based on the size of the farm in Measure 121, while in the other Measures (112 and 141) the differences are not that well expressed, and in Measure 141, which is targeted exactly at small farms, the situation is the opposite, but the financial importance of these measures has been insignificant if compared to Measure 121.

**Public financing per farm in RDP measures in FADN farms by size groups in Latvia
(average per year 2007-2014)**

Econ.size (SO), thou EUR	Average UAA (ha)	Measure 121	Measure 141	Measure 112	Total in agricultural measures	Total % of average support
4-<15	30	186	220	0	406	4
15-<25	50	729	198	41	968	9
25-<50	79	2 005	151	34	2 190	21
50-<100	157	5 642	39	34	5 715	55
100-<500	404	19 514	10	62	19 586	190
>=500	1424	95 754	0	0	95 754	929
Average	238	10 164	112	35	10 311	100

Source: author's calculations based on FADN data

Whereas, according to the available data, the situation is essentially different in Lithuania. As Table 3 presents, the distribution of public funding among the groups of rural farms is significantly more balanced. In the group of small farms (Group 1), the received funding has been 18 times bigger than in Latvia. According to the available data, in the other groups there is also

more funding received (it could be attributed to the different reporting period), but in the groups of larger farms this difference reduces to 1.5 times. In addition, across the measures, the difference between the groups in Measure 121 is not that marked as in Latvia, whereas Measures 112 and 141 have been more important than in Latvia.

Table 3

Public financing per farm in RDP measures in FADN farms by size groups in Lithuania (2015)

Econ.size (SO), thou EUR	Average UAA (ha)	Measure 121	Measure 141	Measure 112	Total in agricultural measures	Total % of average support
4-<15	19	4 786	503	2 026	7 315	21
15-<25	39	7 891	28	1 601	9 520	27
25-<50	64	11 948	16	760	12 724	36
50-<100	114	22 086	0	253	22 339	63
100-<250	227	54 532	0	88	54 620	155
>=250	591	147 937	0	0	147 937	419
Average	147	34 293	126	868	35 287	100

Source: author's calculations based on FADN data

Thus, the small farms are much more supported in Lithuania than in Latvia, and this is also reflected in the production indicators – the small farms (SO 4-15 thou EUR) contribute more significantly to the economy of Lithuania – they account for 17 % of the total SO against 12 % in Latvia. However, the contribution of the largest farms (SO above EUR 500 thou) to the total output in Lithuania is 23 % against 28 % in Latvia (CSB, 2013c).

The data show that in Lithuania the economic indicators of farms are significantly more even and they suit better the distribution of the number of farms. This means more investment in ensuring the density of rural population. In addition, the social equity should be taken into account what is characteristic to European economic system in controversy to some other systems existing in the world. These other systems, which are often called as "fighting

capitalism" are not producing high standards of living for most of people (Prokurat S., 2010).

Although the opinion that small farms are not profitable and thus are not perspective is widespread, usually the growth potential of these farms is not evaluated. Recent research on the results of the funding utilization indicates that the small farms can use the support funding effectively, increasing the production volumes and the value added. For example, from 2007 till 2013 the annual gross value added in the farms that have received funding for restructuring of semi-subsistence farms (Measure 141) has increased due to the impact of the funding by EUR 5748 on average per farm (Benga E., 2016). Considering that the maximum total amount of funding was EUR 7500, this can be considered a very good achievement.

In addition, in Latvia in contrast to many other countries, the physical size of these farms is rather significant very frequently, and the low production volume is often determined by other factors, including the lack of financial resources. That allows the author to evaluate that a large part of Latvian farms is economically small just because their potential (land, labour, a.o.) is not utilized sufficiently, but if it were, the current areas would provide the opportunity to manage more efficiently, as a result of which these farms would contribute significantly more to the economy of Latvia.

Conducting a full value cross-country comparison is limited by the availability of data because in Lithuania only FADN information about the year 2015 regarding the paid-out RDP funding is available. However, in the authors' opinion, even the data sources used in this research reveal the importance of the problem sufficiently well and provide an insight into the significant differences between both countries.

