

ROLE OF MUNICIPALITIES IN LOCAL FOOD DISTRIBUTION IN LATVIA

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Abstract. Local food supply chains become increasingly popular and provide a significant positive effect on the local economy, creating new jobs in the agricultural and food processing sectors and in related industries, for example, tourism, public catering etc. as well as contributing to the related multiplier effect at local level. Therefore, the local governments have a direct interest in the local product sales promotion. The research aim is to identify types influencing local food consumption by local municipalities. An analysis of municipal development planning documents and research studies on development opportunities for municipalities leads to a conclusion that municipalities have a lot of possibilities to contribute to sales of local products in a direct way by holding fairs and other events and through public food procurement and also in an indirect way by fostering economic activity, perfecting the business environment, supporting the formation of cooperation networks, educating entrepreneurs and residents etc. Municipal authorities can contribute to local food sales the most through their public food procurement for education and care institutions by setting regulations that give preference to local producers, namely, by carrying out "green" food procurement. In Latvia, green procurement operations are done rarely; thus, such operations have to be encouraged nationwide.

Key words: municipality, short supply chain, local products.

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Introduction

In recent years both in the world and in Latvia, focus has been placed on consuming food as close to its production site as possible, i.e. local food. According to a number of authors, the demand for local products rises, and expressing belonging to a local area is one of the latest trends on the global food market (Knight A. J., 2011).

Local food systems, in which the production, processing, sales and consumption of products take place within relatively small distances, make a significant positive effect on the local economy (Kneafsey M. et al., 2013; Martinez S. et al., 2010). For instance, farmers' markets positively affect local businesses, while at the same time generating considerable revenues for local farmers, thus making viable many small local farms (Brown C., Miller S., 2008). Unlike large industrial farms, small family farms spend more their money on local products; besides, food grown, processed and supplied locally (for example, to local restaurants) creates jobs, thus stimulating the local economy (Halweil B., 2002). Increased local economic activity and jobs lead to greater tax revenue and a stronger economic

base to support other businesses and anchor institutions (Pringle A., 2013).

Studies show that state and local government procurement has a very significant impact on the local economy. Purchasing by private and public sector institutions is a major force in the economy. Institutional procurement presents a large opportunity for local economic development. By purchasing goods and services from local suppliers, public and private institutions could increase local jobs and economic wealth (Jackson M., 2010; Pringle A., 2013).

For this reason, the consumption of local food has to be encouraged in municipalities in order to promote economic growth and development in the local area.

The present research puts forward the following hypothesis: municipalities have a wide range of tools to promote local food sales. The research aim is to identify types of influencing local food consumption by local municipalities. The specific research tasks are as follows: to examine the municipal planning documents and research studies on development opportunities for municipalities as well as to systemise the current and planned activities of municipalities

regarding promoting the consumption of local products.

The present research employed the following qualitative and quantitative methods: document analysis, induction and deduction, analysis and synthesis, the monographic and graphic methods and statistical analysis.

The research analysed development strategies of 22 municipalities of Latvia and research studies on business opportunities in municipalities as well as related regional planning documents to summarise initiatives and activities the municipalities can implement in order to contribute to increasing local product sales and, at the same time, to their sustainable development. The research also used theoretical findings of scientists, legislation of the Republic of Latvia and data on municipal food procurement.

Research results and discussion

According to the Sustainable Development Guidelines, Latvia has to form a stable economy that meets social needs and, at the same time, ensure that its economic growth rate does not exceed environmental pollution and resource consumption rates as well as market economy mechanisms serve for the purpose of sustainable development.

To achieve it, the following activities are envisaged:

- to promote the development of human resources involved in the production and processing of agricultural commodities and in food production in order to enhance the process and management of agricultural production and processing and to seek new sales markets;
- to form a favourable business environment (Latvian Sustainable..., 2002).

In Latvia, development planning is performed at four levels. Municipal development planning documents are local-level documents that are hierarchically subordinated to regional and

national development planning documents (Development Planning ..., 2008).

Using policy and planning tools to encourage economic growth is one of a local government's primary functions (Kwon M. et al., 2009). To maintain and improve the health and vitality of their communities, local governments pursue various strategies for economic development.

A local government is a local administration which ensures the performance of the functions prescribed by law and local government voluntary initiatives, observing the interests of the state and of the residents of the relevant administrative territory. One of the functions of a local government is to promote economic activity in its administrative territory (Law on Local Governments, 1994).

