

ROLE OF SUPPORT PAYMENTS IN THE DEVELOPMENT OF TERRITORIES IN LATVIA

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Abstract. Territorial competitiveness and sustainable development may be assessed in a number of dimensions, and they are affected by various factors. Regional economies are complex, dynamic systems arising from the interactions of housing, labour, business and other market systems with characteristics of a place, all enabled and shaped by the government and civic-sector activity. Agriculture continues to have an important influence on the economy of most rural regions, and agriculture continues to be the main land use in rural regions. For these reasons, support payments play a large role in the development of rural territories in Latvia, particularly after the accession to the European Union (EU) in 2004. The **research aim** is to identify the role of support payments in the development of municipalities in Latvia. To achieve the aim, the following specific research tasks were set: 1) to analyse the amounts of support payments received by municipalities of Latvia; 2) to assess associations between the amounts of support payments and other socio-economic indicators for municipalities of Latvia. The present research found that support payments played an essential role in the development of territories in Latvia, as Latvia received EUR 4.610 billion through various support payment schemes in the period 2002-2015, and its municipalities attracted 90 % of the total or EUR 4.126 billion. The EU Common Agricultural Policy (CAP) area-based payments represented the most significant amount of support payments for municipalities, and most of the payments were received by the municipalities having a large agricultural area and a small population. In the period 2009-2013, the funding of European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF) projects received by municipalities of Latvia amounted to, on average, EUR 2501 per capita, and there were strong associations between the amounts of support funding per capita and the size of subsidies from the Local Government Equalisation Fund, the managed utilised agricultural area (UAA) and the turnover of enterprises engaged in primary production.

Key words: support payments, municipalities, development, indicators.

JEL code: O11, O18

Introduction

The urgency of the problem is related to the necessity to promote the sustainable development of rural territories. The idea of territorial development in relation to other decentralised and local development approaches was established in the latter part of the 20th century (Quan J., Nelson V., 2005). The diverse aspects of it have been extensively researched both by international organisations and by scientific institutes and universities (Kuznets S., 1971; Partridge J., Nolan J., 2005; Boisier S., 2005; Quan J., Nelson V., 2005; OECD, 2006; Partridge M.D., Clark J., 2008; Farrugia N., Gallina A., 2008; Duhr S., Colomb C., Nadin V., 2010; Bellu L.G., 2011; INTERCO, 2012; Vesperis V., 2012; Hermansons Z., 2012; Kawka R., 2013; Lonska J., 2014; et al.). Regional economies are complex, dynamic systems arising from the interactions of housing, labour, business and other market systems with characteristics of

a place, all enabled and shaped by the government and civic-sector activity.

The relationship between urban and rural areas is changing in countries all over the world. While some of the issues, like changing agricultural systems, are universal, other aspects of the process are specific to certain countries or regions. Public policies and urban and regional plans can help to support economic growth while protecting natural and agricultural land uses (Mylott E., 2009). The OECD (2006) stresses that increasing globalisation, improved communications and reduced transportation costs are additional drivers of economic change in rural areas. The theory and practice of regional policy have recognised that financial redistribution and agriculture-based policies are not able to harness the potential of these economic engines. Promoting integrated rural development poses numerous policy and governance challenges. Nonetheless, agriculture continues to have an important influence on the economy of most rural

regions, and agriculture continues to be the main land use in rural regions. Moreover, a strongly subsidised agriculture can exacerbate the difficulties of rural regions to adapt and diversify into different activities. In Latvia too, particularly after the accession to the EU in 2004, the role of financial support increased, and it was an important factor in the development of rural territories.

The **research aim** is to identify the role of support payments in the development of municipalities in Latvia. To achieve the aim, the following specific **research tasks** were set: 1) to analyse the amounts of support payments received by Latvia's municipalities; 2) to assess associations between the amounts of support payments and other socio-economic indicators for municipalities of Latvia.

The research put forward a **hypothesis** – support payments are essential for the development of territories in Latvia. **The research object** – support payments for municipalities.

Research materials and methods. The present research analysed the amounts of support payments disbursed by the Rural Support Service (RSS), which is responsible for the administration of the EU's CAP and Common Fisheries Policy support payments, that are funded by the European Agricultural Guarantee Fund (EAGF), the EAFRD and the EFF. The amount of support payments disbursed by the RSS is an essential source of finance for a municipality, which can promote the overall development of the municipality.

