

LESS FAVOURED AREA PAYMENTS IN THE REGIONS OF LATVIA

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Abstract. Support for farming in less-favoured areas (LFA) is one of the instruments of the Common Agricultural policy (CAP) of the European Union (EU) to preserve the farming population in these areas and maintain cultural landscapes for more than 30 years. In 2014, eligibility criteria for receiving LFA payments will be revised; therefore, it is important to assess the results of its introduction in the Member States. In Latvia, LFA support is available since the accession to the EU, and no extensive researches on this support are available. The **aim** of the present research is to analyse the LFA payments in the regions of Latvia for the period 2004-2010. Over the period of analysis, farmers in Latvia received an LFA funding of LVL² 210 million, which comprised a significant share of the total amount of support payments for agricultural and rural development. The distribution of this support among the regions is different, as Latgale received 39.1% of the LFA support, Vidzeme – 26.7%, and Kurzeme –16.7%, thus being a significant source of income for farmers in these regions. Over the period of analysis, the amount of LFA support was relatively stable in terms of total amount and per hectare of area declared for this support. The rates of other area payments increased, thus reducing the significance of LFA support. In the research, using several sources of information, the authors have analysed various LFA support aspects in the regions of Latvia.

Keywords: less-favoured areas, support, regions.

JEL code: Q18, Q 58.

Introduction

In 1975, the establishment of support for farming in LFA marked a major change in the nature of the EU CAP by introducing regional categories. From the very beginning, LFA policy was conceived as a structural policy aimed at the prevention of land abandonment, to preserve the farming population in these areas and maintain cultural landscapes. Presently, the LFA scheme also provides a substantial contribution to farm income (Dax, 2005). D.Klepacka-Kolodziejska (2006) points that over the 30 years since it was established the LFA measure has never been thoroughly assessed; it has only been expanded. This shows that LFA is largely a political measure and is now very difficult to reform. It is of great importance under conditions when growing population numbers, limited infrastructure and market access, land tenure problems as well as increasing degradation problems due to poor management of soils prone to erosion, steep slopes, or low rainfall quantities are some of the limitations for agricultural production that have led in many areas to growing numbers of poor people (Lipper et al., 2006).

One has to agree with M. Stolbova's (2007) opinion that "support to European agriculture should focus on the preservation of the typical European countryside, production of healthy food, protection of the environment, and the maintenance of the countryside as a residential environment". Scientists of other EU countries admit that the patterns of use of the LFA measure also reflect differences in geography and policy history. The measure has limited significance to intensively farmed countries such as Denmark and the Netherlands. It has traditionally been used to help maintaining farming in areas of extensive rough grazing in countries such as Ireland or the United Kingdom or mountainous areas such as in

France, Greece, or Austria. There have also been much higher levels of take-up and financial support for LFAs in northern Europe than in southern Europe (Dwyer et al., 2003). Long experience with LFA payments in Austria has demonstrated their positive impact on the continuation of land use in LFAs (Tamme, 2004). The main purpose of the Dutch LFA policy is to compensate farm businesses for negative economic effects due to the conservation of natural handicaps (Schouten et al., 2009). The LFA scheme aims to respond to the widely divergent regional situation of the EU agriculture, with respect to both the socio-economic and natural characteristics of regions (Shigeto et al., 2007).

In Latvia, several scientists have researched CAP instruments and their operation in the regions of Latvia, for instance, E.Balamou, D.Saktina, W.H.Meyers (2009), I.Upite (2010), I.Pilvere (2012a, 2012b), I.Pilvere, I.Upite, V.Tetere (2012) et al., however, research on LFA support and its role in the regions has not been performed. Therefore, especially in the light of the discussion on LFA support in the EU Member States and the revision of this policy in 2014, it is important to assess the results of previous support. Therefore, the **aim** of the present research is to analyse the LFA payments in the regions of Latvia for the period 2004-2010.

In accordance with this aim, the following research **tasks** were defined:

- to characterize LFA support in Latvia;
- to analyse LFA support in the regions of Latvia, based on various information sources.