As regards sustainable consumption, municipal institutions act more like the executors of the power of state institutions, and only in a few cases municipal institutions implement some voluntary initiatives, contributing to local sustainability (Brizga J. et al., 2011). National- and local-level public administrations play an essential role in supporting local food supply chains. Their support can bring extra gains to local communities and the economy.

A local food support system is a public agreement mutually beneficial to local food producers and local residents, as residents acquire the quality food they want, which is produced in their area, and businessmen get financial/nonfinancial investments that help them maintain and develop their businesses, while the local public becomes less dependent on external processes it cannot influence, thereby contributing to the sustainable development of the community (Latvian Rural Forum..., 2012).

An increasing interest in local food provides a springboard opportunity for the local economy. According to research studies conducted in the USA, local food supply chains create 13 full-time jobs in the agricultural sector per USD 1 million in revenue earned. For comparison, large-scale

and industrial farming creates only three jobs per same revenue earned (United States Department..., 2012).

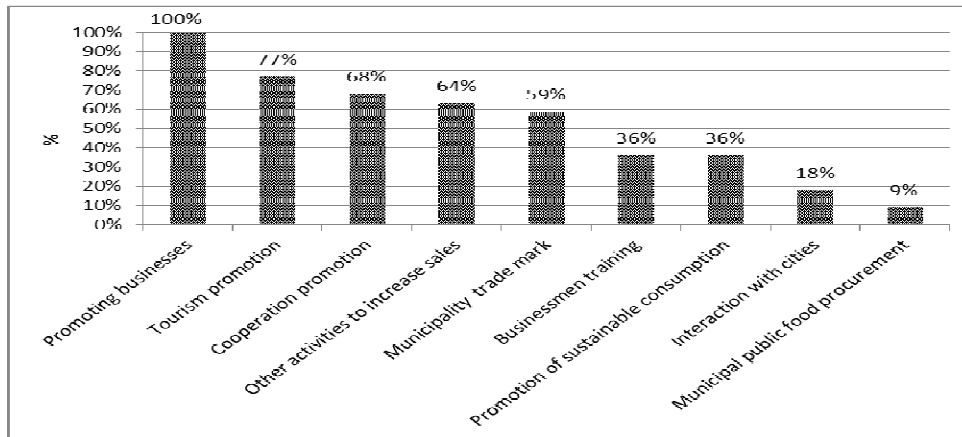
Local food support systems significantly contribute to employment as well as the related multiplier effect at local level (Chicago Metropolitan Agency..., 2012). Another research study in the USA revealed that additionally one local economy-related job was created per two jobs in farmers' markets. One of the reasons for it was that industrial farms purchased more inputs from external rather than local suppliers. Besides, industrial farming employs fewer employees, bringing no revenue into the local economy from wages (Kneafsey M. et al., 2013).

Local food economies depend on local farmers, and the demand for local and regional food has become the key driver in the farm- and local community-based economy, creating new jobs and fostering economic growth (Gómez M. I., Zhang L., 2000).

In Europe, the independent New Economics Institute in London conducted a study on the economic effects of shopping habits, comparing shopping patterns at a supermarket with a community-based agricultural system, such as, for example, a farmers' market. The study revealed that if choosing local products, the local economy got at least twice as much revenue (Brown J. P. et al., 2013).

Given the mentioned facts, one can conclude that municipalities are interested in increasing local product sales. The development planning documents of 22 municipalities were examined and municipal activities, which increased sales by local producers, were structured to identify the ways how municipalities achieved it.

After analysing these documents, actions to promote the sales of products are classified into nine categories. As shown in Figure 1, all municipalities are ready to promote business in their territories but the rest of the activities are carried out according to the county specifics.



Source: authors' construction based on document analysis

Fig. 1. Planned activities for production promotion by municipalities

Most municipalities see the encouragement of tourism activities, cooperation promotion and other activities, such as annual and regular fairs, business days etc. as a tool for product promotion.

The following sections briefly describe each activity planned.

Promoting businesses

Promoting businesses is not the key objective of municipalities, and instruments available to municipalities allow enhancing primarily the business environment and preconditions for business rather than directly the business itself. It has to be taken into account that one of the key preconditions for economic growth is a well-structured business environment in any

municipality (Lescevic M., 2005). To date, Latvia's municipalities have sought to promote businesses mainly unsystematically and, for the most part, based on the European Union's funds. Besides, many municipalities design their development plans "on paper", and in reality municipalities lack knowledge on how to draw up a "revenue-generating" strategy rather than a "spending" strategy (State Regional Development..., 2012).

