

REGIONAL DEVELOPMENT

Reduction of Regional Diversities still on the Agenda in Latvia

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Abstract

In spite of the rapid increase of annual GDP, the flow of various EU investments into Latvia and other activities, regional diversities within one country are still maintained. The gap between the most advanced Riga region, and other regions have not decreased much. The economic data of Latgale region still are the lowest and the most controversial in comparison with other regions. The improvement of the conditions could be enforced by more equal distribution of EU funds and the opportunities for the population of Latgale region to acquire relevant knowledge and skills.

Key words: Level of approach, labour force, employment in agriculture, microcredit, mentoring.

Introduction

There are obvious social and economic differences among regions of Latvia, but Latgale has been unchangeably characterized by the worst figures.

In this region in comparison with average data across the country, people are one and a half times more (150.7%) employed in agriculture, hunting, forestry and fishery. On the other hand, they are less employed in the service (95.8%) and industry (80.6%) (EUROSTAT REGIO data base (2005)).

The above mentioned has caused the following:

- a) the low GDP_PPP/inhabitant in Latgale that having increased since 1998 prices by 141.0%, in 2002 accounts for only 48.8% of the average per capita in the country, and is the lowest among other regions (EUROSTAT REGIO data base (2005);

- b) high unemployment level that is 2.1 times higher than in Riga region, and is the highest in Latvia in the recent years (EUROSTAT REGIO data base (2005)).

Thus the weaknesses of Latgale are: the lowest GDP per capita and the highest unemployment

level in the country. Latgale is characterized by high number of people employed in agriculture with low productivity. Infrastructure is out-of-date. Bridges, roads and streets are in a bad condition. Telecommunication and logistic service is underdeveloped thus hindering the development of this region.

Researchers have focused on the Latgale region problems. Among them A. Bērziņš and E. Vītoliņš (Territorial Differentiation...), I. Ciemiņa and O. Krastiņš (Latvijas pagastu...), E. Dubra (Latvijas ekonomikas...), L. Gorbacēviča (Darba laika...), Z. Goša (Tendencies of Education...), S. Keišs un E. Tilta (Rģionālās attīstības...), K. Lešinskis (Labour Forces...), E. Vanags, O. Krastiņš I. Vilka, V. Locāne, P.Šķiņķis and A. Brauere (Dažāda Latvija) have recently touched upon different aspects of Latgale region.

The present article is devoted to the analysis of the possible development opportunities of the region, taking into account the noticeable share of agricultural production in this region.

Goal of the research: since in any aspect of analysis (economic, demographic, social etc) the

name of Latgale is mentioned, this article will formulate the characteristic features of Latgale that according to the authors' opinion create additional problems if compared to other regions. To achieve the goal the following objectives were set:

1. *to reflect the agriculture conditions of Latgale as still important economic activity on this territory and problems caused by it.*

2. *to identify tasks to promote the involvement of Latgale population in economic activities, specifically focusing on microcredit and mentoring.*

Methods of research: The research has been carried out, firstly, with in-depth analysis of statistic data in regional dimension, secondly, having interviews with a) 11 respondents with various status of employment in agriculture on issues of different business development models (representatives of different size farms and three representative of agriculture institutions); b) 14 members of Latgale microcredit groups about the problems of setting up businesses; c) 134 women entrepreneurs and rural women interested in starting their own business 21% of which is from Latgale. The interview protocols let the researchers fix the opinion of Latgale inhabitants towards Latgale region future.

Results and discussions

1. Condition of Agriculture in Latgale

Since the share of agriculture, hunting, forestry and fishery in Latgale is much higher than in other regions, the focus further will be on the detailed analysis of this sphere of industry (see Table 1 and 2).

Firstly, the amount of utilized agricultural area in Latvia is 2,411,000 ha; it occupies 59.54% of the total land area in the country. The amount of utilized agricultural area in Latgale region is 64.5% of the total regional territory. Since the amount of UAA in Latgale farms is higher than average in Latvia but the amount of sown area is less than in Latvia in average (35.3% and 28.0%, respectively). It is influenced by lower crop yield in comparison with other regions (cereals, 100 kg ha – 54.6%, potatoes – 78.5%, vegetables – 78.6%).

Secondly, even though the size of farms in hectares in Latgale differs insignificantly from Latvia's average, legal types of business are different. In Latgale twice as less number of farms are registered as peasants' farms, but almost half of all farms (42.3%) in the country account for total number of farms registered as household plots.