To tackle the research tasks, the authors employed analysis, synthesis, and the logical and constructive **methods**. The present research analysed **information and data** from the Rural Support Service (RSS), which

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² Latvian lats. 1 LVL=0.702804 EUR

Table 1

Characteristics of LFA support in Latvia, LVL

Kind of support	2004	2005	2006	2007	2008	2009	2010	Total
LFA, thou. LVL	27492.4	35041.4	37181.7	30040.9	26930.6	27397.8	26375.9	210460.7
RDP AP*, thou. LVL	27492.4	45428.3	62019.7	52842.7	52491.6	54164.5	55088.8	349528.0
SAP*, thou. LVL	17440.7	26706.5	33648.3	39014.3	49143.4	59010.3	67166.9	292130.4
Support for agricultural and rural development, mln LVL	110.5	219.6	213.3	191.5	299.3	293	369.6	1696.8
LFA share in total financial support, %	24.9	16.0	17.4	15.7	9.0	9.4	7.1	12.4
LFA share in RDP AP, %	100.0	77.1	60.0	56.8	51.3	50.6	47.9	60.2
LFA/SAPS, %	157.6	131.2	110.5	77.0	54.8	46.4	39.3	72.0

* RDP AP – RDP area payments; SAP – Single Area Payment

Source: author's calculations based on the LSIAE database, 2012, LAD, 2011, Pilvere, 2012 b

administers various support measures and the Latvian State Institute of Agrarian Economics (LSIAE) database information on Rural Development Programme (RDP) support measures. The research design process used special and general literature, methodological materials on the EU financial support for agriculture and rural development etc. To specify the effect of support payments on the economy of farms in various regions of Latvia, the authors exploited the Farm Accountancy Data Network (FADN). The FADN is a survey carried out by the Member States of the EU. It was established in 1965 in accordance with Regulation No 79/65 of the Council of 15 June 1965 setting up a network for the collection of data on the incomes and business operation of agricultural holdings in the European Economic Community. The target size of the sample for the FADN in Latvia is 1000 farms (Bratka, Praulins, 2007). In the EU, the FADN data are classified by region, using the territorial division in accordance with the Nomenclature of Territorial Units for Statistics (NUTS) classification. There are different numbers of regions in the countries, for instance, 22 regions in France, whereas the smallest EU member countries (Austria, Belgium, Denmark, Ireland, Luxembourg, and the Netherlands) are not divided into regions, although these countries often classify their territory according to certain features for their domestic needs. In Latvia, the following administrative and territorial division exists in accordance with the NUTS classification: the whole territory of the country corresponds to Level 1 and Level 2, there are six regions at Level 3: Riga, Pieriga, Vidzeme, Kurzeme, Zemgale, and Latgale which consist of administrative units – municipalities. Level 3 is used for the FADN needs; however, for the EU FADN needs, Latvia is regarded as one region owing to the small territory of it (LVAEI, 2010).