The support payments administered by the RSS include national subsidies, financial assistance for biofuel production, funds for unforeseen events and other EU payments for farmers, forest owners, rural territories and fisheries, including national co-funding. The EU payments are divided into two groups according to their purpose:

- payments for project-type activities, e.g. support activities for fisheries (EFF), activities under the SAPARD programme, activities for sugar industry restructuring, payments for projects funded by the Structural Funds and the EAFRD for rural development;
- area payments, including those under the Single Area Payment Scheme, additional national direct payments (ANDP) and transitional period national support (TRNS) payments and other payments from the EAGF.

The research employed the administrative division of the territory of Latvia that existed at the beginning of 2015 – 9 cities of national significance (with more than 25000 residents) and 110 municipalities (Administrative teritoriju..., 2008). The present research analysed 110 municipalities. The territory of a municipality is geographically united and has rural territories and populated areas therein; the municipality's local government ensures the fulfilment of the functions prescribed by the law; there are at least 4000 permanent residents in the territory of the municipality; there is a village, or a town, in the territory of a municipality, in which there are more than 2000 permanent residents; the distance from any populated area in the municipality to the administrative centre of the municipality does not exceed 50 kilometres, and the road infrastructure is suitable for accessing the administrative centre of the municipality; the municipality's territory is optimally established, taking into account the interests of neighbouring local governments and historical links. Accordingly, the development of municipalities as a territory is important for the balanced development of the entire country.

The research analysed the development of municipalities by employing the following quantitative indicators:

- population in 2014 (CSB, 2016a);
- change in the population, % – change in the number of residents in the period 2004-2014, (CSB, 2016a);

- personal income tax (PIT) revenue, paid into the local government budget, per capita in 2013, EUR (SRDA, 2016);
- change in PIT revenue per capita in the municipality, % – PIT revenue change in the period 2004-2013, (SRDA, 2016);
- distance to Riga, km (Riga..., 2016);
- average monthly wage and salary in 2014, EUR (CSB, 2016b);
- foreign investment per capita in the period 2009-2013, EUR (SRDA, 2016);
- funding of the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF) absorbed in the period 2009-2013, EUR (SRDA, 2016);
- funding from the Local Government Equalisation Fund in the period 2004-2013, EUR (SRDA, 2016);
- total UAA in the municipality in 2013, ha (SLS, 2014);
- managed UAA in the municipality in 2013, ha (LLU, 2014);
- average land quality in the municipality, points (in 2013) (SLS, 2014);
- funding from the EAGF, the EAFRD and the EFF absorbed in the period 2009-2013, EUR (RSS, 2016a, 2016b, 2016c);
- forest area in the municipality per capita in 2013, ha (LLU, 2014);
- characteristics of strategic enterprises in the municipality (Lursoft, 2016):
 - total turnover of enterprises per capita in 2014, EUR;
 - turnover of primary production enterprises per capita in 2014, EUR;
 - turnover of secondary production enterprises per capita in 2014, EUR;
 - turnover of services sector enterprises per capita in 2014, EUR.
- total amount of support payments disbursed by the Rural Support Service in the period 2002-2015, EUR (RSS, 2016d).

- total amount of area payments disbursed in the period 2002-2015, EUR (RSS, 2016d).

To exclude the effect made by the size of the population, the indicators were calculated per capita. The data were acquired from the databases of the Central Statistical Bureau (CSB), the RSS, the State Land Service (SLS) and the database raim.gov.lv maintained by the Ministry of Environmental Protection and Regional Development.

The George Washington Institute (2011) stresses that from a micro-economic point of view, increasing outputs inherently flow from business-sector growth – increasing the number, size and productivity of firms in the region. Business-sector growth, in turn, occurs through firm creation, growth, retention and attraction. Firms grow and choose to locate where they can be most efficient (including with regard to costs of production, such as transportation) and productive – and so profitable. Therefore, Lursoft data on top 20 enterprises in terms of turnover, which were grouped into three categories, were used for business characteristics. The primary sector is comprised of agriculture, hunting, forestry, fisheries and mining. The present research classifies the primary sector into three categories: agriculture, forestry and other industries. The secondary sector consists of manufacturing, electricity supply, gas supply, water supply and construction. The research classifies this sector into the following categories: food production, wood processing that includes such economic activities as: 1) sawing, planing and impregnation; 2) manufacture of carpentry and joinery products; 3) manufacture of furniture; 4) manufacture of wood packaging etc., as well as other manufacturing industries. The tertiary or services sector – enterprises providing various services for businesses and households – are classified into two broad categories: private services (wholesale and retail trade, construction etc.) and public services (utilities, education, health care, electricity

production, waste management etc.). Energy production belongs to the category of public services (LLU, 2015).

