REGионаl Aspects of Farm’S Subsidies in Latvia

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Abstract

Since Latvia’s accession to the European Union (EU) the Common Agricultural Policy (CAP) of EU has been implemented in the agricultural sector. The CAP is fundamental to the strength and competitiveness of EU farming and supplements farm income to ensure that farmers make a decent living. The paper presents the results of study, which has been aimed to evaluate the difference of received EU and national subsidies for agricultural production at the regional and farm level (micro-economical) between Latvia’s regions. The obtained main results are the following: 1) the EU and national financial support differs substantially between Latvia’s regions, where in recent years, the amount of support received by less developed regions was less than more developed regions, promoting inequality of the regions’ development; 2) after Latvia joining the EU, the specific weight of production subsidies in net value added (NVA) increased in all Latvia’s regions.

Keywords: subsidies, region, agriculture, farm, Latvia.

Introduction

Ever since its inception, the Common Agricultural Policy (CAP) has been one of the most important and dynamic policy areas in the European Union (EU) (Dax et al., 2005). Nowadays the CAP has set more broad aims and tasks, because in addition to the food supplies to the Community it also maintains and promotes rural development as a policy instrument by applying the diversification. Today’s CAP is demand-driven and its main priority is the needs of consumers. Therefore it supports production of high quality food, which is harmless to the environment (European Commission Directorate-General for Agriculture and Rural Development, 2007). The CAP is fundamental to the strength and competitiveness of EU farming and the agri-food sector as a whole and supplements farm income to ensure that farmers make a decent living. However, assistance is linked to compliance with broader objectives in the areas of farm hygiene and food safety, animal health and welfare, preservation of traditional rural landscapes, and bird and wildlife conservation (European Union, 2009).

The diverse social and economic structure and production structure in the rural areas of the Member States (MS) determines the selection of the applied policy within the framework of the direct support schemes established by the EU legislation. The new MS can employ the transition period support system at least until 2009, one of advantages of which is a flexibly applicable assignment of additional national funding from the national budget.

In order to reach the objectives of the CAP, two European agricultural funds have been established: the European Agricultural Guarantee Fund (EAGF), for financing market measures; and the European Agricultural Fund for Rural Development (EAFRD) for financing rural development programmes. The EAFRD finance the Community’s financial contribution to rural development programmes implemented in accordance with the Community legislation on support for rural development by the EAFRD.

The aim of studies is to assess the difference of received EU and national subsidies for agricultural production at the regional and farm level (micro-economical) between Latvia’s regions.

The object of research is the production and investment subsidies in farms of various Latvia’s regions.

The principal materials used for the research are as follows: published and unpublished data from Central Statistical Bureau of Latvia, Rural Support Service as well as the database of SUDAT (Saimniecību uzskaites datu tīklis), which is an integral part of EU FADN (Farm Accounting Data Network). SUDAT is used as the main source of quantitative information for authors’ calculations performed in this research. FADN is a survey carried out by the Member States of the European Union. The information collected, for each sample farm, concerns approximately 1,000 variables and is transmitted by Liaison Agencies.

In order to achieve the objective, both qualitative and quantitative research methods are used: analysis, data grouping, reference, logical and abstract constructive methods etc.

Since Latvia receives the EU funding starting from its accession to the EU in 2004, the time period from 2004 to 2008 has been analyzed.
CAP’s measures and subsidies

Nevertheless, the financial support for Latvia’s agriculture from different sources (EU and national) has constantly increased (Melece & Romanova, 2008) since 2004. In 2008 the amount of national subsidies and EAAGF diminished. If in 2004 total amount allocated for Latvia’s farmers and enterprises was 73.1 mln. LVL, than in 2008 this amount almost quadrupled and was 269 mln. LVL. Each new MS has an opportunity to disburse complementary payments in addition to the SAPS in sectors significant for each particular MS, taking into account that the EU has identified sectors in need for support. In Latvia complementary national direct payments are available for: areas of arable crops; fodder areas; slaughtered or exported bovines; suckler cows; ewes; milk quota; potato starch; and grass and flax seeds. Starting from 2007, farmers can receive the following decoupled CNDP: area payment; slaughtered or exported bovine animals and special cases for young farmers. Despite the fact that Latvian farms have been receiving more support and subsidies and their performance has increased, the differences between various Latvia’s regions can still be observed. The EU support received differs between Latvia’s regions (Figure 1).

In 2008 the majority of support was received by following regions: Central office, Zemgale (Jelgava, Dobele and Bauska districts), North-Vidzeme (Valmiera, Cēsu, Limbažu and Valkas districts) and Large-Riga (Riga, Ogre and Aizkraukle districts), while regions located in southeast part of Latvia received least amount of EU support. These regional structural units were - North-East (Gulbene, Alūksne and Balvi districts), East-Latgale (Rēzekne and Ludza districts), Middle-Latvia (Jēkabpils and Madona districts) and South-Latgale (Preili, Krāslava and Daugavpils districts). Similar tendencies can be observed analysing distribution of national subsidies by Latvia’s regions in period from 2004 to 2008 (Figure 2).