Research results and discussion

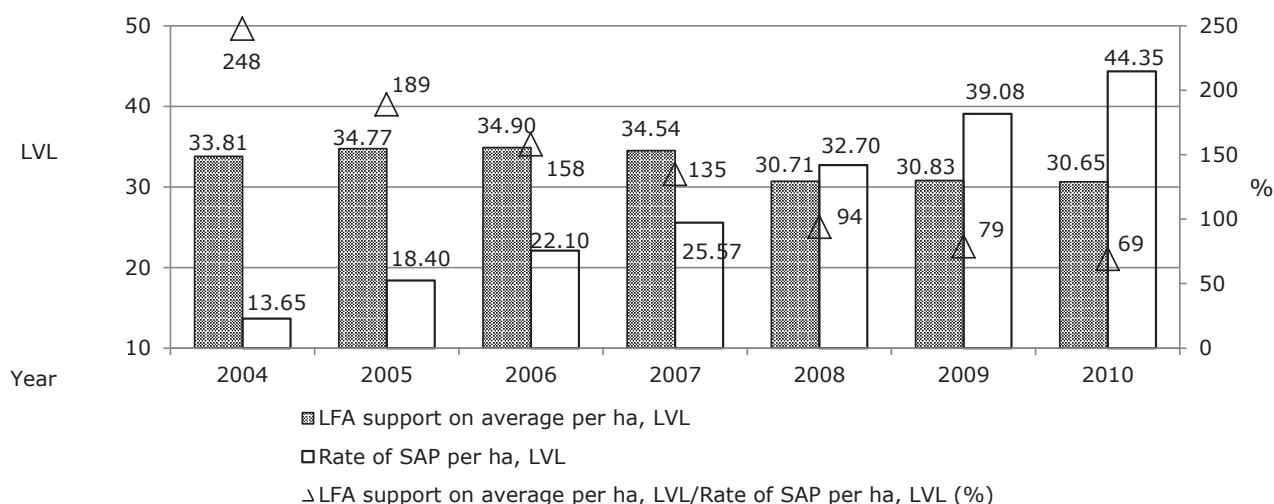
1. Characteristics of LFA support

The LFA scheme is a part of Axis 2 of the Rural Development Policy for 2007-2013, which aims at improving the environment and the countryside by supporting sustainable land management (European Commission, 2012).

In Latvia after its accession to the EU on 1 May 2004, the measure "Less-favoured areas and areas with environmental restrictions" under the Rural Development Plan 2004-2006 became available (Latvijas lauku attīstības..., 2004). The implementation of the measure was also continued within the RDP 2007-2013 as the measure "Payments to farmers in areas with handicaps, other than mountain areas" (hereinafter - LFAs) (Latvijas lauku attīstības..., 2007). In 2012, the legal framework for LFA support in Latvia is based on:

- 1) the Rural Development Programme for Latvia 2007-2013;
- 2) the Cabinet Regulation No.295 (2010) "Regulations regarding Granting, Administering, and Supervising National and European Union Support for Rural Development to Enhance the Environment and Rural Landscapes". LFA support will be provided until 31 December 2013. The Cabinet Regulation sets the following eligibility criteria for receiving LFA support in 2012: an utilised agricultural area (UAA) declared for LFA support is located in an LFA, it is declared for single area payments, and agricultural activity is practised in an area of at least one hectare consisting of fields of at least 0.3 hectares in size. Besides, a five-year commitment to engage in agricultural production has to be assumed, and a cattle density of at least 0.2 livestock units per hectare of permanent meadows and pastures, perennial grasses sown on arable land, or nectar crops eligible for financial support has to be ensured. A fallow area is eligible for support if the area of fallow land does not exceed 30 percent of the total UAA during the current year. Such eligibility criteria are quite simple, which stimulates farmers to apply for this kind of support. A similar situation is also in Poland, as the LFA measure is widely accessible for beneficiaries because the criteria that are in force are easy to meet (Klepacka-Kolodziejska, 2006). The characteristics of LFA support in Latvia are presented in Table 1.

One can conclude from the information presented in Table 1 that over the period of analysis, the LFA support



Source: author's calculations based on the LSIAE database, 2012 and Pilvere, 2012 b

Fig.1. LFA support per ha, LVL, the rate of SAP per ha, LVL, and a comparison of these rates, %, in Latvia in 2004-2010

reached LVL 210 mln or 12.4% of the total financial support for agricultural and rural development, however, the LFA support comprises a significant share of RDP area payments (APs) or on average 60.2% and 72% of single area payments (SAPs). Yet, given the fact that the amount of LFA support paid in the period 2004-2010 was quite stable, while the RDP APs, SAPs, and total support payments increased, the role of LFA support decreased compared with other support payments. This trend was also affected by changes in the rates of support payments that are presented in Fig.1.

Over the period of analysis, the LFA support per ha of area declared for this support was relatively stable regardless of the rate reduction in the period 2007-2013, as the difference between the highest and lowest rate was 14%. Yet, owing to persistent increases of 3.2 times in the rate of SAP in 2010 compared with 2004, the difference in LFA support payments per ha, which accounted for only 69% of the rate of SAP in 2010, decreased, although right after the accession to the EU the difference was 2.5 times.

A similar situation exists in the Czech Republic where the share of the LFA payments in the current subsidies steadily decreases during the 2004-2009 time series. This is caused by the "transitional" increase of other types of subsidies, namely the direct payments, while the LFA payments are fixed for the whole programming period (Stolbova, Micova, 2012).

2. LFA support in the regions of Latvia

The main indicators of LFA support for the regions will be calculated by using: 1) the LSIAE database on RDP support; 2) the FADN information.

