



ECONOMIC SCIENCE FOR RURAL DEVELOPMENT

PROCEEDINGS OF THE INTERNATIONAL SCIENTIFIC CONFERENCE

N° 14

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FORESTRY SCIENCES OF LATVIA**

LATVIA UNIVERSITY OF AGRICULTURE

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International Scientific conference**

**”ECONOMIC SCIENCE
FOR RURAL DEVELOPMENT”**

***FINANCES, TAXES,
INVESTMENT AND SUPPORT***

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Foreword

Each year the Faculty of Economics in Latvia University of Agriculture prepare international scientific conference „Economic science for rural development” together and publish internationally reviewed papers of scientific researches, which are presented at the conference. In it participate many economic scientists from different European countries. Its themes are very closely connected with actual situation, that is why even three issues were published – 12., 13. and 14. The first volumes of scientific conferences proceedings were published in 2000.

This year international scientific conference on 25-26 April, 2007 is organized by the **Faculty of Economics** in Latvia University of Agriculture and the Department of Agrarian Economic Sciences of the Academy of Agricultural and Forestry Sciences of Latvia together with the universities of Agriculture of Estonia, Lithuania and Poland and many other economic scientists from European universities of Agriculture.

The organization of the conference and the publication of scientific proceedings are supported by the Ministry of Agriculture of the Republic of Latvia.

Every year increases the number of universities and scientific institutes from where participants come. In this conference participate professors, associate professors, assistant professors, PhD students and other researchers and present their results of scientific researches from the following higher educational institutions:

- Latvia University of Agriculture (Jelgava)
- Lithuania University of Agriculture (Kaunas)
- Estonian University of Life Sciences (Tartu)
- Warsaw University of Agriculture (Poland)
- University of Agriculture of Szczecin (Poland)
- University of Agriculture of Cracow (Poland)
- University of Bonn (Germany)
- Estonia University of Agriculture (Tartu)
- University of Latvia (Riga)
- University of Tartu (Estonia)
- Latvian State Institute of Agrarian Economics (Riga)
- Riga Technical university (Latvia)
- Vilnius Law and Business College (Lithuania)
- University of Applied Sciences Fulda (Germany)
- University of Daugavpils (Latvia)
- Humboldt University of Berlin (Germany)
- Bundesanstalt für Bergbauernfragen (Vienna, Austria)
- Warsaw University of Life Sciences
- Universities of Varmia and Mazuria in Olzstin (Poland)
- Riga Teacher Training and Educational Management Academy (Latvia)
- University of Missouri-Columbia (USA)
- School of Business Administration Turība (Latvia)
- Academy of Humanities and Economics in Lodz (Poland)
- Kujawsko Pomorska Higher Education Institution in Bydgoszcz (Poland)
- Transport and Telecommunication Institute (Riga)
- The Higher Vocational College in Biała Podlaska (Poland)

The international scientific conference was promulgated in June, 2006. All proceedings are arranged in 10 thematic units:

- Efficiency of production in primary and secondary sectors of agriculture;
- Rural development and globalization;
- The effects of financial support;
- Regional agriculture in the contexts of specialization and globalization;
- Cooperation and integration;
- Rural mentality and development of the culture in rural areas;

-
- The role of information in rural development;
 - Management of rural development;
 - Quality of life and environment in rural areas;
 - Changes of consumption in rural areas.

These themes are arranged in three volumes.

To secure high level scientific and methodological researches results meeting the requirements of international standards, presented at the conference, comprehensive reviewing of submitted scientific proceedings was done on international and inter-university level. The greatest part of the report is in English.

Every submitted manuscript was reviewed by one reviewer from author's country; the second reviewer was from other country or university. The third reviewer was chosen in the case of conflicting reviews.

All reviewers were anonymous for the authors of the report. Every reviewer received manuscripts without authors' names. Every author received the reviewers' comments and objections.

After receiving the improved (final) version of the manuscript the Editorial Board of this conference evaluated each report.

In three volumes of the international scientific conference „Economic science for rural development” is published:

- 25 papers by 47 authors from Latvia University of Agriculture
- 3 papers by 5 authors from Lithuania University of Agriculture
- 8 papers by 11 authors from Warsaw University of Agriculture
- 13 papers by 14 authors from University of Agriculture of Szczecin
- 4 papers by 4 authors from University of Agriculture of Cracow
- 2 papers by 3 authors from University of Bonn
- 2 papers by 3 authors from University of Latvia
- 7 papers by 9 authors from Latvian State Institute of Agrarian Economics
- 3 papers by 4 authors from Riga Technical university
- one paper by 2 authors from University of Tartu
- as well 16 papers of different authors.

All papers are arranged in the thematic volumes:

- 12. Development: Regional and Rural;**
- 13. Primary and Secondary Production, Consumptions;**
- 14. Finances, Taxes, Investment and Support Systems.**

The volumes were arranged so that they satisfy international standards for the proceedings:

- The editions have international Editorial Board in which are members from participating countries.
- Manuscripts were reviewed by 79 economic scientists from 27 universities or scientific institutions;
- The issues are published regularly and they are numbered: this year are published 12., 13., and 14 volumes.
- Papers written in English prevail while papers submitted in other languages give the English version for the summaries, titles and texts for tables and/or figures.
- The volumes are available also electronically on the conference web site, thus it can be used worldwide.

In the proceedings presented researches and their results are now accessible to wide circle of readers in European Union. We hope that they will activate the possibilities of the new EU countries. The publishing of the proceedings before conference will activate also its process, exchange of thoughts and collaboration of economic scientists in international level. The proceedings can be used by students and interests.

We say thanks to all authors, reviewers, members of Editorial Board and technical personal. We want to say thanks especial to Ministry of Agriculture of the Republic of Latvia and The Rural Support Service for the comprehensive support in publishing the scientific proceedings and organization of international conference.

On behalf of organizers of the conference
professor of the Faculty of Economics of LUA

Voldemārs Strīķis

Priekšvārds

Latvijas Lauksaimniecības universitātes (LLU) Ekonomikas fakultātē līdz ar ikgadējo, tradicionālo starptautisko zinātnisko konferenci „**Ekonomikas zinātne lauku attīstībai**” iznāk tajā prezentējamo pētījumu starptautiski recenzētie zinātniskie raksti. Šo konferenču rīkošana kļuvusi regulāra. Tajās piedalās liels skaits ekonomikas zinātnieku no daudzām Eiropas valstīm. Konference veltīta aktuālai tematikai, tāpēc iznāca pat trīs secīgi – 12., 13. un 14. laidieni. Šādu zinātnisko rakstu pirmais laidniens iznāca 2000. gadā.

Šo, proti, **2007. gada 25. un 26. aprīļa starptautisko zinātnisko konferenci kā ik gadus rīko LLU Ekonomikas fakultāte** kopīgi ar Latvijas Lauksaimniecības un meža zinātņu akadēmijas Agrārās ekonomikas zinātņu nodaļu, piesaistot Igaunijas, Lietuvas, Polijas un daudzu citu valstu lauksaimniecības universitāšu ekonomikas zinātniekus.

Konferences rīkošanu un zinātnisko rakstu izdošanu atbalstīja Latvijas Republikas Zemkopības ministrija.

Ik gadus paplašinās starptautiskajā konferencē pārstāvēto universitāšu un zinātnisko institūciju skaits un areāls. Šajā konferencē piedalās un savus zinātnisko pētījumu rezultātus prezentē profesori, zinātņu doktori, asociētie profesori, docētāji, doktoranti un citi pētnieki no šādām augstskolām un zinātniski pētnieciskajām iestādēm:

- Latvijas Lauksaimniecības universitātes (Jelgavā)
- Lietuvas Lauksaimniecības universitātes (Kauņā)
- Igaunijas Dzīvības zinātņu universitātes (Tartu)
- Varšavas Lauksaimniecības universitātes (Polijā)
- Ščecinas Lauksaimniecības universitātes (Polijā)
- Krakovas Lauksaimniecības universitātes (Polijā)
- Bonnas Universitātes (Vācijā)
- Latvijas Universitātes (Rīgā)
- Tartu Universitātes (Igaunijā)
- Latvijas Valsts agrārās ekonomikas institūta (Rīgā)
- Rīgas Tehniskās universitātes (Rīgā)
- Viļņas Tiesību un biznesa koledžas (Lietuvā)
- Kauņas Tehnoloģiju universitātes (Lietuvā)
- Fuldas profesionālās universitātes (Vācijā)
- Daugavpils Universitātes (Latvijā)
- Humbolta universitātes Berlīnē (Vācijā)
- Federālās pārvaldes kalnu zemkopības jautājumos (Austrijā)
- Varšavas Dzīvības zinātņu universitātes (Polijā)
- Varmijas un Mazūrijas universitātes Olštīnā (Polijā)
- Rīgas Pedagoģijas un izglītības vadības augstskolas (Latvijā)
- Misuri-Kolumbijas Universitātes (ASV)
- Biznesa augstskolas „Turība” (Rīgā)
- Humanitāro un ekonomikas zinātņu akadēmijās Lodzā (Polijā)
- Kujavskas Pomorskas augstākās izglītības institūta Bidgoščā (Polijā)
- Transporta un telekomunikāciju institūta (Rīgā)
- Biaļas Podlaskas augstākās profesionālās koledžas (Polijā)

Starptautiskā zinātniskā konference tika izsludināta 2006. gada jūnijā. Tai izvēlēti 10 aktuāli temati:

- Ražošanas efektivitāte lauksaimniecības primārajā un sekundārajā sfērā
- Lauku attīstība un globalizācija
- Lauku ekonomiskā un sociālā attīstība
- Finansiālā atbalsta efektivitāte
- Reģionālā lauksaimniecība specializācijas un globalizācijas kontekstos
- Kooperācija un integrācija
- Lauku mentalitāte un kultūras attīstība laukos

- Informācijas loma lauku attīstībā
- Lauku attīstības menedžments
- Dzīves un vides kvalitāte laukos
- Patēriņa izmaiņas lauku attīstībā

Šie temati ietilpināti trijos zinātnisko rakstu laidienos.

Starptautiskās zinātniskās konferences zinātniskuma un starptautiskiem standartiem atbilstošu zinātnisko darbu prezentēšanas nodrošināšanai veikta vispusīga iesniegto zinātnisko rakstu starptautiska un starpaugstskolu recenzēšana. Šajā nolūkā lielākā daļa zinātnisko rakstu ir angļu valodā.

Katru iesniegto zinātniskā raksta manuskriptu parasti vērtēja (recenzēja) viens autora valsts recenzents un otrs – citas valsts vai citas augstskolas recenzents. Pretrunīgu recenziju gadījumā darbs tika nodots vēl trešajam recenzentam. Recenzenti darbu autoriem bija anonīmi, arī redkolēģija recenzentiem nodeva darbus bez autoru uzvārdiem.

Katram autoram tika nosūtīti recenzentu iebildumi vai ieteikumi. Pēc uzlabotā (galīgā) varianta un autora paskaidrojuma saņemšanas katru zinātnisko rakstu vērtēja šīs konferences zinātnisko rakstu redkolēģija.

Starptautiskās zinātniskās konferences „Ekonomikas zinātne lauku attīstībai” rakstu trīs tematiskos laidienos ievietoti:

- Latvijas Lauksaimniecības universitātes 47 autoru 25 darbi;
- Lietuvas Lauksaimniecības universitātes 5 autoru 3 darbi;
- Varšavas Lauksaimniecības universitātes 11 autoru 8 darbi;
- Ščecinas Lauksaimniecības universitātes 14 autoru 13 darbi;
- Krakovas Lauksaimniecības universitātes 4 autoru 4 darbi;
- Bonnas universitātes 3 autoru 2 darbi;
- Latvijas Universitātes 3 autoru 2 darbi;
- Latvijas Valsts agrārās ekonomikas institūta 9 autoru 7 darbi;
- Rīgas Tehniskās universitātes 4 autoru 3 darbi;
- Tartu universitātes 2 autoru 1 darbs;
- kā arī vēl 16 augstskolu autoru darbi.

Visi zinātniskie raksti sakārtoti trijos tematiskos rakstu laidienos:

Nr. 12. Attīstība: lauku un reģionālā;

Nr. 13. Primārais un sekundārais sektors, ražošana, patēriņš;

Nr. 14. Finanses, nodokļi, investīcijas un atbalsts.

Zinātniskie laidieni gatavoti tā, lai tie atbilstu starptautisko rakstu standartiem:

- programmas komitejā ir 6 valstu augstskolu pārstāvji;
- laidieniem ir starptautiska redkolēģija, kurā darbojās konferences dalībvalstu augstskolu zinātnieki;
- rakstus recenzējuši 79 ekonomikas zinātnieki no 27 universitātēm vai zinātniskām institūcijām;
- zinātniskie raksti tiek izdoti regulāri un laidieni tiek numurēti: – 2007. gadā tiek izdoti 12., 13. un 14. laidieni;
- dominē angļu valodā gatavoti raksti, bet citās valodās iesniegtiem rakstiem angļu valodā ir dublēti kopsavilkumi, virsraksti, tabulu un attēlu teksti;
- zinātniskie raksti ir arī elektroniskā formā, ievietoti konferences mājas lapā un izmantojami visā pasaulē.

Zinātniskajos rakstos izklāstītie pētījumi un to rezultāti kļūst pieejami plašam interesentu lokam Eiropas Savienības telpā. Ceram, ka tie aktualizēs jauno Eiropas Savienības valstu iespējas. Rakstu publicēšana pirms konferences sekmēs tās norisi, domu apmaiņu, ekonomikas zinātnieku starptautisko sadarbību. Rakstus varēs izmantot studējošie un visi interesenti.

Ceram saņemt atsauksmes un priekšlikumus turpmāko zinātnisko rakstu izdevumu sagatavošanai un starptautisko zinātnisko konferenču rīkošanai.

Pateicamies visiem rakstu autoriem, recenzentiem, programmas komitejai, redkolēģijai un tehniskajam personālam. Sevišķs paldies Latvijas Republikas Zemkopības ministrijai un Lauku atbalsta dienestam par vispusīgu atbalstu zinātnisko rakstu izdošanā un starptautiskās konferences rīkošanā.

Konferences organizācijas komitejas vārdā

profesors VOLDEMĀRS STRIĶIS

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SUBSIDĒŠANAS UN DARBA RAŽĪGUMA SAKARĪBAS LAUKSAIMNIECĪBAS UZŅĒMUMOS LATVIJĀ

SUBSIDIZATION AND LABOUR PRODUCTIVITY INTERCONNECTION IN LATVIA AGRICULTURAL ENTERPRISES

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Abstract

In the article are summarized research results about European Union and Latvia national financial support – subsidy impact on labour productivity and production efficiency in multi-economical sized agricultural enterprises.

Have been proven production concentration high impact on subsidy and labour efficiency as well as necessity more sustain development of commercial agriculture in more enabling environment and soil conditions for it.

Key words: *subsidy, labour, production, added value.*

Ievads

Introduction

Zināms, ka lauksaimniecības uzņēmumi, kā arī naturālās saimniecības un pat zemes īpašnieki, kuri neražo neko, saņem daudz naudas no valsts budžeta un Eiropas Savienības budžeta. Šiem maksājumiem (subsīdijām, dotācijām, dāvanām, kompensācijām) ir dažādi mērķi. Viens no tiem ir veicināt vai kavēt pārtikas produktu un to izejvielu ražošanas palielināšanu, cits – veicināt dzīvošanu lauku teritorijās, trešais – kavēt lopkopības koncentrāciju, ražošanas specializāciju un intensifikāciju, vēl cits – mainīt Latvijas ainavu, lai te brīvā dabā ganītos arvien vairāk savvaļas dzīvnieku.

Protams, ir arī tāds mērķis kā tehnoloģiski un tehniski modernizēt limitēto ražošanu, kas var paaugstināt darba ražīgumu, samazinot dzīvā darba ietilpību.

Tomēr ikdienas procesu vērojumi un statistikas datu analīze ļauj domāt, ka ekonomikas zinātne un ražošanas ekonomiskās intereses ne vienmēr sakrīt ar politiķu vai administratoru centieniem.

Tādā situācijas vērtējumā, sākoties jaunajam plānošanas septiņgadu periodam (2007 – 2013) radās ideja veikt ekonomisku pētījumu un noskaidrot daudzveidīgo un apjomīgo ES un valsts nacionālo subsīdiju jeb visu finansiālo atbalstu veidu ietekmi uz darba ražīgumu un ražošanas ekonomisko efektivitāti Latvijas lauksaimniecībā.

Šāds temats izvēlēts tāpēc, ka starp daudzajām, subsīdijām veltītajām zinātniskajām publikācijām grūti pamanāmas tādas, kur pētītas visu finansiālā atbalsta veidu un programmu kopējās sakarības ar darba ražīgumu un tā efektivitāti.

Hipotēze, mērķis un uzdevumi

Pētījums sākas ar **hipotēzi**, ka subsīdijām ir pozitīva ietekme uz darba ražīgumu tikai saistībā ar ražošanas koncentrāciju, specializāciju un intensifikāciju.

Lai pārbaudītu šādu hipotēzi, definēts **mērķis**: noskaidrot ES un LR finansiālā atbalsta (subsīdiju) ietekmi uz darba ražīgumu un ražošanas efektivitāti dažāda ekonomiskā lieluma lauksaimniecības uzņēmumos.

Virzībai uz šādu mērķi risināti pētījuma uzdevumi:

- noskaidrot saimniecībās saņemto visu veidu subsīdiju ietekmi uz ražošanas kopējo efektivitāti un to sakarību ar darbaspēka ieguldījumu dažāda ekonomiskā lieluma lauksaimniecības uzņēmumos;
- izpētīt darbaspēka ieguldījuma un ieguldījumu subsīdiju sakarības kontekstā ar ražošanas koncentrāciju;
- izvērtēt neto pievienotās vērtības un darbaspēka ieguldījuma sakarības ar ražošanas koncentrāciju.

Materiāli un metodes

Pētījumam izmantoti valsts budžeta finansētā un Latvijas valsts Agrārās ekonomikas institūta izpildītā Latvijas lauku saimniecību uzskaites datu tīkla (SUDAT) dati, kā arī statistikas dati un teorētiskā literatūra.

Zināms, ka izmantoto informācijas bāzi veido 932 saimniecību (lauksaimniecības uzņēmumu) dati. Izmantoti tādu saimniecību dati, kas nav mazākas par divām ekonomiskā lieluma (ELV) vienībām, bet 1 ELV = 698 lati. Cilvēka darba gada vienība LDV ir 1840 stundas.

Ieguldījumu subsīdijās iekļauts atbalsts ES standartu sasniegšanai, struktūrfondi, SAPARD maksājumi, atbalsts ieguldījumiem, izmaksas meliorācijai, ilggadīgiem stādījumiem.

Kopā neto pievienotā vērtība (NPV) ietver arī ražošanas subsīdijas, bet pašu ražotā neto pievienotā vērtībā subsīdijas izslēgtas.

Izmaiņu novērtēšanai saimniecību ekonomisko lielumu grupās izmantota dinamisko laikrindu analīzes metode.