Table 1

Land Use in Latgale and Latvia in 2003

| | Latvia | Latgale | Latgale/Latvia, % |
|--|-----------|---------|-------------------|
| Utilized Agricultural Area (UAA), thousands ha | 2.411 | 650.8 | |
| % of total area | 59.5 | 61.5 | 103.3 |
| Sown area, thousands ha | 851.0 | 182.1 | |
| % of total area | 35.3 | 28.0 | 79.3 |
| Cereals, % of sown area | 50.4 | 40.3 | |
| Wheat, % of sown area | 15.0 | 12.1 | |
| Oilseeds, % of sown areas | 3.0 | 1.4 | |
| Sugar beet, % of sown area | 1.7 | - | |
| Fodder crops, % of sown areas | 36.6 | 45.0 | |
| Vegetables, % of sown areas | 1.7 | 1.8 | |
| Cattle, thousands | 388,123 | 97,874 | |
| Of which dairy cows, thousands | 204,598 | 55,229 | |
| Pigs, thousands | 453,181 | 95,568 | |
| Sheep, thousands | 31,486 | 12,500 | |
| Poultry, thousands | 3,882,000 | 446,900 | |

Source: Latvia's regions in figures, Collection of statistical data. R., 2004. **Avots:** Latvijas reģioni skaitītos. Statistisko datu krājums. R., 2004.

Table 2

Farm Structure in Latgale and Latvia in 2003

| | Latvia | | Latgale | |
|---|--|--------------|--------------------------------------|------------|
| Average farm size in ha | | | | |
| Farms | Holdings | UAA | Holdings | UAA |
| <2 ha | 24.5 % | 1.8 % | 9.9% | 1.4% |
| 2- <5 ha | 26.1 % | 7.4 % | 31.9% | 11.9% |
| 5 – <10 ha | 23.3 % | 14.0 % | 32.0% | 24.7% |
| 10 – <20 ha | 15.8 % | 18.5 % | 19.2% | 27.8% |
| 20 – <30 ha | 4.4 % | 9.0 % | 4.3% | 10.7% |
| 30 - <50 ha | 2.9 % | 9.4 % | 2.1% | 8.3% |
| 50 -<100ha | 1.8 % | 10.2 % | 0.8% | 5.7% |
| >100 ha | 1.2 % | 29.7 % | 0.4% | 9.5% |
| Total | 126,610 | 1,489,350 ha | 41,848 | 446,504 ha |
| Legal type of business: a peasant farm (% no UAA) | 30.14% of total farms 50.10% of UAA | | 14.5% of total farms 52.6% of UAA | |
| Household plots | 96,525 | | 40839 | |
| Individual farms/operating farms | 37,618 | | 5,957 | |
| Cooperatives /commercial companies (total) | 477 | | 69 | |
| Share of rented land in total UAA (%) | 45.4 | | 29.4 | |
| Average rental prices (arable area, in Euro/ha) | 71.42 | | 45.7 | |

Source: EUROSTAT REGIO database (2005).

Table 3

Dynamics of Employment in 2001-2004 in Latvija

| | Thous. people | | |
|---|---------------|--------|--------|
| | 2001 | 2002 | 2003 |
| Economically active population at the age of 15-74 | 1104.7 | 1123.5 | 1126.0 |
| Employed | 960.0 | 989.0 | 1006.9 |
| Employed in agriculture and hunting (main source of income) | 118.2 | 112.3 | 104.4 |

Source: CSB, 2003.

Table 4

Persons regularly employed in agriculture in Latvia and Latgale in 2003

| | Latvia | Latgale |
|---|--------|---------|
| Persons that has been employed in agriculture in recent months, % | | |
| Full time | 19.3 | 17.7 |
| Part-time, in hours | | |
| <460 | 28.9 | 25.7 |
| 460-919 | 20.9 | 20.9 |
| 920-1,379 | 15.3 | 17.9 |
| 1,380-1,839 | 15.6 | 17.7 |

Calculated from: CSB, Riga. 2004.

Household plots mostly carry out natural or semi-natural farming.

Employment in agriculture. Official employment data show that in 2003 total number of employed people was 1006.9. For 104.4 thousand people (7.4% of all inhabitants at the age 15 – 74 or 10.4% of all employed) agriculture was main source of income. 9.2 thousand people (8.8% of employed in agriculture and forestry) produced only for family consumption.

The number of people employed in agriculture in Latvia as it is shown in Table 4 has been decreasing gradually and in all regions.

In terms of the work-load, on the whole the situation for those employed in agriculture in the country is estimated as negative. In Latgale the situation is even worse because only 17.7% of all employed in farms work full-time. Since in Latgale 1.5 times more people than average in Latvia are employed in farms, it is obvious that employment problems are more controversial than in other state regions. Ludza region has the most dramatic situation because in 2003 only 6.9% of all working-age people were employed full-time.