The calculation results, using the LSIAE database on RDP support, are presented in Figures 2 and 3. Figure 2 shows the LFA support paid to farmers of the respective region, which confirms the trends in the total amount of financial support presented in Table 1 – the total amount increased in all regions in the period from the accession to the EU until 2006. Yet, the rate of increase in LFA

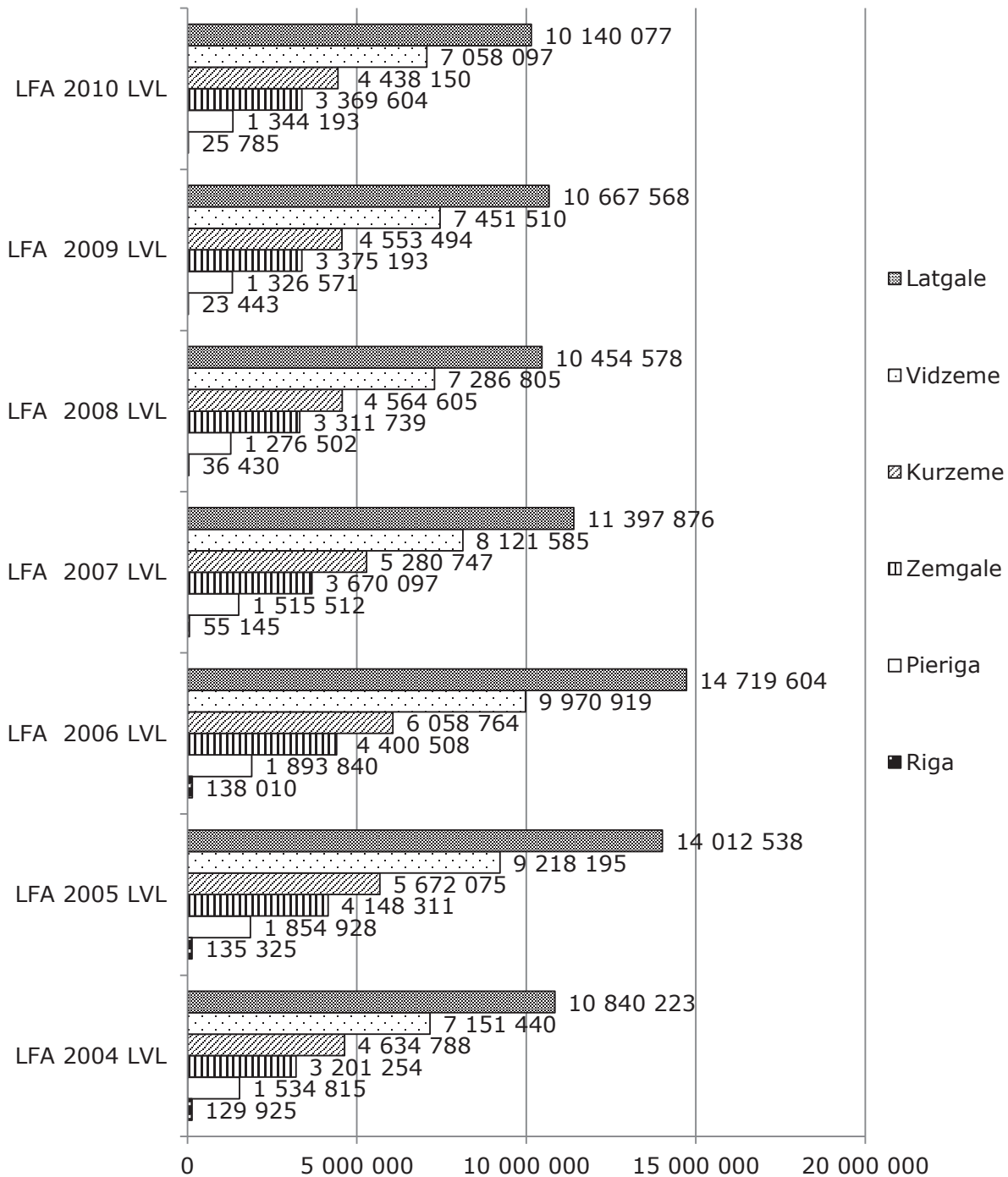
support, compared with 2004, was different; in three regions – Vidzeme (139%), Zemgale (137%), and Latgale (136%) – the increase rate exceeded the overall national rate of increase in LFA support (135%), while Kurzeme (131%), Pieriga (123%), and Riga (106%) lagged behind. In the period 2008-2010, the LFA support decreased in all the regions at a quite similar rate of 8-16%, except in Riga, where the decrease was the largest – 53%.