Rezultāti un diskusija

Results and discussion

1. Subsīdiju ietekme uz darba ražīgumu

1. Subsidy impact on labour productivity

Pētījuma pirmā uzdevuma risināšanai izmantoti 1. tabulā sakārtotie dati un aprēķini.

1. tabula

Table 1

Eiropas Savienības un Valsts nacionālā finansiālā atbalsta ietekme uz darba ražīgumu dažāda ekonomiskā lieluma Latvijas lauksaimniecības uzņēmumos 2005. gadā

European Union (EU) and State national financial support impact on labour productivity in multi-economical size Latvia agricultural enterprises in year 2005

Rādītāji <i>Indicators</i>	Lauksaimniecības uzņēmumu ekonomiskā lieluma grupas <i>Agricultural enterprises by groups of economical size</i>						
	<4	4 – <8	8 – <16	16 – <40	40 – <100	100 – <250	>250
ES un Valsts nacionālais finansiālais kopējais atbalsts (subsīdijas) vidēji grupā, Ls <i>EU and State national financial total support (subsidy) average in group, in Latvian lats</i>	2924	6576	10336	25327	49078	112067	267245
Visu subsīdiju ķēdes pieaugums, Ls <i>All subsidy chain increase, in Latvian lats</i>	–	3652	3790	14961	23751	62989	155178
Visu subsīdiju ķēdes pieauguma temps, % <i>All subsidy chain increase speed, %</i>	–	124,9	57,6	144,3	93,8	128,3	138,5
Visas produkcijas vērtība uz visu subsīdiju vienu latu, Ls <i>All production monetary value on all subsidy one Latvian lats</i>	2,27	1,96	2,32	1,90	2,34	2,92	8,60
Visas subsīdijas uz ieguldītā darbaspēka vienu stundu, Ls <i>All subsidy on one hour invested labour, in Latvian lats</i>	0,93	1,98	2,35	4,30	3,98	2,99	1,35

Avots: autoru aprēķini pēc „Lauku saimniecības darba ekonomiskās analīzes rezultāti 2005” (SUDAT) datiem.

Source: authors calculations by data of “Operation results of Latvian agricultural producers in year 2005” (ORLAP).

No 1. tabulā ievietotajiem aprēķiniem var izdarīt vairākus secinājumus vai vērtējumus:

- Eiropas Savienības un Valsts nacionālo subsīdiju kopsomma, ko saņēmusi vidēji katra saimniecība, ir ļoti mainīga ekonomiskā lieluma grupās: ceturta ekonomiskā lieluma grupas saimniecībām tās ir vairākkārt lielākas nekā otrās un trešās grupas saimniecībām. Piektajā grupā tas dubultojas, bet sestajā – atkal dubultojas, un septītajā grupā atkal ir 2,5 reizes lielāks nekā priekšpēdējā grupā;
- saņemto subsīdiju efektivitātes novērtēšanai aprēķināta iegūtās produkcijas vērtība, rēķinot uz šo – visu subsīdiju vienu latu;
- saņemto subsīdiju izmantošanas efektivitāte saimniecību ekonomisko lielumu grupās ir ļoti mainīga, bet, sākot ar ceturto saimniecību grupu, subsīdiju efektivitāte konsekventi paaugstinās;
- subsīdiju efektivitātei ir tieša un cieša sakarība ar ražošanas koncentrāciju: jo lielāka, ekonomiski spēcīgāka saimniecība, jo lielāki tajā ražošanas apjomi, jo vairāk produkcijas uz subsīdiju katru latu;
- valsts nacionālais un Eiropas Savienības atbalsts sevišķi efektīvs ir vislielāko, spēcīgāko saimniecību grupā, kas vidēji apsaimnieko 1443 ha zemes un saražo produkciju 2,3 miljonu latu vērtībā;
- subsīdijām ir interesanta sakarība ar ieguldīto darbu analizējamās saimniecību grupās: visvairāk subsīdiju pret ieguldīto darbaspēku saņēmušās vidējās grupas saimniecības, bet pieaugot vai samazinoties saimniecību lielumam, subsīdiju efektivitāte samazinās; to var izskaidrot ar nozaru atšķirīgu sastāvu un struktūru, un to darbietilpību saimniecību grupās.

Lauksaimniecības uzņēmumu attīstībai vissvarīgākā subsīdiju daļa ir ieguldījumu subsīdijas, tāpēc to ietekmes analīze veikta atsevišķā uzdevumā un aprēķini sakārtoti 2. tabulā.

2. tabula
Table 2

Ieguldītā darbaspēka un ieguldījumu subsīdiju sakarīgās attiecības lauksaimniecības uzņēmumos Latvijā, 2005. gadā (vidēji vienā saimniecībā)

Invested labour and investment subsidy interconnection correlation in Latvia agricultural enterprises (farms), in year 2005 (average in one farm)

Rādītāji <i>Indicators</i>	Lauksaimniecības uzņēmumu ekonomiskā lieluma grupas <i>Agricultural enterprises by groups of economical size</i>						
	<4	4 - <8	8 - <16	16 - <40	40 - <100	100 - <250	>250
Darbaspēka ieguldījums, h <i>Invested labour, in hours</i>	3128	3312	4416	5888	12328	37536	198536
Darbaspēka ieguldījuma ķēdes pieauguma temps, % <i>Invested labour chain increase speed, %</i>	-	5.8	33.3	33.3	109.4	204.5	428.9
Ieguldījumu subsīdijas, Ls <i>Investment subsidy, Latvian lats</i>	482	2412	2769	11691	15826	38619	144412
Darbaspēka ieguldījums uz ieguldījumu subsīdiju 1 Ls, h <i>Invested labour on investment subsidy 1 Latvian lats, in hours</i>	6.49	1.37	1.59	0.50	0.78	0.97	1.37
Ieguldījumu subsīdiju summa uz 1 h ieguldītā darbaspēka, % <i>Investment subsidy amount on 1 hour invested labour, %</i>	0.15	0.73	0.63	1.98	1.28	1.03	0.73
Ieguldījumu subsīdiju daļa visu subsīdiju summā, % <i>Investment subsidy majority in amount of all subsidy, %</i>	16.5	36.7	26.7	46.2	32.2	34.5	54.0
Ieguldījumu subsīdijas uz 1 ha izmantotās zemes, Ls <i>Investment subsidy on 1 hectare used land, Latvian lats</i>	19.75	56.89	35.01	79.97	43.20	48.36	100.06

Avots: autoru analītiski aprēķini pēc SUDAT datiem.

Source: authors calculations by data of ORLAP in year 2005.

Interpretējot 2. tabulā atrodamos datus un aprēķinus, jāsecina, ka:

- darbaspēka ieguldījums krasi mainās sākot ar piekto grupu, tā pieaugums atkal trīskāršojas sestajā grupā un krasi palielinās pēdējā grupā;
- ieguldījumu subsīdiju vienas saimniecības vidējā summa krasi pieaugusi, sākot ar saimniecību ceturto grupu, bet pēdējā – visspēcīgāko uzņēmumu grupā – tā vēl gandrīz vai četrkāršojusies salīdzinājumā ar sesto, priekšpēdējo grupu;
- ieguldījumu subsīdiju summa uz vienu stundu ieguldītā darbaspēka saimniecību grupās sistemātiski mainās un lielajās saimniecībās būtiski samazinās, bet no tā nevar secināt par to efektivitāti, jo te var darboties citi ietekmējošie apstākļi, kuru izpēte nav iekļauta šajā darbā.
- ieguldījumu subsīdiju daļa visu subsīdiju kopsummā ir ļoti neliela mazajās saimniecībās, mazliet svārstīga 2. – 6. grupā, bet pēdējā grupā jau pārsniedz pusi no visām subsīdijām;
- lielāks ieguldījumu subsīdiju īpatsvars lielajos uzņēmumos varēs veicināt to turpmāku, straujāku attīstību;
- saimniecību turpmākās attīstības iespējas labi raksturo ieguldījumu subsīdiju vērtība, rēķinot uz katru hektāru izmantotās zemes, un tā, kā redzams, sevišķi pozitīvi atšķirīga ir visspēcīgāko uzņēmumu grupā;

Subsīdiju ietekmi uzņēmumu pamatdarbības ieņēmumos raksturo 3. tabulas dati.

3. tabula
Table 3

Eiropas Savienības un nacionālā valsts atbalsta daļa dažāda ekonomiskā lieluma lauksaimniecības uzņēmumu pamatdarbības ieņēmumu struktūrā Latvijā, 2005. gadā
 EU and State national financial support majority in structure of multi-economical size Latvia agricultural enterprises income from basic activity in year 2005

Rādītāji <i>Indicators</i>	Lauksaimniecības uzņēmumu ekonomiskā lieluma grupas <i>Agricultural enterprises by groups of economical size</i>						
	<4	4 - <8	8 - <16	16 - <40	40 - <100	100 - <250	>250
ES un Valsts nacionālā atbalsta īpatsvars saimniecību pamatdarbības ieņēmumos, % <i>EU and State national financial support proportion in farms income from basic activity, %</i>	27	24	24	22	22	18	5
Saimniecību ieņēmumi no ražotās produkcijas, % <i>Farms income from manufactured production, %</i>	73	76	76	78	78	82	95

Avots: autoru aprēķini pēc SUDAT datiem.

Source: authors calculations by data of ORLAP in year 2005.

No 3. tabulā ievietotajiem aprēķiniem redzamas konsekvantas sakarības un ražošanas koncentrācijas nozīme: – jo lielāks uzņēmums, jo lielāka saimniecības ieņēmumu daļa no pašu ražotās produkcijas un mazāka subsīdiju daļa, kaut arī subsīdiju apjoms, kā noskaidrojām, analizējot 1. – 2. tabulu datus, arvien palielinās lielāko saimniecību grupās.

2. Neto pievienotā vērtība saimniecību ekonomiskā lieluma grupās

2. Net value added in farms economical size groups

Nākamajā tabulā sakārtoti aprēķini par darba ražīguma maiņu saimniecību grupās.

No 4. tabulas aprēķiniem izriet, ka neto pievienotā vērtība vidējā lieluma 2.–5. saimniecību grupās ir diezgan nevienmērīga, bet būtiski pieaug sestajā lielo saimniecību grupā un krasi palielinās pēdējā – vislielāko, spēcīgāko uzņēmumu grupā.

No šiem datiem nosacīti arī var secināt, ka ražošanas koncentrācijai ir ļoti būtiska ekonomiskā nozīme.

4. tabula
Table 4

**Lauksaimniecības uzņēmumu pašu ražotā (bez ražošanas subsīdijām)
 neto pievienotā vērtība, kā darba efektivitātes indikators Latvijā, 2005. gadā**
 Agricultural enterprises own manufactured (without manufacturing subsidy)
 net value added as indicator of labour efficiency in Latvia, year 2005

Rādītāji Indicators	Lauksaimniecības uzņēmumu ekonomiskā lieluma grupas Agricultural enterprises by groups of economical size						
	<4	4 - <8	8 - <16	16 - <40	40 - <100	100 - <250	>250
Neto pievienotā vērtība uz lauksaimniecības darba vienību, Ls Net value added on agricultural labour unit, Latvian lats	530	1118	1026	1302	1183	1812	4154
Neto pievienotās vērtības daļa ieņēmumos, % Majority of net value added in income, %	37	36	32	29	28	28	24

Avots: autoru aprēķini pēc SUDAT datiem.
 Source: authors calculations by data of ORLAP in year 2005.

3. Darba ražīguma un subsīdiju efektivitātes reģionālie aspekti
 3. Labour productivity and subsidy efficiency in regional aspects

Reģionālie aspekti tika analizēti aprēķinot un izmantojot vairākus rādītājus, kas redzami 5. tabulā.

5. tabula
Table 5

**Eiropas Savienības un Valsts nacionālā finansiālā atbalsta (subsīdiju)
 un pašu ražotās neto pievienotās vērtības daļa lauksaimniecības uzņēmumu
 pamatdarbības ieņēmumos Latvijas SUDAT reģionos 2005. gadā**
 EU and State national financial support (subsidy) and self manufactured net value added
 majority in ORLAP regions agricultural enterprises income from basic activity, in year 2005

Rādītāji Indicators	SUDAT reģioni ORLAP regions						
	Latgale	Vidzeme	Zemgale 2	Kurzeme	Pierīga 2	Zemgale 1	Pierīga 1
ES un Valsts nacionālā finansiālā atbalsta īpatsvars saimniecību pamatdarbības ieņēmumos, % EU and State national financial support proportion in farms income from basic activity, %	28	26	25	22	19	12	3
Saimniecību ieņēmumi no ražotās produkcijas, % Farms income from manufactured production, %	72	74	75	78	81	88	97
Pašu ražotā (bez ražošanas subsīdijām) neto pievienotā vērtība uz 1 LDV ¹ , Ls Agricultural enterprises own manufactured (without manufacturing subsidy) net value added on 1 ALU ² , in Latvian lats	169	984	508	912	1441	2901	3995

Avots: autoru aprēķini izmantojot SUDAT datus.
 Source: authors calculations by data of ORLAP in year 2005.

¹ LDV – Lauksaimniecības darba vienība – viens cilvēkgads 1840 stundas
² ALU – Agricultural Labour unit – one human-year 1840 hours

No 5. tabulā ievietotiem aprēķiniem izriet vairāki secinājumi:

- saimniecību pamatdarbības ieņēmumus subsīdijas visvairāk ietekmē Latgalē, kur to īpatsvars ir visaugstākais un sasniedz 28 procentus;
- liela subsīdiju daļa pamatdarbības ieņēmumos arī Vidzemē, Kurzemē un Zemgale-2 reģionā, kurā ietilpst Jēkabpils un Aizkraukles rajoni;
- saimniecību ieņēmumi no pašu ražotās produkcijas Zemgale-1 reģionā, kas ir galvenais lauksaimniecības preču produkcijas ražotājs Latvijā, sasniedz gandrīz deviņas desmitdaļas, bet Pierīga-1 reģionā subsīdiju daļa nenozīmīga;
- pašu ražotās pievienotās vērtības daļa būtiski mazāka ir tikai Pierīga-1 reģionā;
- reģionos krasi atšķirīgs ir darba ražīguma rādītājs, vērtējot to pēc pašu ražotās (izslēdzot saņemtās subsīdijas) neto pievienotās vērtības uz ieguldītā darbaspēka vienību:
 - krasi izdalās Latgale un tai tuvie Jēkabpils un Aizkraukles rajoni (kā Zemgale-2 reģions),
 - vienāda darba efektivitāte redzama Vidzemē un Kurzemē,
 - galvenajā lauksaimniecības – Zemgale-1 reģionā NPV ir trīs reizes augstāka nekā Vidzemē un Kurzemē un 17 reizes augstāka nekā Latgalē.

Secinājumi

Conclusions

1. Darba ražīguma, ražošanas efektivitātes un subsīdiju efektivitātes paaugstināšanai ļoti svarīga ir ražošanas koncentrācija.
2. Ražošanas koncentrācijas efekta attīstībai jāveicina lielāku, spēcīgāku lauksaimniecības uzņēmumu veidošanās.
3. Apstiprinājās, ka visefektīvākā lauksaimnieciskā ražošana ir Zemgalē, kur jāatbalsta tās intensifikācija līdz ES Regulās atļautajam līmenim.
4. Visas ražotās produkcijas vērtība uz visu subsīdiju vienu latu visspēcīgāko uzņēmumu grupā ir 4 – 5 reizes augstāka nekā mazajās un sīkajās saimniecībās.

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CO-FINANCING OF EUROPEAN UNION FUNDS – ONE OF THE FACTORS FOR SUSTAINABLE DEVELOPMENT OF LATVIA'S REGIONS

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Abstract

In order to achieve the objective – to evaluate sustainable development opportunities of Latvia's regions based on co-financing of European Union (EU) funds, the allocation and usage of EU funds within the division by regions in 2004-2006 and the framework of National Entrepreneurship Support Programmes were analysed. The basic principles of EU regional policy and Latvian development priorities as well as possible regional development evaluation methodology applied were examined. The territory development indexes for the planning regions elaborated by the State Regional Development Agency were analysed with the aim to describe the current situation in the planning regions.

The problem of the research – the EU co-funding has been provided to foster balanced development of the regions, but in practice it proves that economically advanced regions attract more EU co-funding while less developed regions do not receive sufficient funding thus resulting in retained or even increased socio economic disparities instead of combating those disparities.

Taking in consideration that the impact of co-financing on the region's development could be evaluated not earlier than in 2-3 years' time after the investment, it is crucial to begin the research and discussions at the present moment to prove that no development expectations can be made if no or small amount of funds are invested.

Key words: sustainable development, regional policy, entrepreneurship, EU co-funding.

Introduction

The objectives of Latvian regional policy are in line with European Union sustainable development strategy aimed at provision of economic welfare and social equality. One of EU priorities is cohesion, it means diminishing of socio economic disparities between EU member states, because major disparities hamper the development of both - EU in whole and each country and region individually, even the most wealthy ones. If regional policy instruments are not applied, the disparities between economically most advanced and most backward regions will retain and increase.

The problem of the research – the EU co-funding has been provided to foster balanced development of the regions, but in practice it proves that economically advanced regions attract more EU co-funding while less developed regions do not receive sufficient funding thus resulting in retained or even increased socio economic disparities instead of combating those disparities.

Goal of the research: to evaluate sustainable development opportunities of Latvian regions based on co-funding of European Union (EU). **Tasks of the research** are twofold: 1) to analyse co-funding of European Union (EU) to support entrepreneurship development under European Regional Development Fund (ERDF) from 2004 to end 2006 administered by Latvian Investment and Development Agency (LIDA) by the means of National Support Programmes as well as actual allocation of EU co-funding by regions; 2) to examine regional development evaluation methodology.

Methods of the research: the basic research used in paper is monographic method, depending on analysis of sources gathered from monographs, Latvian State documents and State Agencies and the Internet. Other methods applied: inductive research approach which allows generalization of collected and analyzed information; interaction of analysis and synthesis for evaluation, compilation and interpretation of specific data; statistical; graphic method.

Regional development research methodology

The existing worldwide **Regional development theories** are different therefore it is difficult to choose only one to base analysis of the specific regions on. It is possible to use, for instance, *Regional Economic Growth Determinants* (in this case these are the factors dependent on something) belong to the group of *Space Mobility Theories*. Economic growth can be defined as (V. Bugina, 2004): 1) actual social product increase:

$$Y_1 > Y_0 ; \quad (1)$$

where

Y_1 = actual social product in the time period $t = 1$;

Y_0 = actual social product in the previous time period $t = 0$;

2) or as actual social product increase per capita:

$$\frac{Y_1}{B_1} > \frac{Y_0}{B_0} ; \quad (2)$$

where

Y_1 = actual social product in the time period $t = 1$;

Y_0 = actual social product in the previous time period $t = 0$;

B_1 = number of inhabitants in the time period $t = 1$;

B_0 = number of inhabitants in the previous time period $t = 0$.

The concept *social product* includes not only economic indicators but also infrastructure, political and social system and other values, therefore its practical efficient calculation is complicated. Besides, applying the formula (2), it is not possible to talk about the growth if the social product has increased less or equally to the number of inhabitants.