It can be concluded that, on the one hand, agriculture as the sphere of industry both economically and regarding employment still plays a crucial role in the functioning of region. The share of agriculture, hunting, forestry and fishery in Latgale region's GDP is twice as big as average in the country. On the other hand, the use of the labour force of these people and added value obtained from the economic activities is lower. Consequently, one of Latgale's ultimate goals is to catch up with Latvia's average results.

2. The farm development opportunities in Latgale

The endogenous model of rural development suggests the participation of rural communities in the formation of territorial development. For this purpose the authors carried out interviews primarily with owners/managers of 11 different size and specialization farms to obtain their opinion about the future opportunities of farms and the people working and living in them. The interviews with the same questions were held with 4 representatives of various agriculture production organizations and advisory centres on the behalf of stakeholders.

The respondents of both groups had the view that Latgale is rich in abandoned land therefore it is possible that agriculture production could increase due to more extensive use of machinery and high-quality seed material. Interviewees representing all farm sizes (16.7 – 750 ha) planned to expand agricultural production, receiving incomes from diversification of farming and improvement of agro-environment. Both groups claimed that the role of agriculture advisory centres network in the improvement of people's knowledge capacity will rise. The opinions were controversial only in the question regarding the number of employed in the agriculture. Farm owners considered that the present number of full-time employment will remain the same. The representatives of cooperatives and institutions considered that full-time employees will decrease and the number of part-time farming will rise, and that additional vacancies will be necessary outside farm and along with that the acquisition of new knowledge.

The present study focused on two opinions: farming diversification can have future in any size farm, specifically in small-sized farms. In such

Table 5

Number of economically active enterprises and business organizations per 1,000 inhabitants 1999-2003

| Region | 1999 | 2000 | 2001 | 2002 | 2003 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Riga region | 21.5 | 24.8 | 24.5 | 26.0 | 28.0 |
| Vidzeme region | 11.8 | 12.4 | 12.0 | 12.2 | 13.0 |
| Kurzeme region | 12.7 | 13.6 | 13.0 | 13.5 | 14.0 |
| Zemgale region | 10.0 | 10.6 | 10.2 | 10.5 | 11.0 |
| Latgale region | 9.0 | 9.7 | 9.2 | 9.6 | 10.0 |
| Average in Latvia | 15.8 | 17.8 | 17.3 | 18.2 | 19.5 |

Source: *Regional Development in Latvia. State Regional Development Agency, 2004. p. 32.*

farms as it is shown in Table 4 all family members will not have full-time jobs. It proves the necessity of new job places outside farms in Latgale region. However, presently in Latgale entrepreneurship is less developed than in other regions to offer such extra vacancies.

Simultaneously with on-going discussion about the EU funding and its target application: to invest in people or in infrastructure, two important movements are gathering strength in rural areas of Latvia promoting the start and expansion of economic activities. These two are microcredit and mentoring.

3. Microcredit

Microcredit movement that in Latvia was introduced in 1999 has paved the way for the entrepreneurship and has become very popular, especially among rural women.

The spheres of entrepreneurship in microcredit groups are very different:

- In production: fruit growing, flower and vegetable growing, greenhouse arrangement, strawberry and oyster mushroom growing, orchards, florist's, rabbit keeping, bee keeping, chicken farming, sheep farming.

- In service: dress making, make-up designing, hair-styling, accounting, legal and computer service, rural tourism (recreation, guest houses etc.), cafes, shops, entertainment organization, house cleaning, veterinary service etc.)

The amount of microcredit is not big – 500 lats, but more important is the knowledge that is obtained in the training process: communication and psychology, development of business plans and mutual support of group members. In 2005 Mortgage bank started a brand new pilot-project: a loan for women to promote entrepreneurship till 10,000 lats that is based on microcredit principles. To take a loan it is necessary two guarantors from

the group. It is important that a loan can be given if the legal owner of the farm is not the member of the group, but her husband. In that case a guarantor is the legal owner of the farm.

In spring and summer of 2005 six Latgale microcredit groups were monitored and the questionnaire was carried out among 14 members. The questions that were asked could be divided into four main groups:

1. the characteristics of entrepreneurship,
2. motivation for entrepreneurship,
3. abilities, skills and knowledge: obtained and necessary,
4. resources: obtained and necessary.

The analysis of the answers are presented in the above mentioned groups:

1. The types of entrepreneurship in Latgale microcredit groups are the following: retailing, chicken farming, traditional agriculture, bakery, establishing a café, green-house arrangement and vegetable growing, bee keeping, bee products, arrangement of recreation places, setting up of training centre.