Figure 1. Received EU support in Latvia’s regions (mln. LVL), 2008

Figure 2. Received national subsidies (mln. LVL) in different Latvia’s regions, 2004 - 2008
The results of study show that in recent years the volume of support received by less developed regions was lower than more developed regions, while more competitive regions are increasing support to their businesses. This has had undesired effects, such as a notable drop in the effectiveness of regional support and irregular distribution of enterprises. In order to meet CAP objectives regarding the rural development, it is important that financial support should be deployed particularly in regions with a lower level of economic development or competitiveness. The similar results reported by other European researchers (Dax & Hovorka, 2004; Dax et al., 2005; Shucksmith et al., 2006).

Analysis of subsidies at the farm (micro-economical) level

Latvia’s accession to the EU had a positive effect on the volume of the support to the farms - its percentage increased for all Latvia’s farms’ revenue structure (Figure 3). Other researchers (Sikorska et al., 2009; Miškевич, 2008) also stress the extremely important role of subsidies for farms performance in the new Member States after joining the EU. In the period from 2003 to 2008 the biggest average specific weight of support in Latvian farms’ revenue was observed in Latgale and Vidzeme (27% and 25%, respectively), the smallest one – in Pierīga (14%). The farms in Zemgale and Pierīga regions were noted for the variability of received support level (coefficient of variation 54% and 35%, respectively). The coefficient of variation for farms in Vidzeme and Kurzeme was not so prominent (19 – 20%) therefore indicating more constant level of national and EU subsidies. Absorption of funds within the frames of the particular support programs is highly differentiated, as affected by differences in farm production profile due to the specific natural (nature and climate) conditions and historically shaped specificities of economic development.

![Figure 3. Latvia’s farms’ revenue structure (%), 2003 – 2008](image)

Thus the structure of received production subsidies (Figure 4) shows several aspects of the Latvian farm specialization by regions.

![Figure 4. Production subsidies (LVL) per farm in Latvia, 2004-2008](image)
For instance, in Zemgale region, where soil is especially favourable for agriculture, the farms received up to 40% of the subsidies for grain. Less favoured area payments formed a significant part of support in Latgale and Vidzeme (on average 27% and 22%, respectively), but in Pierīga they were just 7%. Meanwhile, direct payments for livestock dominated in Pierīga, reaching one third or one fourth from all support payments. Analogous differentiation existed in other countries as well (Sikorska et al., 2009).

One of the preconditions for successful development of agricultural production is expanded reproduction of farm fixed assets. In addition to the depreciation and profit as the inner resources and loans as the external finance source an important role is played by investment subsidies, which form source of gratis financial support. Although sometimes obtaining loans and applying for subsidies are intertwined because farmers’ interest in bank credits is related to the absorption of EU funds supporting investment and development of farms (Kata, 2009). Unlike production subsidies, whose amount tended to grow, the investment subsidies amount has fluctuated over the years and in different Latvia’s regions (Figure 5).

![Figure 5. Subsidies (LVL per farm) on investment in Latvia’s farms in different regions, 2003-2008](image)

This means that fixed assets restoration and production basis expansion processes were not simultaneous. They were most prominent in 2005 and 2006, and continued in Kurzeme region up until 2007. In 2008 they showed downward trend in Pierīga, Kurzeme and Latgale, which on the whole was in compliance with general changes of farm financing foregoing in other EU Member States (Вигер, 2008).

On average the biggest subsidies on investment per farm received farmers in Pierīga (LVL 1,951) and Zemgale (LVL 1,897), the smallest one – in Kurzeme (LVL 1,316). Since 2005 the range between the highest and lowest subsidies on investment per farm in different Latvia’s regions has been decreasing: in 2005 it was LVL 2,870 (between Zemgale and Kurzeme), in 2008 – only LVL 1,116 (between Latgale and Vidzeme). At the same time the rate of that decrease (in comparison with the previous year) has been declining also: 39% in 2006, 31% in 2007 and 7% in 2008. We could presume this process is going to wane in the nearest future thus maintaining the inequality between granted subsidies on investment per farm in different regions. Similar problem with the contribution of support programs to further deepening of regional differentiation was mentioned in various studies performed not only in the new EU Member States (Liepiņa & Zaļūksne, 2008; Pieniąż et al., 2009; Sikorska, 2009; Zawojska, 2008), but also in the old ones (Schmid et al., 2006; Sinabell et al., 2009).