The analysis of the regions can be conducted with integrated methods, combining *Location Theories* and *Regional Growth and Development Theories*. One of the indicators used in Latvia to characterize economic growth is increase of absolute gross domestic product (GDP) per capita. The disadvantage in this case - the issue of welfare increase is being neglected.

In order to analyze impact of EU co-funding on regional development, the methodology is needed to conduct such a research. Penetrating the experience of EU member states, it can be concluded that there is no single approach and each country makes efforts to research the issues individually. Until now the only large scale research on impact of Structural Funds (SF) on regional development conducted in European Union is **project ESPON 2.2.1**. (ESPON, 2005).

The focus was on the programming period of 1994-1999 in EU-15 countries, mainly due to the fact that it was deemed too early to judge the final effects and in particular, impacts, of the 2000-2006 activities. The project concentrated on the mapping of the Structural Funds and assessing their contribution to the aims of spatial development policies, with particular emphasis on territorial cohesion and polycentric development. The study has sought to establish the possible links between Structural Funds intervention and the promotion of territorial cohesion and polycentric development.

The main indicators of regional development were increasing GDP overall and per one person, but also indicators: demographic level, unemployment and other economic parameters were analysed. Conclusions of research the project ESPON 2.2.1 are: there are two main ways in which the Structural Funds may influence spatial development:

- 1) there is potential inherent in the spatial nature of the funds themselves and there is the potential expressed in the area designation process. By deciding which areas are to be covered, by what types of interventions and by what intensity of intervention, the main channel of influence within spatial development is defined. In area designation the issue of territorial cohesion at both the *macro* and *meso* levels could be addressed. In theory, area designation could be contributed to *micro* level issues as well, but approach where EU member states and national and regional stakeholders influence *micro* level priorities is probably more realistic. Instead of area designation specifically targeted to polycentric development, a horizontal approach to the issue seems more promising. Area designation paying attention to functional urban areas, e.g. not splitting those, would increase the possibility of contributing to polycentric development.

- 2) The form of intervention also influences spatial development. Some policy forms may have more explicit spatial impact than others. In general however, policy interventions may take two main forms: (1) cushioning the adverse effects of investment or disinvestment decisions, and (2) speeding up investment decisions. The effect in this sense is likely to be more significant in regions/countries where the national funding available targeted at strategically important infrastructure investments is scarce.

If we analyse impact of project financing on entrepreneurship we can use the methodology of the **International Finance Corporation (IFC)**, which was one of the pioneers of project finance in developing countries more than 45 years ago, and project finance remains an important core of IFC's activities nowadays. IFC's mission is to contribute the World Bank Group's overall purpose of reducing poverty and improving living standards by playing a leading role in the development of a sustainable private sector. Just in 90-ties of the 20th century IFC, which has a committed portfolio exceeding \$11 billion in loan and equity investments in over 230 green-field projects in 69 developing countries (Argentina, Hungary, China etc.) all over the world (Project Finance., 1999). Three important principles guide IFC's work: the business principle, the catalytic principle and the special contribution principle.

Nevertheless the methodologies mentioned above should be analysed more in-depth to make conclusions about the possibilities to apply them in situation of Latvia.

Results and discussions

Situational analysis based on comparison of Riga and Latgale regions

To ensure national sustainable development, it is important to ensure development of both - individual smaller areas – parishes, counties, districts - and regions, but then the legal and material basis is required to provide this. The objectives of Latvian regional policy are defined in Regional Development Law (in 2002) and Regional Policy Guidelines (in 2004), and they are as follows: bringing national and regional development level nearer to the level of European states; competitiveness increase; provision of equal value living, work and environment conditions to people all over the country; creation of equal value preconditions for entrepreneurship and others.

If comparing an important macro-economic indicator – gross domestic product (GDP) per capita in regions of Latvia, it can be concluded that regional disparities had been increasing within the time period 1998 to 2002. For instance, GDP per capita in Riga Region in 1998 exceeded Latgale Region indicator 2.4 times, in 2000 - 2.8, but in 2002 – even 3 times. Since 2003 a vague tendency of diminishing disparities can be observed (2.7 times), but in 2004 – 2.6 times (according to unofficial data). As EU SF co-funding was available since 2004 but, as mentioned before, it was not marked for each of the regions, it is most likely when comparing regions of Latvia by GDP per capita, the disparities will not diminish rapidly. Nevertheless the final conclusions can be made only after the analysis of the official data of the years 2004 to 2006. When analyzing amount of non-financial investments from 1999 to 2004, it can be concluded that they have increased in all the planning regions but regional disparities have remained. For instance, the largest amount of non-financial investments per capita in 2004 was in Riga Region – 1190 LVL, which compared to 1999 increased by 650 LVL per capita. However the smallest indicator in 2004 was in Latgale Region – 389 LVL, which is 2.3 times less than average in the country (880 LVL) and 3.1 times less than in Riga Region. Besides, the fact that regional disparities between Regions of Riga and Latgale in 2004 have remained on the level of 1999 is quite significant.

The precondition of national economic development is improvement of entrepreneurship environment but in its turn one of the indicators characterizing entrepreneurship development is the number of economically active enterprises. The number of economically active enterprises and companies (except peasant and fisher farms) in the time period 1999 – 2004 increased by 13.8 thousand or 36.7%. Analysing these indicators by the planning regions, it can be concluded that in Riga Region it increased by 49.7%, but in other regions - by 11-16%. The lowest increase was in Latgale Region – only 11.3%.

In the time period from 1999 to 2004 the number of economically active enterprises and companies per 1000 inhabitants on average in the country increased by 6.5 enterprises, including – in Riga Region by 11.4, but in Kurzeme – by 2.4, Vidzeme – by 2.0, Zemgale – by 1.8 and Latgale – by 1.6 enterprises.

Regional disparities have been increasing each year, for instance, in 1999 the number of economically active enterprises and companies in Riga Region per 1000 inhabitants was 2.4 times larger than in Latgale Region, in 2004 – already 3.1 times larger, but the tempo of the indicator's increase in Riga Region in the period of six years has been 7 times faster than in Latgale Region.

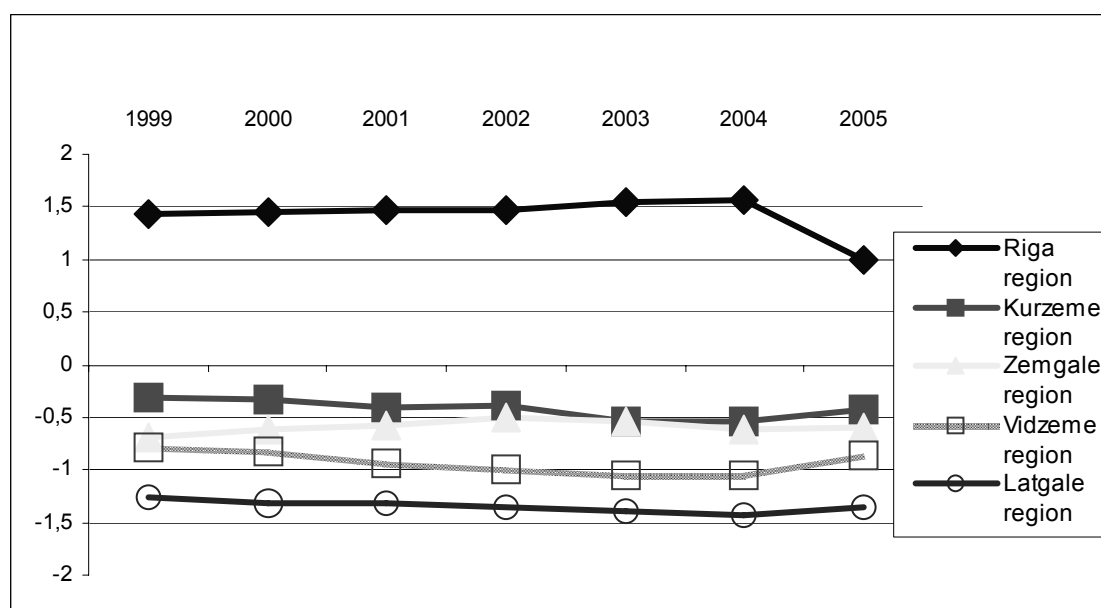


Figure 1. Territory development indexes of the planning regions in Latvia from 1999 to 2005

Source: data of State Regional Development Agency, 2005, 2006.

To characterize the situation in the planning regions of Latvia, the territory development indexes (TDI) elaborated by State Regional Development Agency (SRDA) should be looked at Figure 1. These indexes are used to ensure national scale programmes, including definition of specially assisted areas, differentiation of state support rate, division of state budget subsidies and municipal funding for parishes, towns, counties and districts in the projects co-financed by EU structural funds (not only in specially assisted territories).

According to the territory development index, Riga region is in the first place but Latgale Region takes the lowest position – the fifth place. Thus, if this would be taken as the basic indicator when allocating EU co-funding, Latgale Region would receive the major part, other regions – respectively smaller parts, but Riga Region would receive the smallest funding.

Amount and the main conditions of European Union co-funding

After Latvia's accession in European Union in 2004, our country had wider access to EU co-funding, including the means of the Structural Funds. National Development Plan for the period 2004 – 2006 or Single Programming Document (SPD) defined national development priorities and activities with the planned EU EF co-funding allocation of 625 568 826 EUR.

As Objective 1 Programme at EU level is foreseen to diminish unfavourable disparities between European regions and is aimed at NUTS 2 level territories, which include Latvia, SPD was not focused on solving the problem of territorial disparities in the country and it did not include separate funding for regions. Nevertheless implementation of SPD should have included a system which would be able to strategically reflect the situation in implementing SPD measures in the regions at NUTS 3 level – in the six statistical regions in Latvia or in nationally approved five planned regions.

The actual situation shows that due to the complexity of EU SF management information system, established by the Ministry of Finance (leading authority in managing EU Structural Funds), the reports on the situation in territorial perspective could not be developed. That is why the situational monitoring still is done either by specific studies or by initiatives of the administrating institutions on individual activities.

National support programmes to entrepreneurs with EU co-funding

National support programmes for the period 2004-2006 administered by Latvian Investment and Development Agency envisaged total investments of 145.55 million LVL (int.al. 109.9 from EU ERDF, 36.6 from the state) for creation of new production units, modernization of existing companies, advice, training of labour force and others. In 2006, LIDA received project applications from 821 entrepreneurs with request for funding from EU Structural Funds, and the total amount requested was 108,4 million LVL, but the contracts were signed with 614 projects.

Compiling publicly available LIDA information, 468 contracts signed with the entrepreneurs in 2006 in the total amount of 54 880 828 LVL (see Table 1) were analysed. Sub-programme 1.2. „Business development according to the requirements of international standards” under National support programme “Support to modernization of business infrastructure” was the most appropriate for the entrepreneurs and thus the most demanded. In spring 2006, LIDA announced the second call for applications and there were even queues to submit the project applications as well as strong discussions about existing mechanism of distributing EU funds. National government in its turn had to allocate additional funding under this programme to support all the approved business projects. In the sub-programme 1.2 was defined the allowed assistance rate (amount of funding in percentage for eligible expenditure per project) in all the territory of the Republic of Latvia and it was up to 65% of the eligible expenditure for small and medium size companies per project, but for large ones – up to 50%. When analysing the criteria set up for financial statements of the applicant companies (consisting of the balance, profit-loss statement, cash flow statement, long-term investment flow statement) for the last period before submission of the project to LIDA, it can be concluded that they are differentiated by regions. For instance, the indicators before implementation of the project had equal requirements for all the applicant companies (Guidelines of LIDA, 2004):

- 1) Rate of own capital against total assets = Own capital / Total assets $\geq 0,2$ (3);
- 2) Liquidity ratio = Current assets / Short – term liabilities $\geq 0,9$ (4);
- 3) (Profit after taxes) + (Amortization * 50%) ≥ 0 (5).

Table 1

EU Structural Funds for entrepreneurs under National Support Programmes according to the contracts signed in 2006, LVL

Nr.	National Support Programmes and sub-programmes	Total (LVL)
1.	Support to modernization of business infrastructure	49 563 800
1.1.	Creation and reconstruction of connections for infrastructure development	3 176 046
1.2.	Business development according to the requirements of international standards	44 954 689
1.3.	Creation of shared infrastructure	1 433 065
2.	Support to development of new products and technologies	1 900 976
3.	Support to advice and participation of companies in international exhibitions, trade missions	1 766 591
3.1.	Advisory services	1 258 356
3.2.	Participation of companies in international exhibitions, trade missions	508 235
4.	Support to training, re-qualification, further education of labour force	1 649 461
	Total funding:	54 880 828

Source: own calculations based on data of Latvian Investment and Development Agency, 2006.

Data of Table 1 show that under the first national support programme “Support to modernization of business infrastructure” the contracts were signed with value of 49.56 million LVL or 90% of total amount. This also includes sub-programme 1.2 – 44.95 million LVL or 82% of total amount. Entrepreneurs have used only small part of financing provided in other programmes: Creation and reconstruction of connections for infrastructure development (sub-programme 1.1) – 5.8%, Support to development of new products and technologies (programme 2) – 3.5%, Support to advice and participation of companies in international exhibitions, trade missions (programme 3) – 3.2%, Support to training, re-qualification, further education of labour force (programme 4) – 3%.

Analysing the balance sheets of 2005 and 2006 of several small and medium size companies in Latgale Region, it can be concluded that entrepreneurs in many cases could not submit their projects due to the reason that the mentioned above indicators did not meet the requirements (formulas 3, 4, 5). Not denying the need for criteria is set up for evaluation purposes of project applications, the major differences in financial situation of the companies in various regions of Latvia should be taken into account as well as differentiated rates – criteria before and after project implementation should be set up.

Figure 2 reflects the results of the analysis of the funding under national support programmes to entrepreneurs based on the signed contracts in 2006 by regions. It can be concluded that the major part of funding is obtained by entrepreneurs from Riga region (28%), followed by entrepreneurs from Kurzeme (23%), Zemgale (21%) and Latgale (19%) but relatively small number of entrepreneurs from Vidzeme Region applied for funding – only 9%.

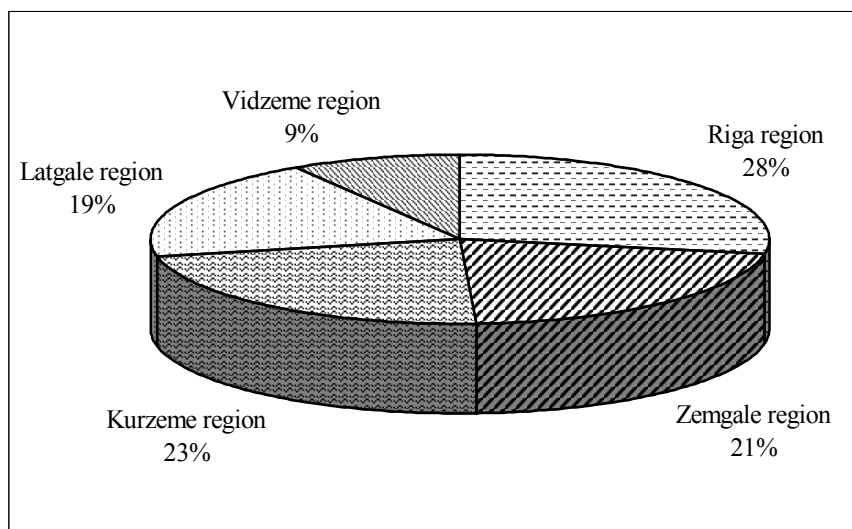


Figure 2. EU Structural Funds for entrepreneurs – national support programmes in planning regions of Latvia in 2006, %

Source: own calculations based on data of Latvian Investment and Development Agency, 2006.

As mentioned before, the specific division of funding by regions was not planned. As a result the entrepreneurs from economically advanced Riga Region were more active and they succeeded in using their intellectual and financial resources in project development. The conclusion can be made, that on governmental level there is lack of more goal-oriented and thought-out policy for development of project evaluation criteria, so they would be more favourable for regional entrepreneurs. In regional level the information about EU co-financing possibilities should be more active, accessible and understandable in order to enhance the possibilities of entrepreneurs for project development.

EU public co-funding by Latvian regions

The division EU public co-funding (including Cohesion Fund) in the amount of 371.7 million LVL or 67.5% of the planned total amount according to the data of the time period from 01.05.2004. to 01.01.2006. is presented in Figure 3. It can be concluded that economically advanced Riga Region has received major part of funding – 40%. Though economically backward Latgale Region has received minor funding – 11%. Zemgale followed by Kurzeme Region have received a little more.

The division of absolute funding from EU Structural Funds points at the direct relation between territory development level and amount of the funding attracted – the highest territory socio economic development level, the most funding received. So EU SF co-funding is not divided by Latvian regions accordingly to, for instance, regional development index or any other objective economic criteria which in its turn negatively affects even and balanced development.

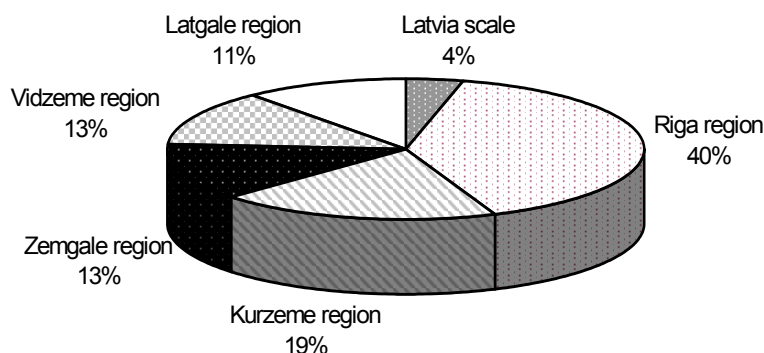


Figure 3. Actual division of public funding under SPD territorial activities by planning regions on 01.01.2006, %

Source: *Evaluation of EU Structural Funds impacts on Regional development in Latvia, 2006.*

Comparison by funding amount per capita or comparative indicator is more objective than absolute indicator. On average it was 148.40 LVL per capita. Most of funding per capita was in Kurzeme Region (205 LVL) and Vidzeme Region (187 LVL). In Zemgale Region it also exceeded the average of Latvia (154 LVL). In Riga Region - 123 LVL, but the smallest amount was in Latgale Region – only 103 LVL per capita. There is two times difference between the highest and lowest indicator.

Nevertheless it is not correct to analyse these absolute and relative indicators in the beginning of 2007 because they reflect the situation of 01.01.2006. but in 2006 the projects were implemented with value of about 170 million LVL or 30% of planned funding. Therefore the initiated studies on usage of EU SF co-funding for entrepreneurship development and provision of sustainable development of regions of Latvia should be continued more actively than until present time, more extensive scientific development and discussions should be made in order to prove that the financing should be invested in less developed territories.