The development of municipalities is characterised by increase in the population and increase in PIT revenue per capita, while decrease in in the population and a low rate of increase in PIT revenue is considered to be the stagnation of the municipalities. In view of the 2009 administrative and territorial reform in Latvia, the available data on civil parishes were recalculated into the data for municipalities (population, PIT revenue). Indicators expressed in Latvian lats were converted into euros based on the official exchange rate set by the Bank of Latvia: 1 EUR=0.702804 LVL (LB, 2013).

A lot of statistical data are available at municipality level; accordingly, the present research performed a comparative analysis of the municipalities to identify the key trends. Since municipalities are large territorial units, for methodological purposes the research applied the approach of grouping according to selected criteria to perform a very detailed analysis. Such an approach allows with sufficient clarity to identify associations through analysing a broad spectrum of indicators; yet, it does not allow precisely determining the quantitative effects of the indicators.

Research results and discussion

1. Support payments for the municipalities of Latvia

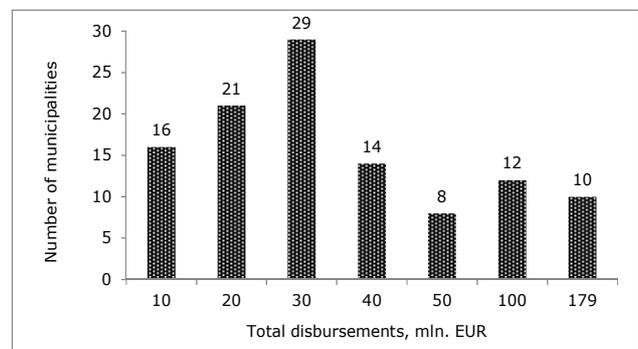
Territorial competitiveness can be seen to revolve around a number of dimensions. Firstly, social competitiveness, secondly, environmental competitiveness, thirdly, economic competitiveness concerns the ability of actors to produce and maintain maximum value added in the territory by strengthening links between sectors, and combining resources to create value in the specific character of products and local services (Quan J., Nelson V., 2005). In the EU, agricultural support tends to be concentrated in

wealthier regions where farms are large and productive (OECD, 2006).

In the period 2002-2015 in Latvia, the RSS disbursed EUR 4.610 billion in financial support; of the support, municipalities attracted EUR 4.126 billion (90 %), while cities of national significance – EUR 271.575 thou.

National support payments for municipalities totalled EUR 418.09 million (10 % of the total), project-related payments amounted to EUR 1 180.40 million (29 %), while the greatest amount was made up of area payments – EUR 2 527.43 million (61 %). Additional funding that was not linked to any particular municipality, e.g. technical assistance etc., totalled EUR 212.27 million, of which national funding comprised 16 % and EU funding accounted for 84 % of the total. The absorption of this funding affected the entire territory of Latvia.

The total amount of support payments for 66 municipalities of Latvia (60 % of their total number) did not exceed EUR 30 million, and an amount of more than EUR 179 million was received by only 10 municipalities (Figure 1).



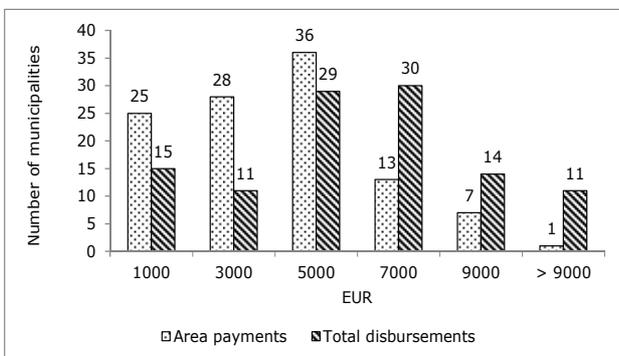
Source: authors' calculations based on CSB, 2016a, 2016b, 2016c, SRDA, 2016, SLS, 2014, LLU, 2014, RSS, 2016a, 2016b, 2016c, 2016d, Lursoft, 2016, LB, 2013

Fig. 1. Distribution of municipalities by total amount of funding disbursed by the RSS in the period 2002-2015, mln. EUR

Recent series of studies by the European Spatial Planning Observation Network (ESPON) found that support through Pillar I of the CAP (market support) and, to a lesser extent, Pillar II (rural development) is not focused on the most disadvantaged regions of the EU (at the NUTS 3 level) (OECD, 2006).