2. Motivation for starting a business is 1) the wish to earn money for the family or to become independent – 54%, 2) to implement the hobby – 46%. One answer was: "I started my business because it was fashionable in the middle of the 90ties (!)" In all cases women managed to realize microcredit plans and they would like to have bigger funding for the expansion of their business.

3. Analysing abilities, skills and knowledge, it is possible to conclude that they obtained: the development and implementation of a business plan, work organization, communication skills with microcredit group members and clients. However, women most often lack skills to arrange accounting documents, advertise products or service. Some answers claimed that communication skills and knowledge in psychology is never too much.

Table 6

Microcredit statistics in Latvia's regions (as of December 1, 2005)

| Region | Number of microcredit groups | Time and place of the first group |
|--------------|------------------------------|-----------------------------------|
| Zemgale | 14 | 1999, Bauska distric, Islice |
| Vidzeme | 12 | 2000, Valka district, Karki |
| Latgale | 6 | 2003, Daugavpils district, Demene |
| Kurzeme | 3 | 2004, Liepaja district Vergale |
| TOTAL | 35 | x |

4. Answers regarding the existing and necessary resources could be divided depending on the type of entrepreneurship, but mainly it was stated that there is the shortage of premises, transport and financing, knowledge, skills and experience and contacts as well. Positive evaluation was given to the support of group members and project management.

In microcredit seminars in Latgale that have been organized since 2000, the participants analyse the obstacles that hamper the start of entrepreneurship using the pair-comparative method, i.e., the problems were listed in the order of significance. The following problems were mentioned: the lack of determination, the lack of money, obscurity of an idea, the lack of family support, insufficient education, etc. In Latgale region in the first place that hampers the entrepreneurship the women mentioned knowledge and determination and only then came the lack of money. So money is not always the main thing! The features of character and psychological background also are important. If one has knowledge, determination and energy, it is possible to "find the money".

Mentoring

Mentoring is the second movement in Latvia that could be defined as the process when an experienced entrepreneur shares skills and knowledge with a beginning businessperson thus encouraging the increase of entrepreneurs and their growth. During the time period of half a year 10 mentoring pairs and 2 groups have been set up in Zemgale, 5 pairs and 1 group in Vidzeme and 3 pairs in Latgale and Kurzeme each.

The first mentor in Latgale region was Vija Ancane, Aglona Bread, Ltd owner in Aglona county, Preili district. She started her business in January, 2000 after the Preili Bakery owned by cooperative organization "Turība" where she worked with her husband was closed down. The family with two small children was left without any earnings, so she was forced to start her own business. Thus a bakery was set up with her own bread and biscuit recipes. Now the bakery has moved into new premises where the energetic woman has established the bread museum as well. It is a popular place of attraction. The bakery employs 12 people staff, it owns 3 shops. Vija Ancane has received the "The Land of Lakes" award for the participation in Culture Heritage Project. Since 2000 V. Ancane is also

a mentor who shares her professional skills and knowledge among trainees. Her educational background is public catering engineer. She has trained 7 mentees. According to Vija Ancane, the feeling that one receives while giving is the sweetest. Though none of her mentees has started a business, they are professionally ready to do it any time. The interviews with mentors and beginning entrepreneurs proved the following:

1. The majority of respondents mentioned the lack of relevant experience and initiative as well as knowledge and experience is the most serious obstacle. Mentorship is a successful two-sided learning/teaching process during which both a mentor and a mentee acquire new knowledge, develop professional skills, acquire wide range of new contacts and co-operation opportunities.

2. Women lack advisory service to enrich knowledge, they need meeting places for discussions, exchange of ideas and the establishment of co-operation networks.

Thus people involved in entrepreneurship and those interested in entrepreneurship consider that knowledge plays a crucial role in starting or expanding economic activities.

Conclusions

1. There are substantial differences between economic achievements of Latgale region and average data across Latvia. Especially the differences are obvious between Latgale region and Riga region. Consequently, the reduction of regional differences remains an important task as one of the objectives of the EU development policy.

2. European structural funds for the next 7 years that are targeted to reduce the regional differences should be invested in the development of human resources as much as possible. However, the question still remains how these funds will be distributed among the regions in the future. It is important that the present practice of distributing funds, i.e., when Latgale, a region with the most complicated socio-economic conditions, receive the smallest part, but Riga region receive as much as Latgale, Zemgale and Vidzeme taken together, is suspended. The share of Latgale should be increased significantly, and the interviews showed that people of Latgale region are aware of the importance of knowledge, they are ready to acquire the necessary knowledge and apply it for the development of the region.

3. The microcredit and mentoring movement should be widely used since they proved to be relevant form of economic activity for Latgale conditions which do not require large investments but extensive training network.

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