Conclusions

1. 'In order to ensure even development of regions of Latvia and to diminish disparities between different territories, regional policy should be implemented not only *on paper*, but also in practice, by assigning more financing to the less developed territories. In that case EU SF co-funding can become a feasible assistance to combat regional backwardness.
2. Due to short time period and lack of sufficient information, a clear relation between development indicators of individual part of the territory and respective funding cannot be distinguished. Nevertheless the data show interconnection that the lagging behind regions attract minor funding from the view of both - absolute and comparative values, and there are threats that slow development and increasing disparities may still take place in comparison with economically more advanced regions. At the same time - it cannot be declared that economically the most advanced regions do not attract the major part of EU funding.
3. Although the impact of co-financing to the region's development could be evaluated not earlier than in 2-3 years' time after the investment, it is crucial to begin the research and discussions at the present moment to prove that no development expectations can be made if no or small amount of funds is invested.
4. There is a need for single EU project recording system as well as wider and more regular studies on usage of EU co-funding in overall country and in individual regions, development of appropriate methodology, and, possibly, creation of a particular research structure.
5. Most of all entrepreneurs used National Support Programme "Support to modernization of business infrastructure" - 90% of total amount and most of them were in Riga Region.
6. In order to promote entrepreneurship development and rise interest of people to work in remote

regions, national support policy is needed, for instance, such instruments as inhabitant income tax relieves, enterprise income tax relieves for the part of the profit that is invested into enterprise, etc. Taking into account significant differences in financial situation of small and medium size enterprises in different regions of Latvia, differentiated rates should be introduced for the project evaluation purposes depending on territory development index of the location of the enterprise.

7. The appropriate and effective usage of EU co-funding, regular analysis and adjustments of the plans according to the situation should become one of the public administration priorities in order to accomplish the main task to uptake the funds – to ensure balanced and sustainable development of all the regions.

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RESEARCH OF CAPITAL STRUCTURE IN AGRICULTURAL COMPANIES IN LATVIA

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Abstract

There are not many studies on the impact of financial risks on the development and financial results in agricultural enterprises in Latvia. The goal of the performed research was to carry out theoretical studies and on the basis of the available statistical information and information aggregated during the study process to ascertain the factors causing financial risks, to study the possibilities for the identification and analysis of financial risks related to the use of borrowed capital, paying special attention to balancing the proportion of borrowed capital in the capital structure and the efficient use of financial leverage, as well as to formulate recommendations for the elaboration of financial risk management programme and its implementation in agricultural enterprises. The research covers the period from 2000 up to 2005. The European Union Pre-accession and Structural Funds for the Development of Agriculture have actively acquired in Latvia between 2002 and 2006.

The analysis of capital structure in the farms included into FADN of Latvia, as well as the analysis of the information compiled by the Central Statistical Bureau of Latvia on capital structure and solvency ratios in agriculture, forestry and hunting has performed in order to evaluate the proportion of the equity and borrowed capital in agricultural enterprises and farmsteads.

Key words: *financial risks, financial, capital structure*

Introduction

Latvia still lacks thorough studies on the impact of financial risks on the development of agricultural enterprises and on the results of financial activities.

Several risk management specialists have analysed risk factors in agricultural enterprises and farmers' ability to take risks and gain additional income with successful risk management (Crane L.M. (2003); Lemsalu K. (2004); Barry P.J., Ellinger P.N., Hopkins J.A., Baker C.B. (1995); Harrington S.E. and Niehaus G.R. (1999) and others). Бригхэм Ю., Гапенски Л. (1999); Финнерти Дж., Ли Ч. (2000); Lemsalu K. (2004); Raudsepp V. (1999).; Jakušonoka I.(2003) and others have studied the use of the effect of financial leverage and its impact on the future development of the enterprise. Бланк И.А. (2002); Jakušonoka I.(2005); Jakušonoka I. (2002); Andersson H., Ramamurtie S.B., Ramaswami B. (1995) and others have analysed the methods of attracting borrowed capital and the ways of evaluating credit risks. (Crane L.M. (2003); Andersson H., Ramamurtie S.B., Ramaswami B. (1995); Kay, R.D.(1986); Чернова Г.В., Кудрявцев А.А.(2003) Jakušonoka I.(2005) and others have worked out and studied the methodology of risk management at the enterprise level.

Goal of the research –Tasks: to evaluate the effect of financial on the return on equity in agricultural companies in Latvia.

- 1) to investigate the capital structure of the enterprises of the agricultural, forestry and hunting industry in Latvia from 2000 till 2005 and to evaluate the effect of the financial ;
- 2) to investigate the capital structure of the holdings and the individual enterprises included into the Farmstead Accounting Database Network (FADN) of Latvia from 2001 till 2005, to identify the dynamics by grouping enterprises according to their economic size ESU (economic size unit) and by regions;
- 3) to determine the impact of the use of subsidies, including credit interest subsidies.

Materials and methods

During the research logically constructive and induction methods, statistical data processing methods, as well as statistical grouping and the graphical method were used.

Materials published by the Central Statistics Bureau (CSB) of Latvia and the Farmstead Accounting database Network (FADN) of Latvia on years 2000-2005 were analysed, theoretical and methodological studies of enterprise financial risk management issues were used.

Results

Irrespective of how attractive it might seem to use the borrowed capital for increasing the volume of income, one must remember the risks caused by uncertainty when the sales income could be lower than expected or even lower than the sales of the previous accounting period. Thus, the impact of two types of risks should be taken into consideration:

- 1) business risk when there is uncertainty in forecasting future income before loan interests – EBIT (the factors of impact: changes in product demand, sales volume and pricing, tough competition, applying term discounts, etc.);
- 2) financial risk that can express itself as uncertainty of the volume of income and thus, uncertainty of profit amount. Fluctuations of interest rates can serve as an additional factor.

In addition, higher profit volume per 1 LVL of the equity can be achieved by a higher level of financial, i.e., the ratio of the borrowed capital against the equity, but such an option should be carefully evaluated.

The author calculated the effect of financial using the following formula:

$$F_{ef} = \left(\frac{EBIT}{A} - r \right) (1 - T) \frac{D}{E} \quad (1)$$

in which:

EBIT – earnings before interest and taxes;

A – total assets;

R – average long-term loan interest rate;

(1-T) – tax corrector;

D/E – ratio of borrowed and equity.

In total, an enterprise endangered by the decrease of income caused by the interaction of both risks and the uncertainty of cash flow.

According to the data of the CSB of the Republic of Latvia, in 2005 there were 1,526 economically active holdings and enterprises in agriculture, forestry and hunting. The economic stability of the enterprise and the results of its financial activities can depend on very many factors. The critical margin of unsuccessful business activities is stoppage of the business and its liquidation, while crisis indicators are all those conditions that can create insolvency and bankruptcy.

With the agriculture dynamically developing, every year the amount of the loan capital and other financial resources invested in the industry increases (see Figure 1). From December 31, 2000 till September 30, 2006 credit balance in the enterprises in agricultural, forestry and hunting industry has increased 5.47 times and has reached LVL 254 million, which makes 5.3% of the total amount of loans given to national economy.

The total liabilities on the enterprise balance sheet indicate that on January 1, 2005 it was 52% in the agricultural, forestry and hunting sector. In addition, it was very different across sectors: 60% in private sector and 12% in public sector. Short-term loan proportion was 26% (Basic financial ..., 2005). The coefficient of absolute liquidity of the businesses of this industry was 0.487 at the beginning of 2005, which can be considered satisfactory. However, in businesses with the number of employed 0-49 it was 0.223, with the number of employed 50-249 it was 0.218 and only in those businesses where they employ more than 250 people, the coefficient was 1.66. At the end of 2005 the proportion of the credit liabilities on the balance had increased even more and in total was 53.9% in the industry.

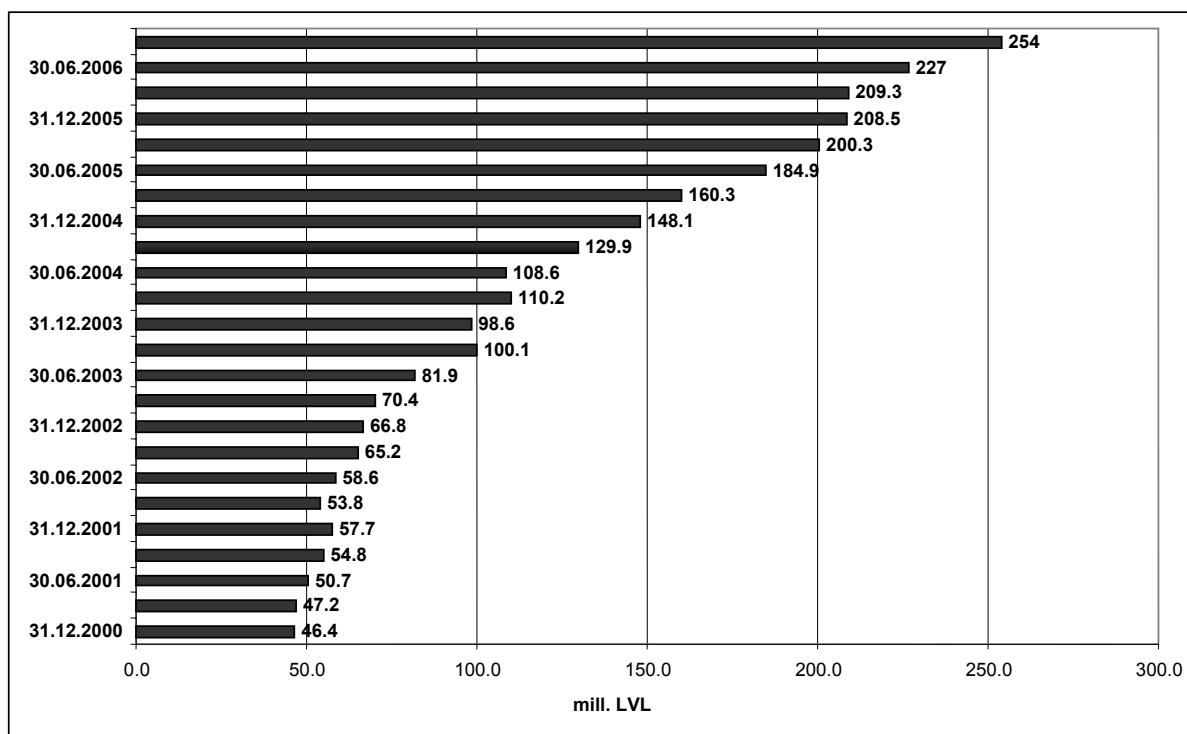


Figure 1. The balance of loans disbursed to the agrarian, forestry and hunting sectors, million LVL

Source: Statistics of banks, 2000 – 2006.

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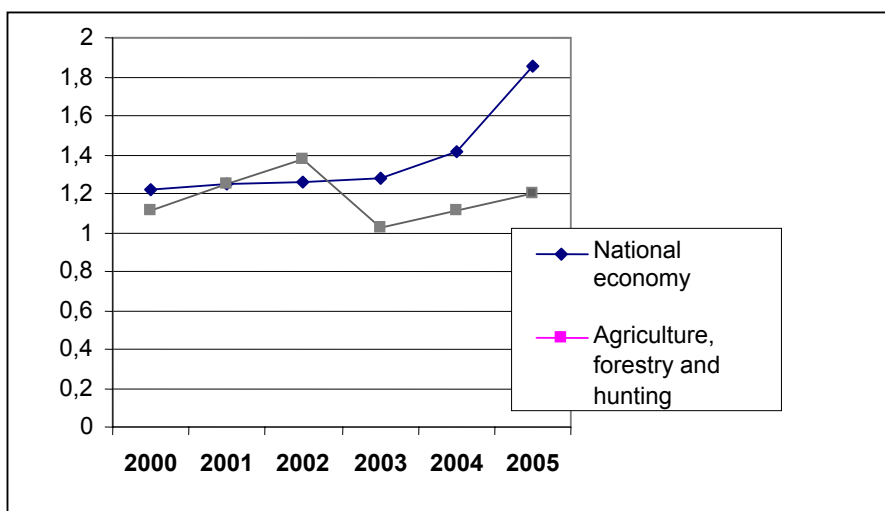


Figure 2. Financial in agricultural enterprises of Latvia between 2000 and 2005

Source: Basic financial indicators..., 2001, 2002, 2003, 2004, 2005.

In businesses with a higher level of financial advantage, i.e., the ratio of borrowed capital against the equity, the level of the financial risk is accordingly higher.

The analysis showed that over the last five years financial risk in the agricultural, forestry and hunting industry has been slightly lower than the average in national economy (see Figure 2).

During 2000 – 2004, a very high level of financial risks was in the enterprises with the number of employed 0-49: in 2000, the credit liabilities increased their equity 1.6 times, but in 2004 it was already 2.24 times higher (see Figure 3).

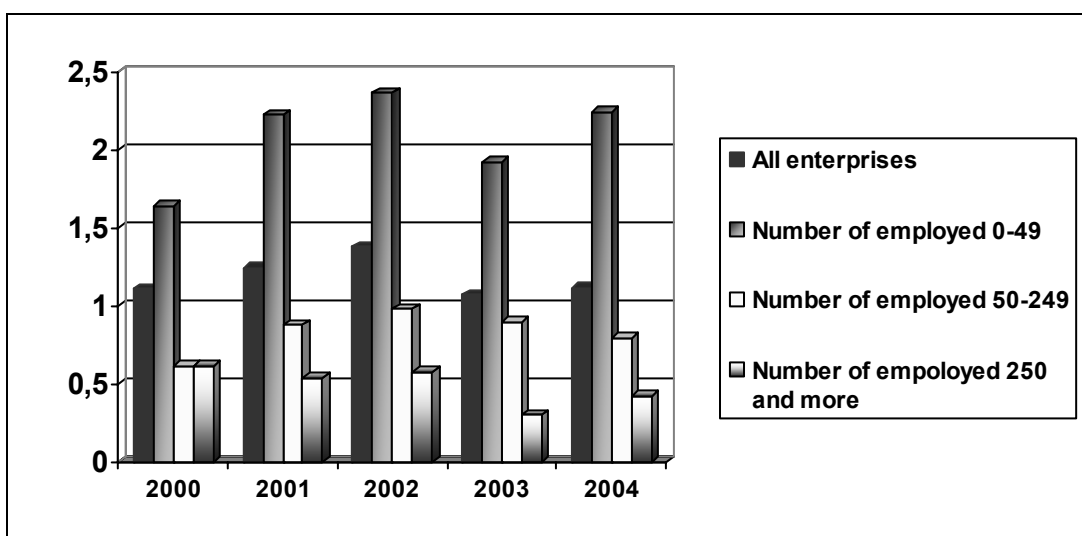


Figure 3. Liabilities against equity in agricultural enterprises, at the end of the year

Source: Basic financial indicators ..., 2001, 2002, 2003, 2004, 2005.

According to the data of CSB of the Republic of Latvia, the main indicators of financial results of enterprises in agricultural industry show that between January 1, 2000 and January 1, 2006 the equity has increased **2.8 times**, but the amount of credit debts – **3 times**, including long-term credit liabilities that have increased **3.1 times** (see Table 1).

Table 1

Financial results in agricultural enterprises
between 2000 and 2005, at the beginning of the year (thou. LVL)

Indicators	01.01.2000	01.01.2001	01.01.2002	01.01.2003	01.01.2004	01.01.2005	01.01.2005 (against) 01.01.2000
<i>Assets</i>	119 327.8	139 604.6	160 584.1	187055.5	241368.2	344856.8	2.9 x
<i>Long-term assets</i>	57 513.9	66 023	77 527	95812.3	131362.0	182013.4	3.2 x
<i>Current assets</i>	61 813.9	73 581.7	83 057.1	91243.3	110006.2	162843.4	2.6 x
<i>Equity</i>	58 473.7	64 159.9	70 419.4	84377.0	117283.8	161094.0	2,8 x
<i>Accounts payable</i>	60 086.3	73 701.9	87 744.7	99733.7	119993.4	179386.9	3 x
<i>incl. long-term liabilities</i>	29 272.0	33 112.4	42 327.2	52302.4	58926.6	90365.9	3.1 x
<i>Short-term liabilities</i>	30 814.3	40 589.5	45 417.5	47431.3	61066.8	89021.0	2.9 x
<i>Net turnover</i>	90 908.1	173 674.3	206 427.5	244 367.8	284935.8	358953.7	3.9 x
<i>EBIT (earnings before interest and taxes)</i>	-903.6	7 675.3	8 274.2	15 148.3	34527.4	58734.6	X
<i>EPT (earning past taxes)</i>	-936	4 311.8	4 250.9	10 141.7	27237.9	48680.8	X

Source: Basic financial indicators... 2001, 2002, 2003, 2004, 2005, 2006.

The indicator of the effect of financial advantage, as calculated by the author (Formula 1), shows by how many percent the return from equity in the capital structure with the combination of borrowed capital

is larger than the return from the assets without the attracted borrowed capital. During 2000 – 2002, the effect of the financial advantage is negative, in 2003 it shows a positive tendency and in 2005 reaches 7%.

Table2

Effect of the financial advantage in agricultural, forestry and hunting enterprises in 2000-2005

	2000	2001	2002	2003	2004	2005
EBIT/A, %	- 0.8	5.5	5.2	8.1	14.3	17.0
r, %	10.3	10.4	8.5	7.5	9.2	9.4
(1-T)	0.75	0.75	0.78	0.81	0.85	0.85
D/E	1.03	1.15	1.25	1.18	1.02	1.11
F _{ef} , %	-8.57	-4.23	-3.22	0.57	4.42	7.17

Source: Author's calculations using Basic financial indicators ... 2001, 2002. and Statistics of Banks 2000.-2006.

However, the summary of CSB data and the calculations do not allow judging about the dynamics of liabilities separately in agricultural enterprises, and it does not offer an opportunity to analyse by the regions or the specialization directions either. Such analysis of data can be performed either independently doing sample observations or using the Farmstead Accounting Database Network (FADN) of Latvia.

Analysing the farmsteads included in FADN (in 2005 they were 932 in total), the financial by regions was evaluated. In 2005 the highest financial is in the area around Riga (Pierīga -1) (60.6%) and in Zemgale-1 (46.2%), but the lowest – in Kurzeme (21.6%), (FADN, 2005).

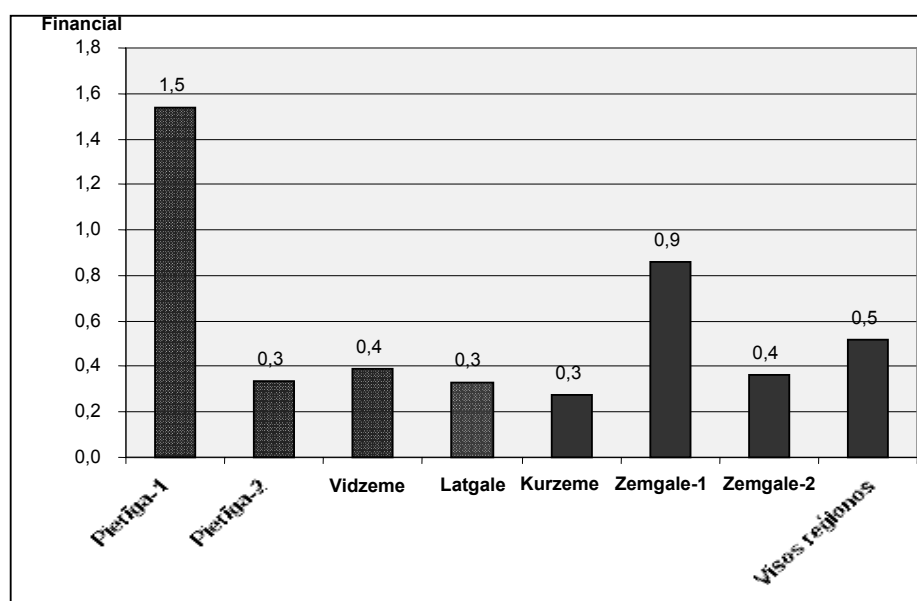


Figure 4. Financial in agricultural enterprises included into FADN of Latvia in 2005, by regions

Source: SUDAT, 2005.