The total amounts disbursed by the RSS in municipalities were very diverse – beginning with EUR 1.25 million (Garkalne), EUR 3.23 million (Incukalns) and EUR 3.73 million (Carnikava) through to EUR 153.16 million (Talsi), EUR 153.18 million (Madona) and EUR 179.17 million (Jelgava).

An amount of payments disbursed strongly correlated with the UAA in a municipality (the correlation coefficient equalled 0.81) and the managed UAA (the correlation coefficient equalled 0.83). The amount of funding attracted by 37 municipalities was relatively small – less than EUR 20 million, which indicated that the municipalities had relatively small land resources. Besides, the funding was mainly attracted through project-type activities, and a smaller amount of funding was attracted in the form of area payments. The amount of national and EU funding attracted by 22 municipalities was greater than EUR 100 million, which indicated an essential role of land resources in ensuring the incoming cash flow.



Source: authors' calculations based on CSB, 2016a, 2016b, 2016c, SRDA, 2016, SLS, 2014, LLU, 2014, RSS, 2016a, 2016b, 2016c, 2016d, Lursoft, 2016, LB, 2013

Fig. 2. Distribution of municipalities by total amount of funding disbursed by the RSS in the period 2002-2015 per capita, EUR

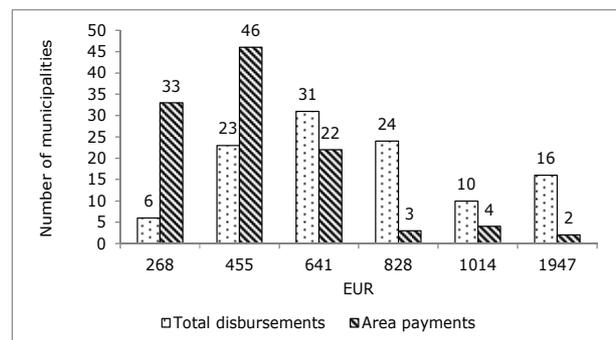
The areas of municipalities and therefore their UAA sizes vary greatly; for this reason, Figure 2 shows RSS disbursements measured per capita.

If measuring the amounts of funding disbursed by the RSS per capita, one has to conclude that the situation was very diverse. In most cases (59 municipalities or 54 % of the total) per-capita disbursements were in the range of EUR 3 000-7 000 for the entire period. Funding

in an amount of less than a thousand EUR was attracted by 15 municipalities. According to an analysis of the overall situation, Garkalne (EUR 159), Olaine (EUR 234) and Incukalns (EUR 423) received the lowest per-capita disbursements. The amounts disbursed by the RSS in Jaunpils (EUR 14 042), Naukseni (EUR 16 108) and Varkava (EUR 16 166) were the highest.

As regards area payments, the situation was more homogenous. The total amounts of funding disbursed in 89 municipalities did not exceed EUR 5 000 per capita. The smallest amounts of area payments were received by the municipalities of Saulkrasti, Carnikava and Garkalne, while the largest ones – by the municipalities of Naukseni, Baltinava and Varkava –, indicating that these municipalities had the largest UAA per capita, which generated a greater incoming cash flow for land owners living in the territory of the municipalities.

If measuring the amounts of funding disbursed by the RSS per hectare, one can find that it was in the range of EUR 268-828 for the majority (70 %) of municipalities. The municipalities of Garkalne (EUR 82), Olaine (EUR 155), Dundaga (EUR 190) and Ropazi (EUR 194) had the lowest disbursements. The municipalities of Rundale (EUR 1947), Tervete (EUR 1 925), Jaunpils (EUR 1640) and Saulkrasti (EUR 1623) received the highest disbursements.



Source: authors' calculations based on CSB, 2016a, 2016b, 2016c, SRDA, 2016, SLS, 2014, LLU, 2014, RSS, 2016a, 2016b, 2016c, 2016d, Lursoft, 2016, LB, 2013

Fig. 3. Distribution of municipalities by total amount of funding disbursed by the RSS in the period 2002-2015 per hectare, EUR

However, the total amounts of area payments per hectare for 101 municipalities were less than