However, the percentage distribution of LFA support for the entire period shows that farmers in Latgale received 39%, Vidzeme almost 27%, Kurzeme almost 17%, Zemgale 12%, and in Pieriga – 5% of the total amount of this funding, while in Riga it was only 0.3%. Compared with the base year, an increase in LFA support in 2010 was observed only for Zemgale region, as it rose 5% in the period since 2004, whereas a decrease was observed for all the other regions, and in Riga region it decreased by 80%.

Similar trends might be observed for the area declared for LFA support (Figure3). Until 2006, the area declared for this support increased in all the regions, yet, in three regions – Vidzeme (134%), Zemgale and Latgale (133%) – the increase rate exceeded the overall rate (131%) of increase in the area declared for financial support, however, Kurzeme (126%), Pieriga (120%), and Riga (102%) lagged behind.

In the period 2008-2010, the area declared for LFA support rose in Pieriga (103%) and Zemgale (102%), whereas it slightly decreased by 1-2% in Latgale, Vidzeme, and Kurzeme regions, and a significant decrease of 52% took place in Riga.

After calculating and analysing the percentage distribution of the area declared for LFA support in the period 2004-2010 (Figure3), one can see that in Riga, Vidzeme, and Zemgale it corresponded to the percentage distribution of LFA financial support (0.2%, 12%, and 27%, respectively), while in Pieriga and Kurzeme the share of area exceeded the share of funding (6% and 20%, respectively), which pointed to



Source: author's calculations based on the LSIAE database, 2012 and Pilvere, 2012 b

Fig.2. LFA support in the regions of Latvia in 2004-2010, LVL

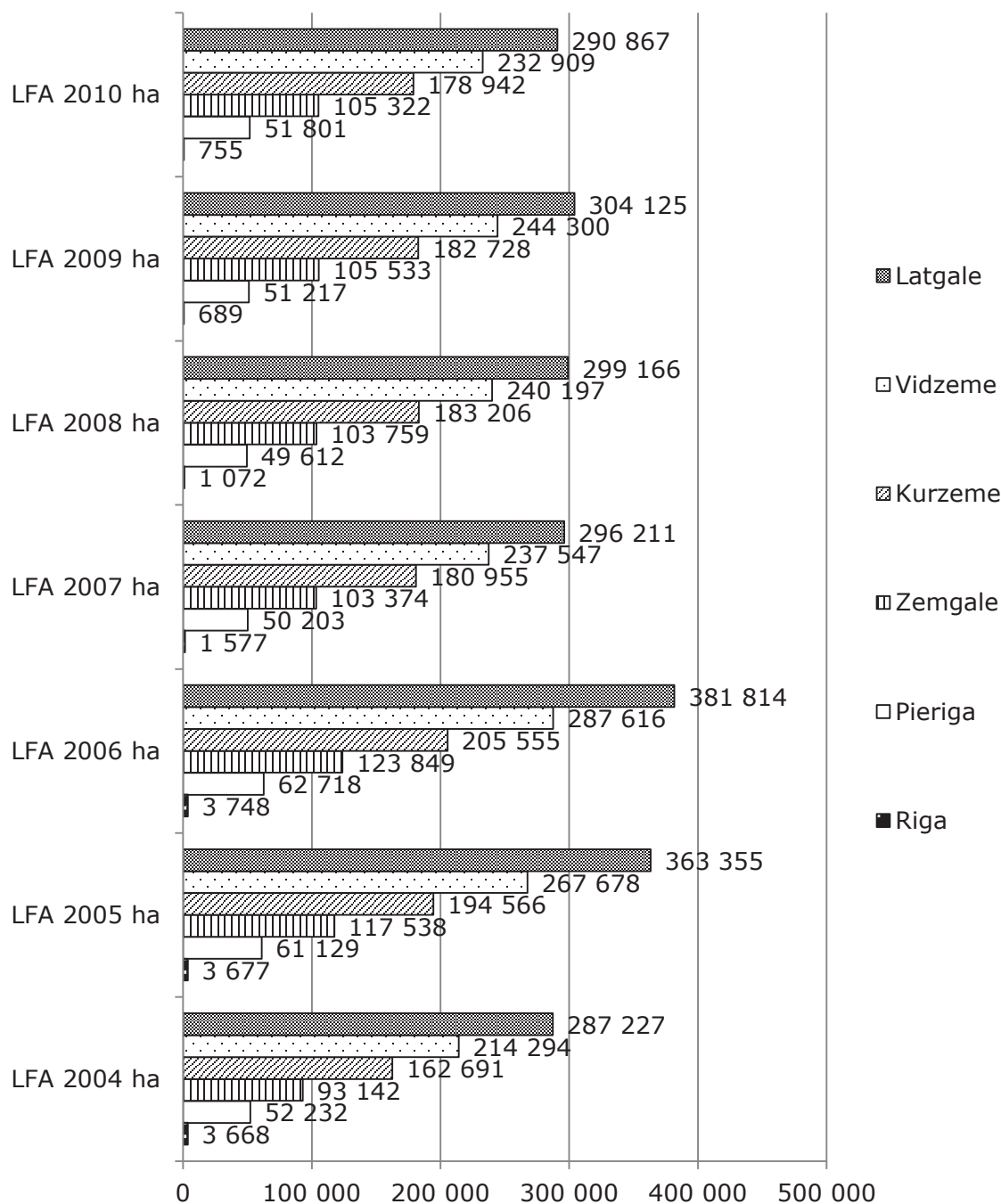
large unfarmed LFA areas, whereas in Latgale (35%) it lagged behind, which indicated that these areas were small and the proportion of Category 3 LFA areas was greater.