However, analysing the proportion of liabilities against the equity (financial leverage), it is possible to conclude that the level of liabilities increases the equity 1.5 times in Pierīga-1 region and comprises 90% of the equity in Zemgale-1 region (see Figure 4).

According to FADN, the results of economic activities of 2005 indicate that small enterprises with gross cover of LVL 6744 – 13,488 (4-8 ESU) have increased the attraction of borrowed capital by 12.1 santims per 1 Lats of equity, but holdings with gross cover of LVL 84,300 – 210,750 (100-250 ESU) – 48 santims per 1 Lats of the equity respectively when compared to 2003. Only in one group of enterprises (>250 ESU) the liabilities increase the equity 1.65 times, which indicates to high possibility of a financial

risk (see Figure 5). When evaluating the amount of liabilities in the enterprises of different directions of specializations, it turned out that the liability proportion in pig-breeding and poultry farming holdings made 63% in 2005, in vegetable growing enterprises – 44% and enterprises specializing in crop cultivation – 40%. (FADN ..., 2005)

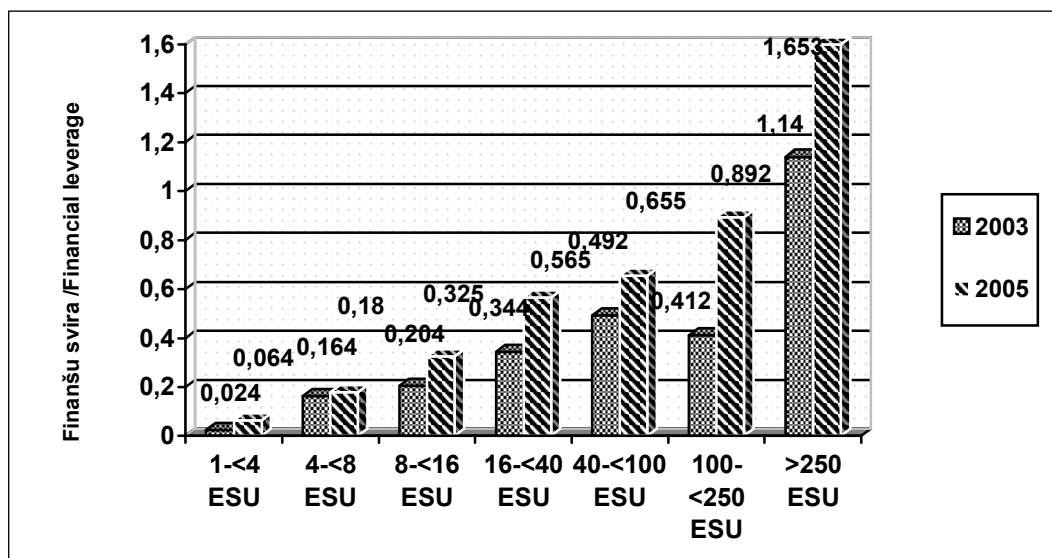


Figure 5. Financial in holdings included into FADN of Latvia by economic size unit at the end of 2003 and 2005

Source: FADN 2003; 2005.

An important place in the proportion of borrowed capital is occupied by loans that holdings have taken within a framework of a common Rural Development Programme, including the crediting of the national co-financing of the received resources for the use of EU Funds, Loan Programme for Acquiring Agricultural Land, Agricultural Long-term Investment Credit Programme, etc.

In 2005 within the framework of Agriculture Long-term Investment Programme SJSC “Latvian Mortgage and Land Bank” disbursed 121 loans to implement long-term investment projects in the amount of LVL 4.9 mill. (84 loans in the amount of LVL 3.5 mill. in 2004). In addition, on April 6, 2005 the Cabinet of Ministers approved an adjusted investment programme and the interest rate was lowered from 6.8% to 4% for bio-farms and for holdings offering agricultural services. Other farmers were assigned a 5% rate. (Agriculture and Rural ..., 2006)

The programme for acquiring land began to be implemented in 2002 and was over in 2005, when the entire credit line of LVL 9 mill. was acquired. Within the framework of this programme farmers could receive loans in the SJSC “Latvian Mortgage and Land Bank” with the term 20 years and the interest rate 4% a year. In 2005, 174 loans were granted in the amount of LVL 3,597,585 (134 loans in the amount of LVL 1,724,043.20 in 2004). (Agriculture and Rural..., 2006)

In addition to the above mentioned, state support measures have given a significant contribution to the development of the industry (see Table 3). The largest part of the investment is made by support to achieving EU standards, resources of Structural Funds and SAPARD. There is a tendency that when the economic size of the holding increases, the subsidy amount also increases. In 2005 on average subsidies made LVL 3,222 per 1 FADN holding (ESU <4 – LVL 482 respectively, but for ESU >250 – already LVL 144,412). Of these, 62% are made by Structural Funds and SAPARD (ESU <4 – 26% respectively, but for ESU >250 – 91%). (FADN ..., 2005)

From the perspective of financial stability, alarm is caused by the fact that in all holding groups the sum of invariable costs and overheads and depreciation can be hardly covered by the gross amount. The profit is created only by the received support measures. However, it has to be emphasized that these subsidies can significantly reduce the risk created by the use of the borrowed capital.

According to the data of LVAEI specialists, in 2005 in FADN holdings on average 63% of net benefit was gained by subsidies in the production process. In different regions, the size of subsidies varies from 14% in Pierīga-1 to 93% in Latgale. (FADN ..., 2005)

Table 3

**Loan interest rate subsidies in holdings included
into FADN of Latvia by economic size unit in 2005, LVL**

Regions/Size classes, ESU	All regions	Pieriga-1	Pieriga-2	Vidzeme	Latgale	Kurzeme	Zemgale-1	Zemgale-2
Average per farm	90	129	94	84	69	52	192	76
< 4 ESU	2	-	4	-	3	3	-	1
4-<8 ESU	4	9	2	3	2	12	-	-
8-<16 ESU	126	17	12	161	386	88	30	44
16-<40 ESU	188	49	203	330	144	163	95	374
40-<100 ESU	1066	1357	684	1160	1849	763	786	2402
100-<250 ESU	2854	960	5130	667	4500	1111	3029	x
> 250 ESU	4870	x	x	x	x	x	6701	x

Source: FADN, 2005

In total in 2004-2005 in Latvia, significant resources were invested in ensuring the stability of the industry: LVL 3,320.3 thou. for compensation of damages caused by agro-climatic circumstances, LVL 4,247.2 thou. for partial coverage of interest payments and guarantee of loan interest rates and LVL 48.5 thou. for insurance.

The level of such state support measures simultaneously is a factor facilitating sustainable rural development and a risk factor, because when EU policy concerning state support changes, the cash flow in enterprises can become unstable and due to unfavourable management conditions (losses caused by natural disasters, result of undeveloped insurance system of agricultural activities, etc.) can lead to bankruptcy.

Thus, we see that management of financial risks becomes an important and significant financial management function both in the industry as such and in each agricultural enterprise itself. When developing a risk management system and the execution of its functions, the management of the industry and the enterprise should: investigate the constituents of the main financial risks; evaluate risk levels; investigate the size of potential losses related to financial risks according to certain business operations, as well as for business activities in total; develop and actively use the system of financial risk prevention and minimization, develop insurance measures in the industry as such and within the enterprise; foresee the option to pass over the financial risk to specialised insurance institutions.

Conclusions and Recommendations

- It is possible to perform the analysis of capital structures and the related financial risks either independently performing a sample observation or using the data of Farmstead Accounting Database Network (FADN) of Latvia and CSB.
- The total financial on the enterprise balance indicates that in agricultural, forestry and hunting industry it comprised 52% on January 1, 2005. In addition, it varies greatly across the sectors: 60% in the private sector and 12% in the public sector.
- The indicator of the impact of financial advantage as calculated by the author shows that from 2000 till 2002 the effect of the financial leverage is negative, in 2003 it begins to show a positive trend and it reaches 7% in 2005.
- In 2005 the highest financial in the holdings included in FADN is in Pieriga-1 region (60.6%) and it exceeds the equity 1.5 times; in Zemgale-1 region (46.2%), but the lowest – in Kurzeme region (21.6%).

- From the perspective of financial stability, alarm is caused by the fact that in all holding groups the sum of invariable costs and overheads and depreciation can be hardly covered by the gross amount. The profit is created only by the received support measures. However, it has to be emphasized that these subsidies can significantly reduce the risk created by the use of the borrowed capital.
- The current volume of state support measures should be maintained by providing the required amount of credit interest subsidies in investment programmes.
- Development and ensuring of an effective operation of risk management and insurance system in the industry of agriculture is very important.

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PROBLEMATIC ASPECTS OF PERSONAL INCOME TAX IN LATVIA

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Abstract

The personal income tax in Latvia is one of the main income sources of the state. In 2005, taxes made 79.6% of the consolidated state budget, and the personal income tax provided 15.9% of the tax revenue. The paper considers the result of the research about the influence of the income tax on fiscal, economical and social development of the economy of Latvia. The paper considers the positive and negative sides of the personal income tax and the differences between the progressive and proportional tax rate. It deals with the essential problem of the elaboration and realization of the principles of a just tax policy in the interests of the population. The authors raise a question of progressive rates of the income tax, as well as of lowering the corruption level and „shadow economy” in this country.

Key words: Tax, income tax, improvement of tax, Latvia.

Aim, tasks and methods

The aim of this paper is to deal with the point of the personal income tax and its role in the national economy of Latvia, as well as with the mechanism of the tax collection and distribution used, and offers proposals for its improvement.

To achieve this aim it is necessary to solve the following tasks:

1. to find out and analyse the aim and task of the personal income tax;
2. to determine and analyse the personal income tax;
3. to elaborate proposals for the tax improvement.

Methods used in this study

The principles of this study are the induction and deduction method, the analysis of economical and social conditions of the tax, the monographic method and the analysis of the law of the income tax in Latvia. Sources and tasks of the personal income tax in the run of time have been found out and analysed for the achievement of the tasks set. The method of comparative analysis as well as constructively logical method has been used.

1. Introduction

Larger or smaller means have been necessary for strengthening and maintaining the state power during all the periods of the state development. The principal source of it is the income of the state population or separate sections of them. In the run of time the expenses of the state have increased, and at present alongside with the expenses of former tasks of administrative, political and economical power, new kinds of tasks have been developed connected with the solution of social and cultural questions as well as with raising the level of general and professional education. However, there have always been conditions when the state revenue must not destroy the population tax paying ability, but on the contrary, they must provide for the prosperity and well-being of the population.

The source of the taxes has always been the national total production – the income belonging to the regular inhabitants (population) and enterprises, adding also the income from the deposits in foreign countries and counting off the interests and payments from the investments of foreigners in their own countries. The state statistics shows it usually as the gross domestic product (GDP). From the production side, the

domestic total product is made from the total value added of all economical activities as well as from the sum of customs duties and excise tax by taking into consideration the subsidies. The total value added is calculated if from the whole output value of goods and services the intermediate consumption value is counted off, i.e., the value of the resources (goods and services) used in the production.

In such a way, the most important task of Latvia government is the problem of the total amount of GDP as well as a sharp increase of the amount per capita, by having a prudent economical policy connected with elaborating and realizing just political principles of taxes in the interests of the population, as well as with lowering the corruption level and „shadow economy” in this country.

Results and discussions

Meeting collective needs at present, as it has been up to now, is mainly performed by means of social management or by the budget. The task of social management is to meet those needs which are not solved or solved incompletely by the private management. During the last century the social needs have greatly increased and they include – the administration of state and municipality, justice system, maintenance of educational, cultural and medical institutions, provision and protection of state internal order, a wide social maintenance system and others. The task of social management is also the provision of the principles of social maintenance, not allowing a very sharp differentiation of the population according to their property circumstances as well as lording of one section over the other ones, i.e., the country is to provide for all the human rights of the population, especially for the most sensitive sections politically and economically (women, children, invalids, the weakest ones economically and others). In such a way, one must not allow lording of the stronger and more immodest people over the other citizens. Therefore the principal function of the state budget must be determined for meeting the social (public) needs as well as the necessary sum which the state must cash in as the income of taxes and non-taxes from the population as a compulsory payment for meeting the state and municipality needs as well as for a more even re-distribution of income and property.

The personal income tax is included just in the category of direct taxes. Usually it is paid to the state or both to the state and the municipality.

While determining the tax, it is significant to consider the principles of fiscal, economic and social justice. While considering the place and role of the personal income tax, according to the data of Latvia Statistics annual (2003, 2004, 2005), as well as according to the data of the monthly bulletin No 6 (145), 2006, the total state revenue was 320,5 million lats in 2005. The tax income was 80% of them, but non-taxes and other income was 20%. From the tax revenue in the 3 years analysed, 3 taxes – personal income tax (PIT), corporate income tax (CIT) and immovable property tax (IPT) made up 24,6 % in 2004 to 29,7 % in 2005. As the payment of social maintenance was for special tasks – pensions and social aid, we may say that PIT, CIT, IPT provide for almost a half of all the tax revenue (Table 1).

The principal drawback of the existing tax system in Latvia is the following – all 3 kinds of taxes have determined the so called proportional tax rates which are equal for separate taxes. It leads to an increased and accelerated stratification of the population in Latvia according to their property circumstances as well as to a growing social stress. Because of this reason, almost all EU participant countries have given up the proportional tax rate and have the progressive rate which requires the tax load to be paid mainly by those who are able to do it.

The tax rate must be determined by taking into consideration the fact that after its payment, the income would continue to grow and the population would not lose the interest to get a larger income. It is possible by determining the rate from 5-10 % to 45 -55 % from the taxable income (Boruks A., Vītola Ī. 2003. – The personal income tax as a mechanism of redistribution between different sections of the population).

The tax is to be uniform, and it is to include all the spare means of the population, i.e., they must correspond to the demand that they are paid by the persons who are able to do it. *The amount of the non-taxable income is closely connected with the existence minimum – with the sum necessary for a persons' existence as well as for meeting the expenses necessary for his/her existence and reproduction.*

The non-taxable income includes the expenses for food, clothing, electricity and heating, traffic, sport, culture, personal hygiene (soap, washing, powder, bath) as well as the education and his/her life continuation – maintenance of family, children and the disabled people. Therefore the non-taxable minimum is closely connected *with the life expensiveness, expenses of living wage and the necessity to provide for the development of the nation.*

Table 1

General government consolidated budget revenue during 2003 – 2005 in mil. Lats

Revenue of taxes And non-taxes	2003		2004		2005	
	Revenue	%	Revenue	%	Revenue	%
State Consolidated revenue – total	2107,4	100	2522,2	100	3199,8	100
Tax revenue	1782,5	84,6	2025,4	80,3	2545,7	79,6
Personal income tax	367,1	17,4	435,5	17,3	509,1	15,9
Corporate income tax	93,9	4,5	127,8	5,0	180,7	5,6
Immovable property tax including land tax and property tax	51,9	2,4	56,8	2,3	61,6	1,9
Total:	512,9	24,3	620,1	24,6	751,4	23,4
Value added tax	459,2	21,8	486,7	19,3	677,1	21,2
Social security contributions	561,9	26,7	641,2	25,4	751,4	23,4
Excise tax	212,1	10,1	236,9	9,4	314,0	9,8
Customs duties	18,8	0,9	17,1	0,7	19,2	0,6
Natural resources tax	9,8	0,5	8,3	0,3	10,3	0,3
Other tax revenue	7,8	0,3	15,1	0,6	22,6	0,7
Non-tax revenue	311,7	14,8	479,1	19,0	629,0	19,7
Receipts from other administrative and gifts received	13,2	0,6	17,8	0,7	25,1	0,8

Source: Compiled according to the data of Central Statistics department
<http://test.csb.gov.lv:8080/Dialog/Saveshow.asp> 01.11.2006

The non-taxable tax minimum may be different in different countries and nations, as it depends on the income in the given country, on the level of prices and services, on its geographic location, dominant habits and family circumstances, especially on the number of the dependents. For example, in Germany the personal income tax is different according to the family circumstances and its property. The income of a person is not taxed, expressed in the united currency Euro for a single person (living alone) to 785, for married people – to 1571, for persons older than 64 – to 1892. [6, 10].

In Latvia the determined amount of non-taxable minimum wage is raised, but still it is a low one. During the recent years the amount of non-taxable wage minimum has increased as follows – in 2005 it was Ls 26, in 2006 – Ls 32, but from January 1, 2007 it is planned to be Ls 50 monthly.

It slightly exceeds 42% of the living wage which was Ls 118.27 in 2006.

Changes have taken place in connection with the increase of tax allowances amount for a dependent person. In 2005 it was Ls 18, in 2006 – Ls 22, but from January 1, 2007 it will be Ls 35.

According to the data by European employers' federation, in Latvia the minimum monthly wage is one of the lowest in comparison with that in EU participant countries (Table 2). The low wage, including the minimum wage in Latvia is one of the principal reasons promoting the people of this country to move mainly to the old EU countries where the wages and the living circumstances are higher than in Latvia. This movement of the working power affects negatively both the development of the branches of national economy as well as the taxes are not cashed in, including the personal income tax, in this country.

The increase of wages will increase the municipality income essentially, because the income of the personal income tax will grow from the wages of the workers. It will promote the growth of the living standard too.

While increasing the wages, the revenue of municipalities will increase, because the revenue of personal income tax will grow from the wages of the working people. It will promote the growth of the living standard.

We consider that there is a drawback that *at present PIT is not imposed on all income – mainly on those which are obtained by the rich people – income from the capital, share capital, securities as well as*

from speculative transactions with real estates, legacy, gifts, from gambling income. All income is to be imposed with PIT, a tax for transactions with precious metals, luxury articles, very expensive wines, cognacs and other prestige alcoholic drinks, luxury cars should also be determined.