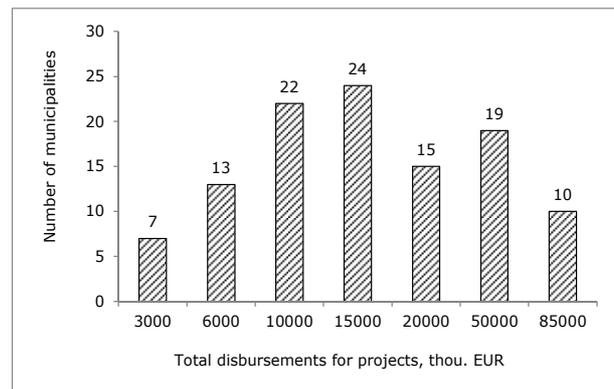
EUR 641. The municipalities of Mersrags (EUR 4), Saulkrasti (EUR 6), Garkalne (EUR 14) and Carnikava (EUR 20) had very low area payments if measured per hectare in the period 2002-2015. The municipalities of Rundale (EUR 1348) and Tervete (EUR 1228) received the highest area payments per hectare.

An analysis of the disbursements made by the RSS in municipalities of Latvia was performed in different aspects, and it allowed concluding that Garkalne municipality received the lowest disbursements – both the total disbursement within the entire period and the disbursements measured per capita and per hectare. Garkalne municipality was among the municipalities with the smallest UAA (423 ha) – a smaller UAA was reported only for Saulkrasti municipality with 157 ha – and its land quality was considerably poorer (24 points) than elsewhere in Latvia; these factors determined the low disbursements on the whole.

Over the five year period, the funding of the EAGF, the EAFRD and the EFF attracted for agriculture and rural development totalled EUR 1.962 billion (on average, EUR 17.83 million per municipality) was received – directly or indirectly – by local governments, residents and enterprises (Fig. 4).

The total amounts of funding attracted by municipalities considerably varied – the smallest amount was received by the municipalities of Garkalne (EUR 380 thou.), Carnikava (EUR 874 thou.) and Incukalns (EUR 1 mln.).

The total amounts of funding received by four more municipalities were less than EUR 3 million. The majority of municipalities of Latvia (55 %) attracted funding in an amount ranging from EUR 10 to 20 million. The municipalities of Rezekne, Madona and Jelgava attracted more than EUR 70 million; these municipalities had a large total area and a large UAA, high quality land and high agricultural activity.



Source: authors' calculations based on CSB, 2016a, 2016b, 2016c, SRDA, 2016, SLS, 2014, LLU, 2014, RSS, 2016a, 2016b, 2016c, 2016d, Lursoft, 2016, LB, 2013

Fig. 4. Distribution of municipalities by total amount of funding for EAGF, EAFRD and EFF projects in the period 2009-2013, thou. EUR

2. Associations between the amount of support payments and other socio-economic indicators for Latvia's municipalities

If measuring the amounts of EU funding for agriculture and rural development per capita, Latvia's municipalities were grouped into six groups. All the municipalities located next to Riga (11) and most Pieriga region municipalities (18 out of 24) belonged to the group having the smallest amounts of EU funding per capita (less than EUR 1000) (Table 1), which may be explained by the large number of residents and minimum agricultural activity in the municipalities. In contrast, the municipalities with the smallest populations had larger amounts of funding attracted if measured per capita. In Latvia, the average per capita amount of funding attracted equalled EUR 2501.

An analysis of the data reveals that there was a strong association between the amount of funding per capita and the amount of subsidies from the Local Government Equalisation Fund, the managed UAA and the turnover of primary sector enterprises: the greater the amount of funding, the greater the values of these indicators. This means that agricultural activity prevailed in eight municipalities with the highest funding per capita; yet, the efficiency of the agricultural activity was low, as the total RSS disbursements and area payments per capita

were low regardless of the large UAA and high land quality. The municipalities received large subsidies from the Local Government Equalisation Fund. The municipalities showed the greatest increase in PIT revenue, compared with 2004, while the average wage and salary and foreign

investment were average. Primary production prevailed in these municipalities, as the turnover of top 20 primary sector enterprises was 2.6 times greater than that of secondary sector enterprises and 2.1 times greater than that of services sector enterprises.