After calculating the LFA funding per 1 ha of the area declared for this support (Figure 4), one can find that:

- there were two distinctive periods – a greater financial support per 1 ha in the period 2004-2007

and a lower one in 2008-2010. The largest difference was observed for Pieriga and Zemgale with 14%, the smallest one was observed for Riga with 5%, while there were medium differences for Vidzeme with 11% and Latgale and Zemgale with 9%;

- during both periods, the greatest support per 1 ha, ranging within LVL 35-39, was paid in Latgale, followed by Riga with LVL 34-37, whereas the smallest financial support was available in Kurzeme



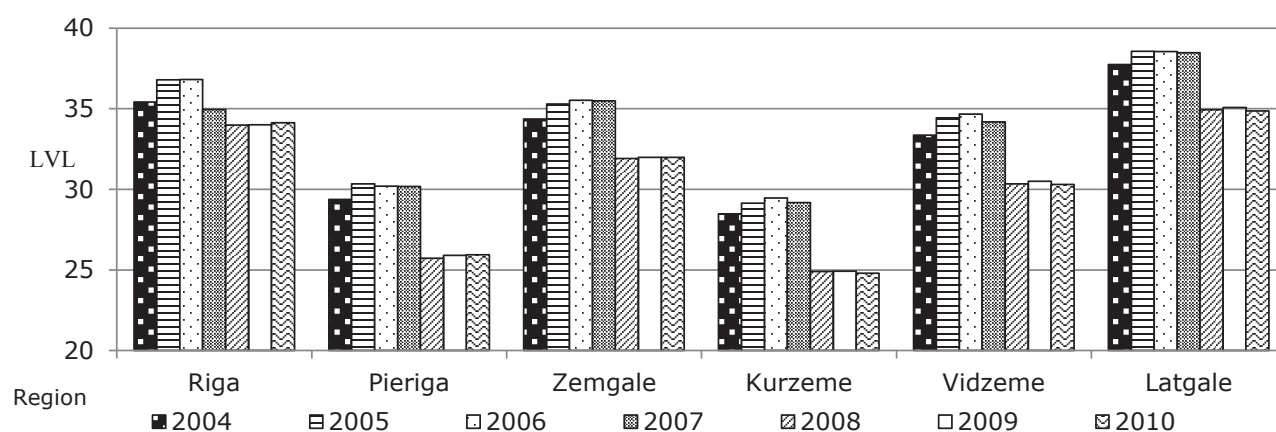
Source: author's calculations based on the LSIAE database, 2012 and Pilvere, 2012 b

Fig.3. Area declared for LFA support in the regions of Latvia in 2004-2010, ha

with LVL 25-29 and Pieriga with LVL 26-30, but in Vidzeme and Zemgale this level was medium, which might be explained by the share of LFAs of Categories 3 and 2 in the total LFA support.