Table 2

Minimum monthly wage in EU countries [5, 11]

Country	Minimum monthly wage in local currency	Minimum monthly wage euro, according to the rate of exchange in the moment of changes	Date of coming into force
Luxemburg	1466,77 euro	1466,77	01.01.2005
Belgium	1314,50 euro	1317,50	01.02.2004
Netherlands	1264,80 euro	1264,80	01.07.2003
Great Britain	840,67 pounds	1226,00	01.10.2004
Ireland	1213,33 euro	1213,33	01.02.2004
France	1154,13 euro	1154,13	25.06.2004
Cyprus	350,00 CYP	610,00	01.06.2004
Greece	559,98 euro	559,98	01.09.2004
Malta	241,06 MTL	557,00	01.01.2005
Spain	513,00 euro	513,00	01.01.2005
Slavonia	117500,00 tolaras	484,00	01.08.2004
Portugal	374,70 euro	374,70	01.01.2005
Czech Republic	7185,00 CZK	238,00	01.01.2005
Hungary	57000,00	232,00	01.01.2005
Poland	849,00 PLN	208,00	01.01.2005
Estonia	2690,00 EEK	172,00	01.01.2005
Slovakia	6500,00 SKK	163,00	01.01.2004
Lithuania	500,00 lits	145,00	01.05.2004
Latvia	90,00 lats	121,00	01.01.2006

For a long time there is the proportional rate of income tax in Latvia, when all the units taxed have the same rate – 25%. The positive side of the proportional rates is that the tax is easy to be cashed, because the income, independently of the source, are imposed by a united tax rate, and it is not necessary to sum up the income obtained by different sources and to calculate the amount of the tax rate. The negative side is, as mentioned above, the social injustice because it is more difficult for poor people to pay this united rate than for the people having a large income.

It is planned to reduce the PIT proportional rate from 25% to 15% in 3 years beginning from January 1, 2007. These changes will not solve the condition. According to the calculations of experts and authors, obtainers from the reduction of the personal income rate will mainly be the people having a large income, but the burden of the tax load will lie on those having a small income. The population differentiation according to the income will continue and the social stress will increase.

It will happen also because the present social injustice will remain when many kinds of income are not imposed with PIT and they are the rich people.

It is possible to solve this question if our country adopts the experience of old EU participant countries (France, Italy, Germany, Austria, Belgium, Netherlands etc.) *by determining the rates of progressive income tax*. The minimum amount of this rate is usually determined 5 – 15% of the personal income, but the maximum rates – 40 – 45% monthly. By determining PIT to follow these directions:

- the rates should be socially just, i.e., PIT should be paid by those who are able to do it;
- the population should not lose interest to increase the income, i.e., to provide for the increase of the personal income more quickly than the payment rates of the personal income tax grow.

Taking into consideration these principles, the authors have elaborated the rates of the progressive PIT to be established. They are shown in Table 3 and have been determined as follows:

- to impose PIT on all kinds of personal income – premiums added to the wage, income from shares, securities, deposits in funds, as well as income from deposits which exceeds the amount of minimum wage of the previous year calculated by the state statistics department; income from gifts and donations except the non-taxable by law allowed kinds of PIT;
- to determine that the personal income tax should be calculated according to the progressive rates mentioned in this paper, with the minimum rate 10% and maximum rate 55% from the amount of taxable income, i.e., from the income from which the social security contributions and the non-taxable minimum of PIT including the tax allowances for the dependent persons) are counted off. From the income exceeding Ls 1900 monthly, PIT should be calculated according to the proportional income rate of 55% (Table 3);
- the non-taxable minimum of the personal income tax includes the non-taxable minimum of wage (beginning with January 1, 2007 determined Ls 50 monthly) plus tax allowances for the dependents (Ls 35 monthly for a person multiplied with the birth-rate coefficient – 1.25 in Latvia) (see „Latvia Statistics annual 2005”); together with PIT the non-taxable minimum is Ls 94 monthly since January 1, 2007. The amount of non-taxable living wage is a variable able to change when the population living level grows.

Table 3

Proposal for calculation of personal income tax (PIT)

Existing income taxable by PIT with interval Ls 150	PIT Rate % with step of rate 5%	Min. income tax Ls/month	Max income tax Ls/month
0 - 94,99	0%	-	-
95,00 – 249,99	10% from sum exceeding Ls 95,00	0	15,50
250,00 – 399,99	Ls 15,50 + 15% from sum exceeding Ls 250,00	15,50	38,00
400,00 – 549,99	Ls 38,00 + 20% from sum exceeding Ls 400,00	38,00	68,00
550,00 – 699,99	Ls 68,00 + 25% from sum exceeding Ls 550,00	68,00	105,50
700,00 – 849,99	Ls 112,75 + 30% from sum exceeding Ls 700,00	105,50	150,50
850,00 – 999,99	Ls 150,50 + 35% from sum exceeding Ls 850,00	150,50	203,00
1000,00 – 1149,99	Ls 203,00 + 40% from sum exceeding Ls 1000,00	203,00	263,00
1150,00 – 1299,99	Ls 263,00 + 45% from sum exceeding Ls 1150,00	263,00	330,50
1300,00 – 1449,99	Ls 330,50 + 50% from sum exceeding Ls 1300,00	330,50	405,50
1450,00 – 1599,99	Ls 405,00 + 55% from sum exceeding Ls 1450,00	405,00	487,49
1600,00 – 1749,99	Ls 487,49 + 55% from sum exceeding Ls 1600,00	487,49	569,98
1750,00 – 1899,99	Ls 569,98 + 55% from sum exceeding Ls 1750,00	569,98	652,47
1900,00 -	Ls 652,47 + 55% from sum exceeding Ls 1900,00	652,47	and so on

The proposals for the calculation of PIT are shown in Table 3 depending on the Gross receipt monthly.

Moreover it should be taken into consideration that the social security contribution (social tax) should be counted off from the gross receipt; firstly, because they are paid by all the inhabitants independently of their income, and while counting them off from the gross (bruto) wage we obtain the actual income of the population from which the non-taxable minimum as well as the reductions for the dependents are counted off, in such a way we obtain the taxable existing income of PIT:

- in order to consolidate the national morality as well as a legally registered family, to determine that the taxable income are to be reduced for 1% for every child during his school years with the requirement that the child is making normal progress;
- unemployed pensioners have their pensioner’s status if their income from deposits together with author’s pay for articles, paintings and other kinds of economic activities during 1 year do not exceed their calculated pension for a half year.

While discussing the personal income tax, the 7th Parliament did not adopt the necessity to introduce the progressive tax rate in the country. Just for this reason the action for the introduction of progressive rate must be continued because the differentiation of the population according to the financial condition will continue. It may lead to a stronger social stress, which is a threat to the democracy.

Proposals for the improvement of the personal income tax (Conclusions and recommendations)

1. At present the personal income tax is imposed by the proportional tax rate and makes 25% of all taxable personal income. It leads to a stronger differentiation according to the financial condition. In order to prevent this injustice, we suggest turning to the progressive income tax rates – paying they who can do it.
2. To determine that the personal income tax is to be calculated according the progressive rates, with the minimum rate of 10% and the maximum rate of 55% of the amount of the taxable income. In such a way the tax load would shift to the persons who are able to pay it.
3. In order to calculate the tax rates more practically, tables of the personal income tax should be made in which the sum of the income tax would be shown according to the monthly wage and/or the income from other kinds of economic activities – instead the tables, the regression equations (functions) may be made and solved. However, it does not exclude making the tax rate table, because it has a clear form and is convenient for the user.
4. In order to consolidate the national morality as well as a legally registered family, the taxable income is to be reduced not only for the minimum of the non-taxable income but also with definite tax reductions and allowances, but to determine some additional 1% allowance for every child during his school years with the demand that the child is making normal progress.
5. Unemployed pensioners have their pensioner's status if their income from deposits, together with author's pay for papers, paintings and other kinds of economic activities during 1 year do not exceed their calculated pension for a half year.
6. The transformation of the personal income tax in Latvia by taking into consideration the authors' proposals, will include several advantages. Firstly, PIT would be more just than the present one. Secondly, it advances towards the widely used kind of PIT in the EU participant countries. It will raise the impartiality of the tax and will promote the development of the national economy. It will help to improve the tax system in Latvia.

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TAXATION OF GAINS ON THE SALE OF REAL ESTATE AND EFFECT CAPITAL GAINS TAX WOULD HAVE ON RURAL DEVELOPMENT IN LATVIA

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Abstract

Rural development in Latvia currently is affected among other factors also by growth of real estate market in general and speculative transactions which take place in real estate market. This hinders rural development as investors are interested in gaining profits from increase in land (also land in rural areas) value. Investors are interested to gain maximum profit by purchasing land in rural areas and transforming this land into building land. Large areas of rural land are concentrated in hands of few wealthy individuals who are not using this land for agriculture but rather holding this land for future resale. This means that this land does not produce anything of added value and does not take part in rural development process. The aim of this article is to evaluate whether tax on gains from sale of real estate could affect rural development and solve problems mentioned above by reducing speculative transactions with real estate in rural areas. Author is contemplating how realistic is implementation of capital gains tax on proceeds from sale of real estate in Latvia and is comparing the experience of other European Union Member States in this regard.

The article deals with potential changes in Latvian taxation system, possibility of introducing capital gains tax on gains from sale of real estate. Gains on the sale of real estate should be treated as capital gains and hence there arises a topical question if there would be necessary to introduce in Latvia a new capital gains tax and what potential tax consequences would be. Also impact on inflation is considered as well as question of whether to tax accrued capital gains or only realised capital gains. The article presents pros and cons of introducing capital gains taxation in Latvia, potential impact this would have on real estate market in Latvia and describes proposed amendments in Latvian tax laws in regard to real estate taxation. The report compares and analyses capital gains taxation in other member States of European Union and looks at the experience of these various countries in this area. For this purpose taxation system of 12 European Union Member States which have chosen to have capital gains tax were reviewed. Article evaluates the effect such tax would have on real estate market in Latvia and rural development.

Keywords: Taxes, Capital Gains, Real Estate Sale, Rural Development

Introduction

Rural development in Latvia currently is affected among other factors also by growth of real estate market in general and speculative transactions which take place in real estate market. Investors are interested to gain maximum profit by purchasing land in rural areas and transforming this land into building land. Large areas of rural land are concentrated in hands of few wealthy individuals who are not using this land for agriculture but rather holding this land for future resale. This means that this land does not produce anything of added value and does not take part in rural development process. Current legislation provides for exemption from personal income tax on sales proceeds from sale of real estate which has been in the possession of the individual for longer than 12 months period. This means that profits from real estate transactions are virtually tax free. The government has been continually expressing various ideas on the potential taxation of gains on the sale of real estate. However the final decision has not been taken yet. This issue may, in the most direct manner, affect private individuals, as the taxation of such kinds of gains on the corporate level is solved by the Law on Corporate Income Tax. Gains on the sale of real estate

should be treated as capital gains and hence there arises a topical question if there would be necessary to introduce in Latvia a new capital gains tax and what potential tax consequences could be. In addition, the fact that in most of the EU Member States capital gains are subject to tax brings out the necessity to analyse this tax on the local level and discuss the perspectives of its introduction in Latvia. Although this issue is being dealt with by the government, there lacks the detailed information about the impact the tax might cause on the Latvian entrepreneurial environment, rural development, state budget, and overall prosperity of the country.

This article will seek to analyse the essence of the term ‘capital gains’, practical problems related to the application of capital gains tax, pros and cons of introducing this tax in Latvia, current provisions of the Law on Personal Income Tax governing the sale of private property and effect this tax could have on rural development in Latvia. The aim of this article is to evaluate whether capital gains tax on sale of real estate should be adopted in Latvia and whether it would have effect on rural development in Latvia. Main tasks within this article will be summarizing information about capital gains tax in other European Union Member States as well as comparing this information to determine whether Latvia would benefit from using the experience of other countries in this regard. This will be achieved by reviewing the trends of real estate gains taxation in various European countries and comparing these trends.

To begin with, it is necessary to assess whether such kind of gains should be taxable in Latvia and whether the state will derive additional income after the introduction of this tax compared to administrative expenses which would arise due to the necessity to control tax calculation and payment. Capital taxation might bring about certain problems. First, the impact of inflation on capital gains should be taken into consideration, as capital gains may grow also in the result of being influenced by inflation. In this case both real gains and inflation (monetary) gains are subject to tax. Therefore the amount of money paid upon the acquisition of the asset cannot be objectively compared to that obtained in the result of its sale. It should be noted that inflation enhances more rapid growth of nominal asset gains than that of nominal wage gains. As a result, the equal growth of nominal gains derived from both of the above sources reflects the unequal growth of real purchasing power and hence the equal tax burden causes unequal treatment. The tax base grows, as the expected inflation produces a twofold impact on capital gains: both the asset value and the asset gain rate are increased. To define taxable capital gains, the taxpayer would have to increase the acquisition price by the accrued inflation factor prior to it being deducted from the present value. Due to inflation, also fixed-income securities are losing their value in real terms each year, and the original amount of investments might also diminish (Harvey S. Rosen, 2002). This problem is particularly burning in Latvia, as currently inflation is running rather high which means that, prior to imposing capital gains tax, it should be carefully considered how the inflation factor will be taken into account to prevent a situation where not only real gains but also inflation gains are taxed.

The given inflation adjustments are true only where inflation is always fully foreseeable and all gains, being affected by inflation, grow at the same pace. In reality, neither of these conditions is met. Therefore, upon making adjustments, it would be more practicable for the governments to use real inflation rates rather than expected rates. The economic research still has not defined how expected inflation is formed. Regardless of the above, nominal interest rates and capital values almost definitely adapt to expected inflation, partly at least. Therefore it would be more appropriate to peg capital gains to a long time mean inflation index rather than make any adjustments at all. Those who fail to forecast inflation correctly might face unexpected profits or losses compared to the theoretical model, but it could be hardly avoided. Practical is the question about what long time series should be used, as assets and other sources of income have different rates of inflation. In fact, the consumer price index could be relevant, although it is not a perfect solution here (Arnold C. Harberger, Martin I. Bailey, 1969).

Second, it would be necessary to assess what should be subject to capital gains tax: total accrued capital gains or only realised capital gains. If capital gains would be taxed as soon as they arise (not realised), there might emerge certain difficulties in determining the amount of the capital increase. There are assets for which the increase in the value is hard to determine, since they are not traded regularly and actively. For instance, antiquities, paintings, and real estate. In addition, capital gains may be derived irregularly, which renders the tax administration process even more complicated. In practice, realised capital gains are taxed, but the procedure for taxation of realised capital gains has several deficiencies. In this case, capital gains tax is deferred until capital gains are realised. This possibility of deferring taxes may seem insignificant, however consequences may be rather serious, as in fact the private individual obtains a perpetual interest-free loan from the state, and only tax is paid after capital gains have been finally realised.

As the comparison of tax payable after the realisation of capital gains and tax payable also on unrealised capital gains over a certain time period shows, the post-tax capital gains are larger where realised capital gains are used as the tax basis. The reason for such difference is that deferment of tax payment permits the investment to grow in geometric progression based on the pre-tax rather than post-tax rate. Since only realised capital gains are subject to tax, taxpayers intending to hold or sell assets should take into consideration that tax shall be payable upon the sale of assets, and for this reason taxpayers might prefer to keep to the same kinds of investments (Harvey S. Rosen, 2002).

The introduction of capital gains tax or the reduction of tax rates is rather a controversial issue, as the tax has both positive and negative aspects. In their essence, capital gains are income and therefore would be subject to tax in the same manner as salaries. In addition, as the data evidence, income is basically concentrated in the hands of high-income taxpayers. More than half of the aggregate capital gains is realised by the best-off 1% of taxpayers, and they are those benefiting from the low tax rates or the absence of capital gains tax (Slemrod J., 1996). It is unfair from the social viewpoint. In the absence of capital gains tax, taxpayers are tempted into using existing possibilities of transforming their income into capital gains, and this is the reason for aggressive tax planning and the state budget losing potential tax revenue. Moreover, only the wealthiest part of the community can enjoy this possibility. Capital gains tax reduces investments in non-productive assets, like antiques, coins, paintings, or stamp collections acquired for generating a profit from the increase in the value, while in fact bringing no added value (James S., Nobes Ch., 1997).

It should be admitted however that the introduction of capital gains tax might hinder capital formation and restrict investing, which would entail hampering of further business development, productivity growth, economic development, and reaching higher living standards, while prudent taxation of capital gains would stimulate capital accumulation and risk taking. Furthermore, capital gains tax applied only to realised gains causes economic failure. Capital is frozen and prevented from flowing to more profitable investments. The data show that accrued capital gains on more than half of stocks are not realised for several years in order to defer tax payments. Both well-off and moderately well-off taxpayers put certain limits on realisation of their capital gains. Thus revenue the state derives from capital tax is rather small (Arnold C. Harberger, Martin I. Bailey, 1969).

The administration of capital gains tax collection is rather complicated for reason of the aforementioned tax application problems. Hence the imposition of capital gains tax might require substantial tax administration costs. It is believed that it would be fair not to tax capital gains since these are irregular and may arise unexpectedly. In addition, investing means refraining from consumption, which may be compensated by non-taxation of capital gains? This reason is, however, not strong enough since the opponents of this opinion might claim that the treatment of labour income might be less strict in the same way since this kind of income includes unpleasant work conditions or dislike of work, while after investing all we have to do is waiting for money to come. Therefore it cannot be stated with absolute certainty which of the sources of income (labour income or income from capital investments) would be more appropriate to tax (Harvey S. Rosen, 2002).

Current laws and prospects of the imposition of capital gains tax in Latvia

Currently no capital gains tax as such exists in Latvia. Part of this tax functions are ensured by the provisions included in the Laws on Corporate Income Tax and on Personal Income Tax. Passive income includes gain on the sale of real estate, gain on the sale of securities, interest income, and dividend income. According to the Law on Corporate Income Tax, gains on the sale of real estate and securities, and interest income are subject to corporate income tax. Local companies thus pay corporate income tax instead of capital gains tax. As regards private individuals as taxpayers, the provisions of Section 9, Paragraph one, Clause 19 of the Law on Personal Income Tax envisage that in Latvia tax shall not be imposed on income from the sale of own property, except among others income from sale of such real estate which has been in the person's possession for less than 12 months.

In the first half of the previous year, the New Era (*Jaunais laiks*) party suggested introducing in Latvia a new tax – capital gains tax – since 1 January 2007. This tax at the rate of 15% would be imposed on income derived from real estate transactions and securities transactions. It has been recommended that the draft law on the new tax should be adopted together with the amendments to the Law on Personal Income Tax whereby the personal income tax rate would be gradually reduced to 15%, as well as resolutions on

the more rapid increase of minimal salary and non-taxable minimum. It should be added that this issue continues to be discussed: in the beginning of May 2006 the Ministry of Finance suggested introducing capital gains tax on income from speculative real estate transactions to compensate the decrease in tax revenue after the projected tax reform. The issue of whether such provisions are the best way to introduce the key principles of capital gains tax in Latvia is rather controversial, since there are several pros and cons here. Another important issue is whether tax should be applied in the event of the sale of real estate acquired prior to the effectiveness of these provisions. It is expected to be one of the most fierce discussions, as in the event of application of capital gains tax to such transactions where real estate has been acquired prior to the adoption of the amendments, there would be applied the provision which private individuals were not aware of when acquiring the estate. Consequently, the law would cause the position of such private individuals to deteriorate, which would not be correct as, when acquiring real estate, these persons did not have sufficient information about potential tax payable upon the future sale of the real estate. Since the introduction of capital gains tax would be an important step towards the improvement of the taxation system, it is necessary to take into account also the experience of the EU Member States in this area. Therefore, it is necessary to look at the capital gains tax regime existing in other EU Member States.