Starting with 2005, subsidies for approximation to EU standards were very important. If in Pierīga and Kurzeme regions their percentage was between 47 and 50%, respectively, during the first year of absorbing these finances in Vidzeme it was just 17%, bet in the rest of Latvian regions – about 25% thus indicating relatively slow pace of absorption. If after the accession of Latvia to the EU the subsidies on investment consisted mainly of structural funds (in. al. SAPARD) and support granted to farms for approximation to EU standards, later the situation had changed due to the increasing importance of support for modernization of agricultural assets. In 2008 its specific weight in total subsidies on investment was remarkable in Latgale (84%), Kurzeme and Vidzeme (72 – 74%). Although the significance of subsidies for the approximation to EU standards was similar for Pierīga (70%) and Latgale (72%) in 2007, Pierīga was the only Latvian region where that kind of support still played an important role in 2008 (40% of subsidies on investment in contrast with 10% in Latgale). The similar situation with unequal absorption of different EU funds took place in Mazovia - the wealthiest and economically strongest Polish province situated around Warsaw (Zawojska, 2008).

Net value added (NVA) shows the newly created value in the farm and assist to evaluate the efficiency of production process in agriculture (Ferguson et al., 1991). Its usage in agriculture economic analysis is
supported by FADN methodology (European Commission, 2006), which defines NVA is a sum of output and production support, after subtracting specific costs and overheads, depreciation of fixed assets and production taxes. However, NVA fails to show the portion of newly created value which is formed by national and EU support to the agriculture. Therefore, a modified indicator is used in the article - production NVA, which is equal to difference between NVA and production subsidies received. It shows NVA by the farm, if the farm is not supported by production subsidies. Since 2003 the specific weight of production subsidies in NVA has been increasing in all Latvia’s regions therefore, on one hand, indicating the growing dependence of agricultural sector on national and EU support and, on the other hand, the diminishing effectiveness of agricultural production (Figure 6). The growing dependency of farms on support payments were noted also in other EU Member States (Štolbovā & Hlavsa, 2008).

![Figure 6. Production net value added and production subsidies (LVL per AWU) in Latvia’s farms, 2003-2008](image)

In 2008 in comparison with 2003 the specific weight of production subsidies increased 3.6 times in Pierīga, 2.2 times in Zemgale and 1.3 in Vidzeme. As to Kurzeme and Vidzeme the productions subsidies were the vital source of finance ensuring the opportunity for the agricultural holdings to survive in 2008, when farm production NVA was negative. During the 2003 to 2008 the largest share of subsidies (and the lowest production NVA) was in Latgale and Vidzeme (on average 84% and 76% accordingly), the smallest one – in Pierīga (on average 46%). There is no conformity of opinions: some researchers (Liepiņa & Zaļūksne, 2008) are sure that support should be granted to the weakest regions and companies, but the others (Karpik, 2008) claim that it should encourage only the most effective agricultural production forms, providing necessary financing for steady economic development. Thus, the support for ineffective farms is inadmissible.

It is argued (Dibrova & Dibrova, 2009) that the significant increase of support substantially influences neither the effectiveness indices nor agricultural yields and thus testifies to an imperfect nature of subsidies. As the result, the support becomes neither an effective stimulus for a production quality increase nor for a rise in the stock breeding production. The modern agricultural economics science requires further research concerning the estimation of agricultural support effectiveness. The authors are convinced that it should be evaluated in Latvia as well.

It could be concluded that the membership in the EU was to create a big chance for diminishing differences. The analysis of the utilization of support funds and diminishing production NVA in the particular regions of Latvia shows that the membership in the EU has greatly preserved the historically-oriented differences in development of agriculture and rural areas. The modernization processes in the regions, characterized by disintegrated agrarian structure (e.g. Latgale), have indeed contributed to the

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1 Annual work unit (AWU) is full – time person equivalent (1800 working hours per year).
improvement of the conditions of functioning of farms, but they have not brought the expected equalization of the level of their competitiveness in comparison with the farms in the regions, characterized by traditionally better results in agriculture.

Conclusions

Although the financial support for Latvia’s agriculture from different sources or funds financing measures falling under CAP since 2004 has constantly increased and constituted 269 mln. LVL in 2008, subsidies differs substantially between Latvia’s regions, where in recent years; the volume of support received by less developed regions was less than more developed regions, promoting inequality of the regions’ development.

The modernization processes in some regions (e.g. Latgale) have contributed to the improvement of the conditions of farm functioning, but have not brought the expected equalization of their competitiveness in comparison with the farms in the regions with traditionally better results in agriculture.

After Latvia’s accession to the EU the specific weight of production subsidies in NVA has been constantly increasing in all Latvia’s regions thus indicating the growing dependence of agricultural sector on national and EU support and the diminishing effectiveness of agricultural production. During the 2003 to 2008 the lowest average production NVA per 1 AWU (and the biggest proportion of subsidies) was in Latgale and Vidzeme, the highest one – in Pierīga.

Similar to other EU Member States absorption of support funds was highly differentiated in Latvia’s regions due to different farm production profiles and specific natural conditions. In Zemgale region, where soil is especially favourable for agriculture, the farms received up to 40% of the subsidies for grain, less favoured area payments formed a significant part of support in Latgale and Vidzeme, but direct payments for livestock dominated in Pierīga.

References