In 2010, the LFA support in these regions was 3.7 and 3.1 times, respectively, greater than in the regions of Riga/Pieriga. A similar situation was also observed for the area declared for LFA support, as in Vidzeme and Latgale it accounted for 61-65% of the UAA, while in the regions of Riga/Pieriga and Zemgale it

was only 23-27% (CSP, 2010). In the regions, the LFA support as a share of RDP area payments had similar trends as in entire Latvia, as only LFA support was granted in 2004. During the next years, the role of LFA support significantly declined in the regions of Riga and Pieriga, and its share was 27%; a medium share of 45% was observed for the regions of Zemgale, Vidzeme, and Kurzeme, while in Latgale region it was significant – 58% of the total amount of RDP area payments. If the LFA support is compared with the



Source: author's calculations based on the LSIAE database, 2012 and Pilvere, 2012 b

Fig.4. LFA support per 1 ha of the area declared for this support in the regions of Latvia in 2004-2010, LVL

LFA support in the regions of Latvia in 2005-2010, LVL

Table 2

Years/ Region	Pieriga	Vidzeme	Latgale	Kurzeme	Zemgale	Average
2005	274	2008	1633	971	902	1177
2006	309	1841	1464	1139	1134	1212
2007	462	1513	1360	1095	945	1157
2008	359	1269	1502	949	1080	1093
2009	440	1289	1618	1060	1050	1143
2010	414	1542	1758	1124	1307	1267
2010/2005, %	151	77	108	116	145	108
2010, % of average	33	122	139	89	103	100

Source: author's calculations based on LVAEI, 2005, 2006, 2007, 2008, 2010, 2011 and Pilvere, 2012 b

Table 3

Share of LFA support in the total amount of support payments in the regions of Latvia in 2005-2010, %

Years/ Region	Pieriga	Vidzeme	Latgale	Kurzeme	Zemgale	Average
2005	3	16	20	14	8	13
2006	2	16	20	11	9	12
2007	4	6	20	11	7	12
2008	4	13	15	9	7	10
2009	5	13	17	10	7	11
2010	5	14	17	10	9	11
2010/2005, %	175	87	88	68	113	89
2010, % of average	45	123	152	84	77	100

Source: author's calculations based on LVAEI, 2005, 2006, 2007, 2008, 2010, 2011 and Pilvere, 2012 b

amount of SAPs, one can see that the LFA support played a significant role in the regions of Vidzeme and Latgale, where the LFA support exceeded the amount of SAPs 2.1 and 2.6 times, respectively; over the next years, its role decreased, and in 2010 it was 50% and

62%, respectively, of the amount of SAPs. The LFA played a medium role in Kurzeme, where it was 33% of the amount of SAPs in 2010, while a small role belonged to LFA support in the regions of Riga, Pieriga, and Zemgale.

Table 4

LFA support per 1 ha in the regions of Latvia in 2005-2010, LVL

Years/ Region	Pieriga	Vidzeme	Latgale	Kurzeme	Zemgale	Average
2005	7	29	33	16	10	19
2006	6	27	33	17	13	19
2007	8	26	32	16	11	19
2008	6	23	29	14	13	18
2009	8	22	29	15	12	18
2010	7	23	30	15	14	18
2010/2005, %	100	80	90	92	143	98
2010, % of average	40	128	162	82	77	100

Source: author's calculations based on LVAEI, 2005, 2006, 2007, 2008, 2010, 2011 and Pilvere, 2012 b

Table 5

LFA support per 1 LVL of output in the regions of Latvia in 2005-2010, LVL

Years/ Region	Pieriga	Vidzeme	Latgale	Kurzeme	Zemgale	Average
2005	0.00	0.09	0.12	0.05	0.02	0.03
2006	0.00	0.08	0.11	0.05	0.03	0.03
2007	0.01	0.06	0.10	0.04	0.02	0.03
2008	0.01	0.05	0.08	0.04	0.02	0.02
2009	0.02	0.06	0.11	0.05	0.03	0.03
2010	0.01	0.06	0.09	0.04	0.03	0.04
2010/2005, %	549	65	78	76	170	116
2010, % of average	37	166	256	110	89	100

Source: author's calculations based on LVAEI, 2005, 2006, 2007, 2008, 2010, 2011 and Pilvere, 2012 b