Taxation of capital gains on the sale of real estate in the Member States

Since at corporate level in Latvia gains from the sale of real estate and stocks are subject to corporate income tax and no changes are expected in this area in the foreseeable future, we will discuss the tax treatment in the event of the sale of real estate owned by private individuals. This section will deal with income tax rates applied in the Member States to these kinds of transactions and tax exemptions envisaged by the European laws and regulations to prevent the taxation regime from being unfair from the social standpoint. Information has been compiled by reviewing capital gains tax laws in various countries.

In the European Union, the tax treatment of gains on the sale of real estate varies from country to country. It should be noted, however, that the majority of the Member States have chosen to tax capital gains on the sale of real estate. Specifically, the taxation of capital gains derived in the result of real estate speculations (meaning acquisition of real estate with a view to make a profit when selling it) should be mentioned in this connection, as currently it is a topical issue also in Latvia. For the most part, gains on the sale of real estate are subject to personal income tax at a progressive rate depending on the amount of gains obtained. Therefore, the larger is the individual's income, the higher tax rate is applied. In the table below are presented personal income tax rates applied in the Member States to gains derived by private individuals on the sale of real estate (EYGM Limited., 2006).

Table 1

Personal income tax rates prevailing in the EU Member States which apply personal income tax to gains on the sale of real estate

Country	Personal income tax		
	Intervals	Minimal rate	Maximal rate
Germany	8	15	42
Italy	4	23	43
Great Britain	3	10	40
Belgium	5	25	50
Austria	3	(Income - €10,000x5,750)/ 15 000	Income - €51,000x0,5 + €17,085
Denmark	4	15	32
Czech Republic	4	15	32
Slovakia	1	19	19
Lithuania	1	15	15
Estonia	1	24	24
Slovenia	5	16	50
Malta	6	0	35

Source: EYGM Limited, 2006 data and review of taxation systems of various countries

It can be concluded that in the old Member States (Germany, Italy, Great Britain, Belgium, Austria, and Denmark), capital gains on the sale of real estate are not liable to personal income tax provided that such real estate has been used as a primary residence. Most laws and regulations of the Member States provide for a minimal term during which the individual has to live in the home as his/her primary residence to avoid paying personal income tax. In Germany and Austria this period is two years, while in Italy it is five years. Furthermore, it is possible not to pay personal income tax on gains on the sale of real estate also where the estate has not been the primary residence, but has been owned by one person for a continuous period of time. For instance, in Germany and Austria the aforementioned period is at least ten years (in Austria it may be also fifteen years in specific cases), while in Belgium the period is fixed separately for land (which must be owned by one person for more than eight years) and developed real estate (buildings and constructions must be held by one owner for more than five years). In the new Member States listed in the table above (Czech Republic, Slovakia, Lithuania, Estonia, Slovenia, and Malta) the primary residence requirement is not envisaged as a pre-condition for gains on the sale of real estate not to be subject to personal income tax, the key pre-condition being the duration of the ownership of real estate by one person. In the Czech Republic capital gains on the sale of real estate are not liable to personal income tax if real estate has been owned by one person for more than two years, while in Slovenia this period is considerably longer: ten years. In Lithuania capital gains not exceeding EUR 2,016 are not subject to personal income tax, while in Estonia no personal income tax is applied where the estate or apartment house is privatised, returned, or inherited. No exceptions are contemplated in Malta, and personal income tax is applied regardless of whether or not the estate has been a primary residence or owned by one person for a continuous period of time. In the Netherlands this kind of capital gains is exempt from personal income tax, while in Greece gains are subject to tax if these are derived as a result of the sale of real estate outside Greece, the seller being a Greek resident. Other Member States have chosen to apply to gains on the sale of real estate different income tax rates from those fixed for other kinds of income. The Member States in which gains from the sale of real estate are taxed at a rate different from the personal income tax rate are summarised in the table below (EYGM Limited., 2006).

Table 2

Tax rates applied to capital gains on the sale of real estate in the Member States

Country	Tax rate applied to income derived from real estate	Personal income tax		
		Income intervals	Minimal rate	Maximal rate
France	27	7	0	48,9
Spain	15	5	9,06	29,16
Portugal	50% of personal income tax	6	10,5	40
Sweden	20 or 30	There are state taxes (20–25%) and municipal taxes (29–37%) applied separately		
Finland	28	6	0	33,5
Ireland	20	2	20	42
Poland	10	4	19	50
Hungary	25	2	18	38
Cyprus	20	4	0	30

Source: EYGM Limited., 2006 data and review of taxation systems of various countries

In France, Finland, and Ireland capital gains on the sale of a primary residence are free from personal income tax; while in Finland the estate must have been the primary residence for at least two years prior to the sale. In France the taxable base is decreased by 10 % each year if the real estate is held by one owner for more than five years. In Spain gains on the sale of real estate owned by one person for more than one year are not subject to tax, meanwhile in Poland the required ownership period is at least ten years. In Portugal capital gains on the sale of a primary residence are free from tax if the income resulting from such sale is invested into acquisition of a new home in Portugal during 24 months after the sale, or 12 months prior to the sale. In Sweden this kind of capital gains is subject to personal income tax at 20 %,

while the rate at 30 % is applied to gains on the sale of real estate used in business. In Cyprus no tax is charged on capital gains on the sale of real estate in the amount not exceeding GBP 50,000. The tax treatment adopted in Luxembourg is as follows. No tax is contemplated in the event of the sale of real estate which has been used as the individual's primary residence. Where the real estate is sold during two years following acquisition, respective capital gains are subject to personal income tax at the rate ranging from 6.79 % to 32.53 % depending on the aggregate income of the individual. Furthermore, in the event of the sale of real estate that has been held by one owner for at least two years, income is adjusted to the rate of inflation, the amount of EUR 50,000 being tax-exempt (subject to revision every ten years), while the balance is subject to tax at 19 %. The tax-exempt amount may reach EUR 75,000 in the event that the real estate has been inherited from lineal relatives and used as a primary residence. The laws and regulations of Luxembourg provide for an additional possibility to defer taxes if income derived from the sale of real estate is invested in leased items in Luxembourg.

Thus capital gains on the sale of real estate are taxed in the Member States either at the personal income tax rate in the same manner as other kinds of personal income, or at a lower rate. In addition, the real estate holding periods from one year to fifteen years are fixed where no tax is applied. The potential impact of inflation is compensated by fixing a rate lower than the personal income tax rate and envisaging the holding period requirement. Non-taxation of gains on the sale of real estate held for a continuous period of time permits avoiding a rather complex procedure for defining the amount of capital increase. None of the Member States have chosen to tax accrued capital gains: only realised capital gains on the sale of real estate are subject to tax. The key reason might be simpler tax administration and control. In addition, it would be rather problematic to set up a system that would permit proper taxation of accrued capital gains since the mechanism might be rather complicated and not accurate enough.

Conclusions and suggestions

From above analysis can be concluded that:

- The fact that in Latvia capital gains on the sale of real estate in at least 12 months after its acquisition are not taxed could be a contributing factor for speculations in real estate market, including rural areas;
- It would be advisable to reduce the number of speculations that bring no added value, hinder rural development and cripple the market, causing the rush. To minimise speculative transactions on the real estate market, capital gains on the sale of real estate would have to be taxed thus reducing speculators' profits and dampening their wish to engage in the active trade. The official one-year period upon expiration of which no tax is applied to capital gains is too short to prevent speculations. In truth, due to the growing prices one year is an optimal period for investors to earn a healthy profit and make new transactions. Therefore, it would be reasonable to extend this term.
- Considering the European experience, it would be suggestible to extend the term during which sales of real estate are subject to tax. This could be five years on average.
- Another criterion for non-taxation could be the place of residence declared in the real estate which would serve as a guarantee that the transaction is not speculative. It cannot be stated with absolute certainty that real estate speculations will be minimised and the prices will stabilise, but in this case real estate sellers would pay tax on their capital gains, which would ensure the increase in tax revenues.
- The overall prosperity in the country would improve in the result of introducing capital gains tax on income derived from the sale of real estate as, with the speculations on the real estate market being minimised, the prices would stabilise thus enabling people to plan their expenses for acquisition of real estate or, if speculations remain at the current level, the state will obtain more revenues that might be used to boost prosperity. Rural development will be affected in positive way as land previously held for pure purpose of resale with profit might be rather used in agricultural production. Therefore, it may be concluded that the taxation of capital gains on the sale of real estate would produce a positive impact on the state revenues, rural development and prosperity in the country.

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IEDZĪVOTĀJU IENĀKUMA NODOKLIS ES VALSTĪS

PERSONAL INCOME TAX IN THE COUNTRIES OF THE EU

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Summary

In the recent 30 years the structure and development of the tax systems of European countries has shown the peculiarities of the European Union in comparison with the main international experiences outside the Europe (USA and Japan) and in a wider comparison with the area of the OECD. A tax burden is higher on average in the area of the EU than in the area of the OECD; the European countries rely more on social contributions and less on consumption taxes; a larger part of tax revenues is allocated to the social security sector and a smaller part to the local governments; labour taxes and their contribution to the total tax revenues is higher in Europe than in the OECD. The Paper deals with the structure of the tax systems of individual old European countries, as well as the prospects of development of the personal income tax within the framework of ensuring horizontal and vertical equity. The tax system of any country must ensure the increase of the level of population's welfare, which is shown also by the indices of GDP per capita. Suggestions are given about experiences of which countries should be taken into account to improve the quality of life of the Latvian rural and urban population.

Atslēgas vārdi: ES nodokļu sistēmas struktūra, iedzīvotāju ienākuma nodoklis, darba aplikšana ar nodokli, IKP uz vienu iedzīvotāju ES.

Keywords: the structure of the EU tax system, personal income tax, taxation of labour, GDP per capita in the EU.

Ievads

Introduction

Kopš XX gadsimta deviņdesmito gadu sākuma lielākajā daļā Eiropas nodokļu sistēmu notikušas nozīmīgas pārmaiņas. Reformas veidojuši vairāki un bieži vien pretrunīgi spēki. No fiskālām sistēmām tiek prasīta ieņēmumu palielināšana, lai tiktu ievērotas Māstrihtas prasības un stabilitātes prasības. No otras puses, tiek prasīta fiskālā spiediena samazināšana, lai tiktu dota iespēja IKP pieauguma radītāju uzlabošanai un nodarbinātības palielināšanai.

Arguments par labu šim ierosinājumam bija bieži minētais salīdzinājums ar ASV, kur pieaugums bija daudz lielāks, bet nodokļi – daudz mazāki. Fiskālā konkurence aizvien vairāk integrētā pasaulē ietekmē nodokļu likmes.

Kopējais viedoklis prasa palielināt efektivitāti, tādā veidā akcentējot nepieciešamību nodokļus padarīt vienkāršākus un neitrālākus.

Referāta mērķis ir sniegt secinājumus par iedzīvotāju ienākuma nodokli ES valstīs, kā arī priekšlikumus iedzīvotāju ienākuma nodokļa uzlabošanai Latvijā.

Lai sasniegtu mērķi izvirzīti sekojoši uzdevumi: aplūkot ES valstu nodokļu sistēmas struktūru, iedzīvotāju ienākuma nodokļa attīstības perspektīvas ES, darba aplikšanu ar nodokli un IKP uz vienu iedzīvotāju dinamiku ES

ES nodokļu sistēmas: struktūra un attīstība ES tax systems: structure and developments

Pēdējā laika debatēs par nodokļu modeļiem parādījušās dažas vispārējas problēmas:

- *nodokļu taisnīgums* – iepriekšējā laika posmā, kad ES nodokļu reformās vairāk tika akcentēta efektivitāte, nevis taisnīgums, pēdējos gados ir īstenoti daudzi nodokļu politikas pasākumi, lai tiktu sasniegti horizontālā taisnīguma mērķi un lai pastiprinātu progresivitāti ienākumu skalas apakšgalā;
- *konkurētspēja* – daudzas valstis ir plānojušas reformas, kam viens no galvenajiem pamatojumiem ir konkurētspēja; nodokļu politikas pasākumi, kas īpaši paredzēti, lai palielinātu valsts konkurētspēju, ir īstenoti attiecībā uz finanšu kapitālu, faktisko kapitālu un citiem ražošanas faktoriem (galvenokārt darbu);
- *jauninājumi* – nodokļu bāžu paplašināšanai ir sekojusi pārorientēšanās no nodokļu stimulēšanas uz selektīvi stimulētu jauninājumu un attīstību galvenokārt četrās jomās (mazie uzņēmumi, investīcijas izpēte un attīstība, riska kapitāls, akciju pārdošanas un pirkšanas tiesības);
- *fiskālās attiecības starp dažādiem valsts pārvaldes līmeņiem* – tās laika gaitā ir bijušas nestabilas un mainīgas, līdz ar to nodokļu iekasēšanas pilnvaru sadalījums vēl joprojām nav konkrēti noteikts (Luigi Bernardi, 2005.).

XX gadsimta septiņdesmito gadu pašā sākumā gandrīz vai visas Eiropas valstis bija vidēja – augsta fiskālā spiediena valstis. Kopējais rādītājs (visi nodokļi un sociālās nodrošināšanas maksājumi) bija apmēram 33 procenti no IKP, kas ir augstāks par ASV (27 procenti) un Japānas (joprojām apmēram 22 procenti) rādītājiem (Eurostat, 2006.). Aplūkojot nodokļu kopējā sloga spiedienu uz galvenajām apliekamo objektu pozīcijām, iegūstam diezgan atšķirīgu ainu. Valstu starpā parādās būtiska izkliede starp tiešajiem nodokļiem un sociālās nodrošināšanas maksājumiem. Apvienojot šīs atšķirības, ir redzamas četras valstu nodokļu struktūras, kas veidojušās no to atšķirīgajām vēsturiskajām, ekonomiskajām un institucionālajām nostādņām:

- *Ziemeļvalstis* – fiskālais spiediens ļoti liels. To lielā mērā izraisa tiešie un (mazākā mērā) netiešie nodokļi, lai varētu nodrošināt visaptverošas un progresīvas labklājības stāvokli;
- *Reinas baseina valstis* – fiskālais spiediens savā ziņā lielāks par Eiropas vidējo rādītāju. Dažās valstīs dominē tiešie nodokļi, citās – netiešie. Tomēr visā reģionā lielā mērā tiek paaugstināti sociālās nodrošināšanas maksājumi, lai tiktu nodrošināts dāsnais Bismarka valsts labklājības stāvoklis;
- *anglosakšu valstis* – fiskālais spiediens tuvs Eiropas vidējam rādītājam. Nodokļu daļa daudz lielāka par sociālās nodrošināšanas maksājumu daļu. Veselības aprūpes pakalpojumus apmaksā no vispārējo nodokļu ieņēmumiem. Beveridža valsts pensiju shēmas tiek ierobežotas, lai izmaksas no sociālās nodrošināšanas budžeta būtu mazākas;
- *Vidusjūras valstis* – attīstības aizkavēšanās dēļ kopējais fiskālais spiediens neliels. Nodokļu sistēmās sociālās nodrošināšanas maksājumi tuvi Eiropas vidējiem rādītājiem. Nodokļi (īpaši tiešie) joprojām zemāki par Eiropas standartiem (Graetz Michael J., 2006.).

Visā Eiropā, izņemot Īriju un Apvienoto Karalisti, fiskālais spiediens pieauga XX gadsimta septiņdesmito gadu sākumā un līdz deviņdesmito gadu beigām. To palielināja (par sešiem punktiem) pieaugošie sociālās nodrošināšanas izdevumi, īpaši XX gadsimta septiņdesmito gadu laikā (Eurostat, 2006.), un visbeidzot – pieaugums tāpēc, ka tika izpildītas Māstrihtas līguma prasības izpildīšanai (par 1,8 procentiem XX gadsimta deviņdesmitajos gados). Kopējais vidējais rādītājs ES dalībvalstu starpā pieauga līdz vairāk nekā 42 procentiem no IKP 2005. gadā, tā stipri vien pārspējot gan Japānas (paaugstinājās līdz 27,9 procentiem), gan ASV (faktiski palika nemainīgs – 28,3 procenti) rādītāju.

Eiropā pašreizējās nodokļu kombinācijas lielāko daļu veido nodokļi par precēm un pakalpojumiem (30 procenti), sociālās nodrošināšanas maksājumi (28,4 procenti), iedzīvotāju ienākumu nodoklis (25,6 procenti), kam seko uzņēmumu ienākumu nodoklis (9,2 procenti) un mantas nodokļi (5 procenti). Pēdējās divās desmitgadēs notikusi pāreja no iedzīvotāju ienākumu nodokļa un sociālās nodrošināšanas maksājumiem uz uzņēmumu ienākumu nodokli un mantas nodokli. Apvienotajā Karalistē un Īrijā ienākuma nodokļi un patēriņa nodokļi dod daudz lielāku kopējo nodokļu ieņēmumu daļu, kamēr sociālās nodrošināšanas maksājumi ir uz pusi mazāki nekā Eiropā vidējais rādītājs. Itālija precīzi atspoguļo parasto Eiropas taksācijas modeli, kamēr pārējo lielāko daļu valstu raksturo fakts, ka tajās būtiski dominē sociālās nodrošināšanas maksājumi un mazāk

iedzīvotāju ienākumu nodoklis (Francijas, Spānija un Nīderlande) vai uzņēmumu ienākumu nodoklis un mantas nodokļi (Vācija).

2005. gadā dažas ES valstis uzrādīja lielāku nodokļu nastu par Eiropas vidējo (piemēram, Francija), kamēr citās ir pretējā situācijā (piemēram, Vācija, Īrija, Spānija un Apvienotā Karaliste). Francijā tas izskaidrojams ar relatīvi lielāku sociālās nodrošināšanas maksājumu un īpašuma aplikšanas ar nodokļiem apjomu, kamēr gan ienākuma, gan uzņēmumu nodokļi ir zemāki par Eiropas vidējiem. Mazāka nodokļu nasta anglosakšu valstīs galvenokārt ir sociālās nodrošināšanas maksājumu apjomu dēļ, kamēr Vācijā un Spānijā tiešie nodokļi un nodokļi par precēm un pakalpojumiem ir mazāki par Eiropas vidējiem.

Savukārt valstīs, kurās XX gadsimta deviņdesmitajos gados ir reģistrēta nodokļa proporcijas palielināšanās attiecībā pret IKP (Francija, Vācija, Itālija un Spānija), lielākā daļa palielināšanos īstenojusies, palielinot iedzīvotāju un uzņēmumu ienākumu nodokļus (Francija), sociālās nodrošināšanas maksājumus un patēriņa nodokļus (Vācija un Spānija), kamēr Itālija izmantoja iedzīvotāju ienākumu nodokļa, īpašuma un patēriņa nodokļu palielināšanas kombināciju.

Turklāt jāpiemin, ka divām valstīm (Francija un Itālija) ir „citi nodokļi” ar būtisku ienākumu apjomu. Katrā gadījumā tas ir izskaidrojams ar divu vietējo pašvaldību uzņēmējdarbības nodokļu esamību (franču „*taxe professionnelle*” un itāļu reģionālais nodoklis par produktīvām darbībām – *IRAP (Italian regional tax on productive activities)*), kuru nodokļa bāze ir divu vai vairāk atšķirīgu aplikamo objektu (peļņa, algu saraksts, procenti un manta) salikums. Visbeidzot, aplūkojot vietējo nodokļu sistēmu struktūru laika gaitā, vienīgā skaidrā liecība (izņemot Vāciju), šķiet, ir pašvaldību īpašuma nodokļa pieaugošais svarīgums (Luigi Bernardi, 2005.).