According to the development programmes of municipalities that were designed based on territorial examinations and population surveys, to enhance the business environment and promote business, the municipalities perform or plan to do the following activities:

- to develop a competitive and modern standards-based business support infrastructure based on the territorial business specialisation defined by the municipality;
- to identify premises where businessmen can do their business, to restructure depressed industrial territories, to develop new industrial territories in the region, to attract private capital for maintaining and reconstructing municipal buildings and to adapt municipal buildings to business needs;
- to attract investments that could create new jobs in the municipality and produce a catalogue of free territories or an "investment guide";
- to establish business advisory centres or "one-stop" agencies (all national and local government services in relation to business are available at one place);
- to develop a network of business incubators;
- to play an important role in innovation, as they have information and some support instruments. In Latvia, 18% of municipalities see their role and importance in contributing to innovation in enterprises (Development Potential..., 2012);
- to support the acquisition of financial assistance. Municipalities can support the

expansion of financial cooperatives, promote cooperation with banks and allocate funding for implementing good business ideas (through contests);

- to reduce taxes and fees for enterprises that distribute environment-friendly and organic products: immovable property tax relief for organic food producers, free of charge commerce permits for home producers at events held by the municipality, a reduced municipal fee for placing advertisements in public places. The Ministry of Environmental Protection and Regional Development suggests applying a lower VAT rate on organic food products and differentiated VAT rates depending on the place of origin of food (Ministry of Environmental..., 2013);
- to promote the distribution of information on local businesses, local enterprises and their services provided and goods produced, thereby contributing to the recognition of local products in the municipality and in other regions;
- to function, on the whole, as a motivator and supporter of entrepreneurs.

Tourism promotion

Municipalities should hold support activities for businessmen doing business in their territories, so that local businessmen or other businessmen from the vicinity employ agricultural production as a catalyst for other economic activities, for example, sales of product on the spot, agritourism, food production, public catering etc. in order to integrate local food producers in the single tourism and recreation scheme of the municipality.

To foster tourism, municipalities have to focus on developing their tourism infrastructure, to expand the diversity of tourism services and raise their quality as well as to identify the ways how to associate local products with tourism, cultural heritage and new traditions and services. To promote tourism, municipalities have to actively popularise/advertise leisure time opportunities in

their territory and to design municipality marketing strategies that involve, for example, a created "story of the municipality". It may serve as a factor contributing to the attractiveness of the place, in particular, to arise the interest of urban residents in rural products and places, which would promote one-day recreation in countryside and rural tourism.

Cooperation promotion

It is important to strengthen cooperation among social partners and to engage them in shaping a favourable rural environment. Creating business cooperation networks involves activities for local-level and inter-municipal cooperation among the private and public sectors as well as businessmen. The role of cooperation with neighbouring municipalities as well as foreign partners has to increase. It is necessary to create new international cooperation networks to take advantage of economic growth in other countries. Establishing contacts, integration into international economic processes and opportunities to represent oneself also contribute to the business environment as well as it directly generates revenue for local enterprises and increases employment.

It is also important for municipalities to actively engage and assist in organisational activities, e.g. in establishing and developing cooperatives. Municipalities have to also popularise business clusters as an opportunity for development and growth and contribute to their establishment.

Other activities to increase sales

The other activities may involve:

- establishing permanent sales places for local food producers (with symbolic fees on sales places, equipment and devices; advertising activities to increase the recognition of products);

- setting up local food stands at regional supermarkets; establishing sales places at the Riga Central Market;
- holding annual and regular fairs, various festivals (the Bread Festival, local harvest festivals, etc.) and municipality festivals;
- creating a gift basket of local products. It is important that residents feel that their local authority supports and appreciates small enterprises operating in the municipality;
- establishing a "food bag" system; a food bag is composed of various products and delivered to consumers on demand;
- participating in trade missions, which would assist local producers to sell their products outside their municipality (in Latvia and abroad);
- holding exhibitions and international events in the municipality and outside it. Practice shows that if the municipality takes responsibility to hold an event, local businesses are more interested in foreign visits and exhibitions;
- holding business days in the municipality, thereby contributing to cooperation among businessmen and the exchange of experience and information on urgent problems.