Table 6

Share of LFA support in the net income of farms in the regions of Latvia in 2005-2010, %

Years/ Region	Pieriga	Vidzeme	Latgale	Kurzeme	Zemgale	Average
2005	2	16	22	13	6	10
2006	1	18	22	11	11	11
2007	4	15	21	10	6	8
2008	3	13	22	11	6	12
2009	11	34	31	17	14	32
2010	6	23	25	12	13	14
2010/2005, %	342	141	115	95	201	145
2010, % of average	47	165	181	89	92	100

Source: author's calculations based on LVAEI, 2005, 2006, 2007, 2008, 2010, 2011 and Pilvere, 2012 b

3. LFA support for the FADN farms in the regions of Latvia

Further, the FADN information will be analysed for five agricultural regions: Pieriga, Vidzeme, Kurzeme, Zemgale, and Latgale. As it was identified in the previous chapter, Riga region received insignificant LFA support, which makes it an exception. Since information on LFA support is available in the FADN network for a period

since 2005, a detailed analysis was performed for the period 2005-2010.

The FADN information on LFA support in the regions partially corresponds to the findings of Chapter 2 of the present research – the largest LFA support was received by farms in Latgale and Vidzeme. Yet, since the third largest amount of LFA support was paid in Kurzeme in 2010, the FADN information indicates that farms of

Zemgale are in the third position, followed by those of Kurzeme in the fourth position, which may be related to the selected sample of the FADN farms. The FADN information also indicates that the smallest LFA support was received by farms in Pieriga, although an increase from the base year (like in Zemgale) is the greatest in this region. In the period 2005-2010, the amount of LFA support decreased only in Vidzeme.

Given the mentioned facts on LFA support in the regions, a similar trend was observed for the share of LFA support in the total amount of support payments – in 2010, it accounted for 17% and 14%, respectively, in Latgale and Vidzeme, a slightly lower share was in Kurzeme and Zemgale.

The LFA support per 1 ha of farms' area presents the previously established trends – in Latgale and Vidzeme it was 1.6 and 1.3 times, respectively, greater than on average in the country, and minimal one was in Pieriga. Yet, it has to be noted that over the period of analysis, the LFA support increased 1.4 times in Zemgale region, in Pieriga it remained at the level of 2005, whereas it decreased in the regions having the largest LFA support.

The data presented in Table 5 indicate that the LFA support had an insignificant effect on agricultural output in all the regions, except Latgale, where 0.09 LVL of LFA support were required to produce products worth 1.00 LVL. Thus, the greatest LFA support generated the smallest quantity of products in Latgale.

In 2010, compared with 2005, the role of LFA support increased in all the regions, except Kurzeme, as the share of it in the net income of farms rose. This share was high in the regions of Vidzeme and Latgale, accounting for 23%-25%, whereas in the regions of Kurzeme and Zemgale it comprised 12%-13%.

Conclusions, proposals, recommendations

The amount of LFA support totalled LVL 210.5 mln in Latvia in the period 2004-2010, which accounted for 12% of the total amount of financial support of all kinds paid for agricultural and rural development. Over the period of analysis, the LFA support per ha was relatively stable, yet, if compared with the SAPs, its role decreased, as the rates of SAPs were gradually increased and had exceeded the LFA support measured per ha since 2008.

LFA support payments were very important for farms in Latgale and Vidzeme, and medium important for those in Kurzeme and Zemgale. Of the total amount of LFA support, these regions received 94.5%, which corresponded to the area declared for this support in the period 2004-2010.

The LFA support per ha decreased in all the regions in the period 2008-2010 compared with the period 2004-2007, yet, the highest rates of support were paid in Latgale (35-39 LVL ha⁻¹) and Riga (34-37 LVL ha⁻¹), which might be explained by a higher share of LFAs of Categories 3 and 2 in the total LFA support.

Farms in Latgale and Vidzeme received 1.6 and 1.3 times greater LFA support if measured per 1 ha. In these regions, the LFA support accounted for 23%-25% of the net income of farms. The most inefficient use of LFA support was observed in Latgale, where 2-3 times

greater LFA support was required to produce agricultural products worth 1.00 LVL than in the other regions.

The findings of this research should be taken into account in designing an LFA support policy from 2014 onwards.

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