Table 1

Situation in municipalities broken down by per capita amount of funding for EAFRD and EFF projects in 2009-2013, EUR

Indicators	Project funding per capita, EUR					
	≤ 1000	1001-2000	2001-3000	3001-4000	4001-5000	≥ 5001
Number of municipalities in a group	22	23	28	21	8	8
Population	12467	9707	10563	6570	3706	2796
Change in the population, %	1.46	0.86	0.79	0.79	0.77	0.80
Distance to Riga (average for the group), km	38	121	157	165	200	148
PIT revenue per capita, EUR	613	395	326	336	304	314
Increase in PIT revenue per capita, %	2.50	1.48	1.54	1.88	1.67	3.18
Average monthly wage and salary, EUR	785	627	574	575	566	603
Foreign investment per capita, EUR	2093	1122	438	61	960	254
ERDF, ESF, CF funding per capita, EUR	1496	1422	2148	2296	1372	1198
Local government equalisation funding per capita, EUR	-224	315	835	1070	1733	1384
Managed UAA per capita, ha	0.89	1.71	2.75	3.41	4.92	6.60
Land quality, points	35	38	39	36	33	44
Forest area per capita, ha	0.99	4.29	4.25	5.76	6.23	4.23
Turnover of top 20 enterprises:						
Total turnover per capita, EUR	16861	6448	5117	5781	4082	5718
Primary production, turnover per capita, EUR	363	1542	945	1617	1378	3084
Secondary production, turnover per capita, EUR	3772	2246	1978	1831	1127	1199
Services sector, turnover per capita, EUR	13012	2926	2323	2547	1633	1490
Total support payments paid by the RSS, EUR	5482	5016	5889	4338	5614	4317
area-based support payments, EUR	3299	2991	3857	2644	3609	2798

Source: authors' calculations based on CSB, 2016a, 2016b, 2016c, SRDA, 2016, SLS, 2014, LLU, 2014, RSS, 2016a, 2016b, 2016c, 2016d, Lursoft, 2016, LB, 2013

Municipalities (22) with the lowest per capita funding are located closest to Riga (on average, 38 kilometres); the municipalities had the largest populations, and increases in their populations had been reported since 2005. The high average wage and salary, the high PIT revenue per capita, the large amount of foreign investment and a considerably higher turnover of enterprises mainly engaged in the services sector (predominantly wholesale trade) and in the secondary sector indicated the favourable business environment in these municipalities. A positive demographic and economic situation resulted in making contributions to the Local

Government Equalisation Fund. If measured per capita, natural resources (the UAA and forests) were scarce in these municipalities, the turnover of primary sector enterprises was low, compared with the other municipality groups. Despite these facts, the RSS disbursements, including area payments, were average.

But conclusions from the OECD (2006) are that despite bringing large resources into rural regions, agricultural subsidies are not intended to trigger rural development directly and, in most cases, they do not do so. The main reason for this is that this type of policy is focused on a small segment of the rural population (farmers

and others involved in agricultural enterprises) rather than on places. But the integration with surrounding areas, both urban and rural, needs also to be considered. The benefits of stronger urban-rural cooperation include more efficient land use and planning, better provision of services (e.g. public transport, health) and better management of natural resources (Pascariu S., Czischke D. (2015).

Conclusions, proposals, recommendations

- 1) Various support payments play an essential role in the development of territories. In the period 2002-2015, EUR 4.610 billion were disbursed in Latvia through various support payment schemes, and municipalities attracted 90 % of the total or EUR 4.126 billion.
- 2) Of the total amount of financial support, 90 % was EU funding and only 10 % were national support payments, which indicated the essential role of the EU's policies in the development of territories in Latvia.
- 3) In municipalities, an essential role was played by area payments (61 % of the total amount), while funding for project-type activities comprised 29 % of the total amount. It is understandable, as the former funding depends on the area of a municipality, while the latter one is dependent on the activity of entrepreneurs in writing project proposals in order to attract the funding.
- 4) An analysis of the amounts of support payments per capita allows concluding that the situation in municipalities was different and the amounts ranged from EUR 159 to 16 166 (the difference was 102 times). In most cases (59 municipalities or 54 % of the total) per capita disbursements were in the

range of EUR 3 000-7 000 (the difference was 2 times).

- 5) An analysis of the amounts of support payments per hectare of the territory of a municipality leads to a conclusion that the situation was different, and the amounts were in the range of EUR 82-1947 (the difference was smaller – 24 times). However, in most of the municipalities (70 %) the amounts ranged from EUR 268 to 828 (the difference was 3 times).
- 6) An analysis of the per capita amounts of funding for EAFRD and EFF projects for municipalities in the period 2009-2013 allows finding that:
 - in Latvia, the average per capita amount of funding attracted equalled EUR 2501;
 - municipalities located next to Riga and Pieriga region municipalities had the lowest funding per capita, as agricultural and fisheries activity in the vicinity of Riga was minimal. However, municipalities with the smallest populations attracted the greatest amount of funding;
 - there is a strong association between the amounts of support funding per capita and the amounts of subsidies from the Local Government Equalisation Fund, the managed UAA and the turnover of primary sector enterprises.

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