Development of a trade mark for a municipality

One of the best ways how a municipality can promote the recognition of a local product and as a result the sales of it involves being aware of the values of its territory and creating a single image of the municipality's territory and designing and implementing the municipality's strategy. Municipalities have to work on the creation of single municipal symbols/brands, which might be used by all small businesses to contribute to the recognition of their products, advertisements and sales. In addition, marketing and advertising activities are necessary to develop the support system for local identity products.

Businessmen training

Municipalities in cooperation with local action groups have to train businessmen/farmers in advertising and marketing, educate them about the need to provide the sustainability of their products, including tourism and recreational services. Furthermore, it is possible to hold seminars and conferences on problems urgent for businessmen, e.g. price policy, customer service culture etc.

Promotion of sustainable consumption

One of the ways of promoting sustainable consumption is to inform the population about environment-friendly and healthy food. The second way is to raise patriotism in residents by informing that support to local producers, buying their products, have greater and far-reaching effects on the local community, the environment and the economy.

The most significant contribution to the local support system may be made by changing the opinion of residents in favour of spending their money in the local territory.

Interaction with cities

An essential role in increasing sales of food is played by the interaction of rural areas with cities, in which cities serve as support centres for neighbouring rural territories. In suburban

municipalities, the first target market or first discharge place for rural goods is their neighbouring city, and the nearest customers whom to sell rural services are urban residents.

Municipalities have to make sure transport capacities are enough for the flows of labour, goods and services. A municipality's territorial values have to be stressed as a unique resource that implicitly complements the role played by an urban development centre.

Municipal public food procurement

By developing sustainable food consumption and production models, sustainable development is promoted in general. One of the possibilities to promote sustainable food consumption and production involves public food procurement. The public sector accounts for a considerable share of food consumption; that is why it is the most effective municipal instruments for promoting sustainable food consumption and production.

Although the municipal planning document analysis shows that public procurement is mentioned only in a few cases, it does not reflect the real situation in the field, because the food procurement is conducted in each region.

Food procurement volume in the past 3 years has not changed significantly in Latvia. As shown in Table 1, in 2014, the amount of public food procurement was EUR 26.82 mln, while in 2015 it was EUR 27.64 mln.

Table 1

Food procurement volume changes

| | 2012 | 2013 | 2014 | 2015 |
|--|---------------|---------------|---------------|---------------|
| Amounts of public food procurement, EUR | 22 922 571 | 27 955 840 | 26 824 969 | 27 642 237 |
| Base growth rate | | 22% | 17% | 21% |
| Chain growth rate | | 22% | -4% | 3% |

Source: authors' calculations based on Public Procurement Supervision Bureau data

For comparison, in 2012 it was EUR 22.92 mln, accounting for approximately 2 % of total output of food and beverages in Latvia. From 2013, procurement volume base growth rate is about 20 % in average (taking as

the base year 2012). This shows stability and allows predicting that the next few years procurement levels remain relatively constant.

To increase the proportion of domestic products in municipal public procurement, a

regulation regarding food and public catering procurement has been adopted in Latvia, which specifies that local governments have to support local producers (Cabinet of Ministers..., 2014).

It is not possible to precisely identify the proportion of local food in the mentioned amounts of public procurement, as the majority of contractors are wholesale companies that offer both local and non-local food products. However, having regard to the adoption of the above-mentioned Cabinet Regulations, some components of green public procurement are increasingly introduced. As a result, the share of domestic production in procurements increased in 2015. According to the Public Procurement Supervision Bureau, approximately 15 % of total amount of public procurement was "green" in 2015. The average in the European Union nears 30 %.

Conclusions

- 1) Short food supply chains and increases in the demand for local products significantly

contribute to local economic growth, the creation of new jobs in the sector and the related multiplier effect at local level. Therefore, the local governments have a direct interest in the local product sales promotion.

- 2) Municipalities have a lot of opportunities to promote sales of local food directly – by holding food fairs and other events and through public food procurement – and indirectly – by fostering economic activity, perfecting the business environment, supporting the formation of cooperation networks, educating entrepreneurs and residents etc.

- 3) The most considerable way how municipal authorities can contribute to local food sales is to set public food procurement regulations that give preference to local producers. In Latvia, a greater focus on local food was placed only in 2015; thereby this opportunity is little used and this activity has to be encouraged nationwide.

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