Conclusions, proposals, recommendations

- 1) Latvia and Lithuania are countries with a very high proportion of small farms within the structure of rural farms. Although the investment of these farms in production volumes is comparatively small, they are of big socially economic importance in maintaining the rural space, the fact which has not been completely appreciated yet.
- 2) Only a small part of the measures of the Latvian Rural Development Programme are appropriate for the development of small farms. The farms frequently either do not qualify for the set requirements or are not capable of attracting private co-financing due to their specifics. Because of these reasons, in 2007-2013 period only a very small part of the small farms has received development funding. It was also caused by the distribution of funding across the measures, because in the measures suitable for the small farms it was smaller than in the measures that the large farms have mainly used.
- 3) In Lithuania, the situation is significantly different because the distribution of RDP funding between farms of different size is much more even. That facilitates a more balanced rural development.
- 4) Those small farms that have participated in the support measures demonstrate good results in total; whereas, the sector of small farms as such possesses unutilized potential (land, labour a.o.). This means that research on the prospects of small farms and on the development of an appropriate support policy at the national level should be considered priority objectives of rural policy in the nearest future.

Bibliography

1. Benga, E. (2016). Economic Impacts of Semi-Subsistence Farm Support Measure of Latvian Rural Development Programme 2007-2013. *Research for Rural Development, Jelgava, Vol.2*, pp. 196-202.
2. Cabinet of Ministers, Republic of Latvia (2015). Ministru Kabineta Noteikumi Nr.292 "Valsts un Eiropas Savienības atbalsta pieskirsanas kartiba pasakuma "Lauku saimniecibu un uzņemejdarbibas attistiba" apakspasakuma "atbalsts uzņemejdarbibas uzsaksanai, attistot mazas lauku saimniecibas" (Order of allocation of State and European support in measure "Farm and Business Development", submeasure "Start-up aid for the development of small farms"), Riga, 9 June 2015.
3. Cantore, N., Kennan, J., Page, S. (2011). *CAP Reform and development*. Overseas Development Institute, London, p.52.
4. Central Statistical Bureau of the Republic of Latvia (2013c). Economic Size and Specialization of Rural Farms. Retrieved:http://data.csb.gov.lv/pxweb/lv/lauks/lauks__ikgad__laukstrukt_13__1.visp/LSS13_I07.px/?rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0. Access: 12.01.2017.
5. European Parliament Committee on Agriculture and Rural Development (2013). *On the Future of Small Agricultural Holdings*. Draft Report (2013/2096(INI)), 14.10.2013 (IIN), p.13.
6. Leimane, I., Krievina, A., Miglavs, A. (2014). Improving of Small Farm market Capability in Latvia. *Procedia – Social and Behavioral Sciences*, Volume 110, pp. 182-189.
7. Ministry of Agriculture (2016). *Latvia – Rural Development Programme (National)*, Vers. 3.3. p. 589. Retrieved: https://www.zm.gov.lv/public/files/CMS_Static_Page_Doc/00/00/00/88/06/Programme_2014LV06RDNP001_3_3_1_v.pdf. Access: 12.01.2017.
8. Pilvere, I. (2013). Problems of Small Farms in Latvia. *Economics and Rural Development*, Volume 9, No.2, pp. 44-50.
9. Prokurat, S. (2010). European Social Model and east Asian economic Model – Different Approach to Productivity and Competition in Economy. *Asia – Europe. Partnership or Rivalry?* Wroclaw, pp.35-47.
10. Tisenkopfs, T., Sumane, S., Kunde, I. a.o. (2015). *Latvijas mazo saimniecibu dzivotspeja (Vitality of Latvian Small Farms)*. Baltijas Studiju Centrs un Latvijas Lauksaimniecibas Universitate, Jelgava, p.96.
11. Veveris, A. (2014). Investment Support and its Impact on the Economic Results of Rural Farms of Different Groups. *Economic Science for Rural Development, Jelgava, No. 34*, pp. 154-162.1