Iedzīvotāju ienākumu nodoklis

Personal income tax

Ekonomiskās sadarbības un attīstības organizācijas valstīm (*OECD – Organisation for Economic Co-operation and Development*) iedzīvotāju ienākumu nodokļu pamatstruktūra ir ļoti līdzīga, bet atšķirīgas ir nodokļu likmes un bāzes struktūra. OECD valstis ir šādas: ASV, Austrālija, Austrija, Beļģija, Čehija, Dānija, Dienvidkoreja, Francija, Grieķija, Islande, Itālija, Īrija, Japāna, Jaunzēlande, Kanāda, Lielbritānija, Luksemburga, Meksika, Nīderlande, Norvēģija, Polija, Portugāle, Slovākija, Somija, Spānija, Šveice, Turcija, Ungārija, Vācija un Zviedrija. OECD darbā piedalās arī Eiropas Komisija. Lielākā daļa valstu atsakās no vienkārša, visaptveroša iedzīvotāju ienākuma nodokļa un izvēlas dažādus taksācijas modeļus hibrīdus, kuros ir patēriņa nodokļa elementi. Lielas atšķirības joprojām pastāv nodokļa bāzes izmantojumā (ar nodokli aplikamie ienākumi un nodokļu izdevumi). Šo dažādību galvenais cēlonis ir atšķirīgā nodokļu sistēmu izmantošana, lai iegūtu līdzekļus sociālajai nodrošināšanai. Turklāt ne visi kapitāla ienākumi ir iekļauti iedzīvotāju ienākumu nodokļa bāzē. Vispārēja tendence ir tāda, ka aizvien vairāk valstu ievieš zemākas, fiksētas likmes noteiktiem kapitāla ienākuma veidiem (procenti, dividendes un kapitāla peļņa). Tā tas ir valstīs (Francija un Itālija), kur procenti tiek aplikti ar fiksētu nodokli. Ciktāl tas attiecas uz iedzīvotāju un uzņēmumu ienākumu nodokļu integrāciju, trūkst pilnīgas attiecināšanas sistēmas gan attiecībā uz dividendēm, gan uz kapitāla peļņu (Europa.eu / taxation, 2007.).

izvēlētajās valstīs ģimenes stāvoklis tiek ņemts vērā trijos veidos:

- piemērojot nodokļu grafiku, kas mainās atbilstoši ģimenes stāvoklim. Šajā aspektā taksācijas objekts Itālijā, Nīderlandē un Apvienotajā Karalistē ir individuāla persona, bet Francijā, Vācijā, Īrijā un (pēc izvēles) Spānijā tā ir ģimene;
- piemērojot nodokļu atlaides un nodokļu atvieglojumus, kas saistīti ar laulības statusu un apgādājamu bērnu skaitu. Piemēram, nodokļu atlaides par bērniem ir Vācijā, Itālijā, Nīderlandē un Apvienotajā Karalistē;
- sniedzot maksājumus vai pabalstus ārpus nodokļu sistēmas. Pabalsti par apgādājamiem bērniem ir visās izvēlētajās valstīs, izņemot Vāciju.

Aplūkojot iedzīvotāju ienākumu nodokļa struktūru, valstis atšķirīgā veidā sniedz atvieglojumus maznodrošinātām personām. Kā redzams 1. tabulā, noteikts ienākumu apjoms var tikt atbrīvots no nodokļa (Francijā, Spānijā un Apvienotajā Karalistē) vai aplikts ar 0 procenta nodokli (Francijā un Vācijā).

Citās valstīs pamata nodokļu atvieglojumi tiek nodrošināti ar nodokļu atlaidēm (Īrijā un Nīderlandē), kas Itālijā ir paredzētas tikai darba ienākumiem. Lai novērtētu, cik lielā mērā šie pamata atvieglojumi var samazināt iedzīvotāju ienākumu nodokļu nastu, tos var izteikt procentos attiecībā pret vidējo strādnieka bruto

algū (*APW – an average production worker*). Šajā aprēķinā Spānija atbrīvo 17,7 procentus no *APW*, Vācija – 21,8 procentus un Apvienotā Karaliste – 23,4 procentus; Francijā no nodokļiem atbrīvoto skaits ir lielāks, pamatojoties uz 0 likmi un pamata nodokļu atlaidēm. Kaut arī nav tieši salīdzināma, nodokļu atlaižu vērtība procentos no *APW* ir mazāka Itālijā (1,8 procenti) kā salīdzinājumā Nīderlandē (5,3 procenti) un Īrijā (6 procenti). Izņemot Vāciju, kur lieto vairākas nodokļu formulas, citās valstīs ienākumi tiek sašķelti kategorijās, kas skaitliski svārstās no divām (Īrija) līdz septiņām (Francija). Spānijā, Anglijā un Francijā pirmās kategorijas ienākumi tiek aplikti ar zemu nodokļa likmi, savukārt Īrija un Itālija piemēro augstākas nodokļu likmes (20 procenti un 18 procenti). Augstākās nodokļu likmes svārstās no 40,0 procentiem (Anglijā) līdz 48,09 procentiem (Francijā). Vēl būtiskāk ir tas, ka Īrijā nodokļu maksātāji, kuriem ir *APW* ienākumu līmenis, jau ir pakļauti augstākajai likmei – 42 procenti, kamēr Itālijā un Spānijā strādniekiem jāgūst vairāk nekā trīs reizes lielāki ienākumi par vidējiem, lai viņi sāktu maksāt augstāko likmi. Pēc tabulas, aplūkojot augstākās nodokļu likmes attīstību, skaidri iezīmējas tās samazināšanās tendence, kas galvenokārt skaidrojama ar efektivitātes pamatojumu. Kopš 1996. gada augstākās nodokļu likmes ir samazinātas no 54 procentiem līdz 48,09 procentiem – Francijā, no 53 procentiem līdz 42 procentiem (2005) – Vācijā, no 48 procentiem līdz 42 procentiem – Īrijā, no 52 procenta līdz 42 procentiem – Itālijā, no 60 procentiem līdz 52 procentiem – Nīderlandē un no 56 procentiem līdz 45,0 procentiem – Spānijā. Itālijā jaunais nodokļu reformas plāns samazina augstāko likmi provokatīvi lielā apmērā (no 42 procentiem līdz 33 procentiem).

1. tabula
Table 1

Iedzīvotāju ienākuma nodokļa struktūras galvenās sastāvdaļas
Main components of the personal income tax's structure (Luca Gandulli, 2005.)

Valsts (Countries)	0 procentu likmes grupa (Zero rate band)	0 procentu likme proporcijā no vidējās strādnieka bruto algas (%) (Zero rate band as proportion of APW %)	Pamata atvieglojumi (Basic allowances)	Pamata atvieglojumi proporcijā no vidējās strādnieka bruto algas (%) (Tax relief as proportion of APW %)	Pamata atlaides (Basic tax credit)	Pamata atlaides proporcijā no vidējās strādnieka bruto algas (%) (Tax credit as proportion of APW %)	Zemākā standarta likme (%) (Lowest standard rate)	Augstākā standarta likme (%) (Highest standard rate)	Apliekamo grupu skaits (Number of brackets)	Augstākā likme sākas no ¹ (Highest rate starts at)
Francija (France)	x	18,8	x	20,2	–	–	6,83	48,09	7	2,12
Vācija (Germany)	x	21,8	–	–	–	–	Īpaša formula	42,0	Īpaša formula	1,66
Īrija (Ireland)	–	–	–	–	x	6,0	20,0	42,0	2	1,11
Itālija (Italy)	–	–	–	–	x ²	1,8	23,0	42,0	5	3,25
Nīderlande (The Netherlands)	–	–	–	–	x	5,3	34,15	52,0	4	1,54
Spānija (Spain)	–	–	–	17,7	–	–	15,0	45,0	6	3,6
Anglija (United Kingdom)	–	–	x	23,4	–	–	10,0	40,0	3	1,52

¹ Reizinātājs vidējai strādnieka bruto algai.

² Itālijā šī nodokļa atlaide tiek piemērota tikai pakļautajiem strādniekiem.

Pasākumi horizontālā taisnīguma nodrošināšanai
Measures of horizontal tax equity (Luca Gandulli, 2005.)

Valsts (countries)	Vidējā iedzīvotāju ienākuma nodokļa likme (average effective tax rate (income tax))		Sociālā nodrošinājuma maksājumi (SSC)		Vidējā nodokļa likme (iedz. ien. nod. + soc.nodr. maksājumi – naudas pārvedumi) (average effective tax rate (income tax + ssc – cash transfers))	
	Neprecēju-sies persona bez bērniem % no vidējās strādnieka bruto algas (single individual without children APW %)	Precējies pāris ar vienu pelnītāju un diviem bērniem % no vidējās strādnieka bruto algas (one-earner married couple with two children APW %)	Neprecēju-sies persona bez bērniem % no vidējās strādnieka bruto algas (single individual without children APW %)	Precējies pāris ar vienu pelnītāju un diviem bērniem % no vidējās strādnieka bruto algas (one-earner married couple with two children APW %)	Neprecēju-sies persona bez bērniem % no vidējās strādnieka bruto algas (single individual without children APW %)	Precējies pāris ar vienu pelnītāju un diviem bērniem % no vidējās strādnieka bruto algas (one-earner married couple with two children APW %)
Francija (France)	13,3	6,9	13,3	13,3	26,5	14,2
Vācija (Germany)	20,5	-2,0	20,7	20,7	41,2	18,6
Īrija (Ireland)	11,4	2,4	5,0	5,0	16,4	-0,8
Itālija (Italy)	18,9	11,8	9,2	9,2	28,1	12,2
Nīderlande (The Netherlands)	7,2	6,6	21,5	16,0	28,7	18,2
Spānija (Spain)	12,9	4,0	6,4	6,4	19,2	10,4
Anglija (United Kingdom)	15,7	10,1	7,7	7,7	23,3	10,8

Iedzīvotāju ienākumu nodokļa taisnīgums

Equity of the personal income tax

Viena no nodokļu funkcijām ir sociālā. Sociālā funkcija izpaužas kā pārdales un kontroles funkciju sajakums. Tās loma ir pilsoņu konstitucionālo tiesību nodrošināšana. Ir nepieciešams nodrošināt vienlīdzību pa horizontāli personām ar vienādiem ienākumiem un īpašuma apjomu ir jāmaksā vienādi nodokļi un vienlīdzību pa vertikāli – personām ar lielākiem ienākumiem un īpašuma apjomu ir pienākums maksāt lielākus nodokļus, kas caur valsts transfertu sistēmu tiek nodoti sabiedrības grupām ar mazākiem ienākumiem (А. Э. Сердюков, Е. С. Вылкова, А. Л. Тарасевич, 2005.).

Kaut arī jēdziens var būt neskaidrs un radīt atšķirīgas interpretācijas, dažas nesenās izmaiņas nodokļu sistēmās var tikt uzskatītas par tieši vērstām uz to, lai tiktu iegūts lielāks horizontālais taisnīgums. Dau-

dzas nodokļu sistēmu īpatnības var uzskatīt par instrumentiem, kas domāti šim mērķim. Bet būtībā nodokļu sistēmas atšķiras ar to, kā tās ņem vērā bērnu skaitu, kuri var būt cilvēkiem, un viņu laulības statusu kā elementus, lai novērtētu „vienādu ekonomisko stāvokli” nodokļu noteikšanas nolūkā. Noteikti nodokļu horizontālā taisnīguma rādītāji (kaut arī nepilnīgi) doti 2. tabulā, kurā ir aplūkots gan iedzīvotāju ienākumu nodoklis, gan sociālās nodrošināšanas maksājumi. Tabulā ir salīdzinātas vidējās spēkā esošās nodokļu likmes, kas ir saistošas divām dažādām nodokļu maksātāju kategorijām: atsevišķai personai bez bērniem un laulātam pārim, no kura viens saņem regulārus ienākumus, ar diviem bērniem, un abām kategorijām ir vienāds ienākumu līmenis (*APW*). Katras valsts spēkā esošo nodokļu likmju atšķirības atspoguļo to, kā nodokļu sistēma izturas pret atšķirīgiem nodokļu maksātāju ekonomiskajiem stāvokļiem. Atsevišķi aplūkojot iedzīvotāju ienākumu nodokli, šķiet, ka dažas valstis (Francija, Vācija, Īrija, Spānija) vairāk kā citas (Itālija, Nīderlande, Apvienotā Karaliste) tiecas pēc horizontālā taisnīguma. Izņemot Nīderlandi, sociālās nodrošināšanas maksājumi nav paredzēti nodokļu horizontālā taisnīgums mērķiem. Bet visaptverošu ainu var iegūt no pēdējās ailes, kur vidējās spēkā esošās nodokļu likmes ir noteiktas, ņemot vērā gan nodokļu sistēmu (iedzīvotāju ienākuma nodoklis un sociālās nodrošināšanas maksājumi), gan pabalstu sistēmu. Īrija, Vācija un mazākā mērā arī Itālija, kā redzams, ir valstis, kas vairāk uzsver nodokļu (un pabalstu) horizontālo taisnīgumu.

Ar likumu noteikta vertikālā taisnīguma rādītājus var noteikt, salīdzinot ienākumu daļu, ko nodokļos samaksā nodokļu maksātāji ar atšķirīgu ienākumu līmeni. 3. tabulā redzami rādītāji, kas attiecināmi uz ar likumu noteiktu nodokļu progresivitāti cilvēkiem ar mazām algām (67 procenti no *APW*) un lielām algām (167 procenti no *APW*), ņemot vērā tikai iedzīvotāju ienākumu nodokli vai kopā ar sociālās nodrošināšanas maksājumiem.

Iedzīvotāju ienākumu nodokļi ir progresīvi visās izvēlētajās valstīs, kaut arī dažādās pakāpēs. Vācija uzrāda skaidri izteiktu nodokļu struktūru dažādiem ienākumu līmeņiem, savukārt Francijā, Spānijā un Apvienotajā Karalistē progresivitāte ir vairāk koncentrēta ienākumu līmeņos, kas ir zem vidējā, bet Īrijā, Itālijā un Nīderlandē – ienākumu līmenī, kas ir virs vidējā. Lielākajā daļā valstu ar likumu noteiktie sociālās nodrošināšanas maksājumi ir neitrāli vai progresīvi. Divi galvenie izņēmumi ir šādi: Nīderlande, kur struktūra ir regresīva dažādos ienākumu līmeņos, un Francija, kur struktūra ir regresīva tikai lielāku ienākumu līmeņos.

3. tabula
Table 3

Ar likumu noteiktā iedzīvotāju ienākuma nodokļa progresivitāte (% no *APW*)
Statutory income tax progressivity (Luca Gandulli, 2005.)

Valsts (countries)	Mazu algu progresivitāte (67 procenti no <i>APW</i>) (<i>low-wage progressivity</i>)		Lielu algu progresivitāte (167 procenti no <i>APW</i>) (<i>high-wage progressivity</i>)	
	Ienākuma nodoklis (%) (<i>income tax</i>)	Kopā ar soc. apd. iemaksām (%) (<i>total</i>)	Ienākuma nodoklis (%) (<i>income tax</i>)	Kopā ar soc. apd. iemaksām (%) (<i>total</i>)
Francija (France)	6,81	8,03	5,59	5,47
Vācija (Germany)	8,06	10,89	10,89	12,61
Īrija (Ireland)	4,86	8,16	13,96	15,13
Itālija (Italy)	5,47	6,17	6,92	7,88
Nīderlande (The Netherlands)	3,84	2,29	17,73	9,85
Spānija (Spain)	6,43	6,94	6,00	6,5
Anglija (United Kingdom)	3,75	5,65	3,09	3,69

Iedzīvotāju ienākumu nodokļi ir progresīvi visās izvēlētajās valstīs, kaut arī dažādās pakāpēs. Vācija uzrāda skaidri izteiktu nodokļu struktūru dažādiem ienākumu līmeņiem, savukārt Francijā, Spānijā un Apvienotajā Karalistē progresivitāte ir vairāk koncentrēta ienākumu līmeņos, kas ir zem vidējā, bet Īrijā, Itālijā un Nīderlandē – ienākumu līmeņos, kas ir virs vidējā. Lielākajā daļā valstu ar likumu noteiktie sociālās nodrošināšanas maksājumi ir neitrāli vai progresīvi. Divi galvenie izņēmumi ir šādi: Nīderlande, kur struktūra ir regresīva dažādos ienākumu līmeņos, un Francija, kur struktūra ir regresīva tikai lielāku ienākumu līmeņos.

Darba aplikšana ar nodokli The taxation of labor

ES reģionā vidējā spēkā esošā darba nodokļa likme ir augstāka nekā Ekonomiskās sadarbības un attīstības organizācijas reģionā, kaut arī XX gadsimta deviņdesmitajos gados daudzas ES valstis īstenoja pasākumus, lai samazinātu nodokļu nastu, kas galvenokārt tika panākti, pārdalot nodokļu nastu no darba uz kapitālu vai uz plašākām nodokļu bāzēm (kā tas bija Itālijas *IRAP* gadījumā) un uz saimnieciskām darbībām, kas rada vides piesārņojumu (Vācija, Itālija un Apvienotā Karaliste) (Europa.eu / taxation, 2007.).

Aplūkojot veco ES valstu kopējo darba nodokli (sk. 4. tabulu) un tā attīstību pēdējo septiņu gadu laikā (kur ir pieejami vienveidīgi dati), redzams, ka nodokļu nasta ir samazinājusies Francijā, Itālijā un Apvienotajā Karalistē un vēl izteiktāki Īrijā un Nīderlandē, savukārt nemainīga tā ir palikusi Vācijā un Spānijā. Pašreiz darbs ir aplikts ar vislielāko nodokļa likmi Vācijā, Francijā un Itālijā, savukārt Apvienotajā Karalistē, Īrijā, Nīderlandē un Spānijā darbs ir aplikts ar nodokļa likmi, kas ir mazāka par Eiropas vidējo.

4. tabula
Table 4

Darba nodokļa dinamika: ienākuma nodoklis plus darbinieka un darba devēja maksājumi (kā % no darba samaksas) 1996. – 2002. gadā personām, kuras nav precējušās un bez bērniem (% no vidējās strādnieka bruto algas (*APW*))
Tax wedges on labor: Income tax plus employee and employer contributions (as % of labor costs), 1996 – 2002 single individual without children (*APW*) (Luca Gandulli, 2005.)

Valsts (countries)	1996	1997	1998	1999	2000	2001	2002
Francija (France)	49,7	48,7	47,6	48,1	48,2	48,3	47,9
Vācija (Germany)	51,2	52,3	52,2	51,9	51,8	50,8	51,3
Īrija (Ireland)	36,1	33,9	33,0	32,4	28,9	25,8	24,5
Itālija (Italy)	50,8	51,5	47,5	47,2	46,7	46,1	46,0
Nīderlande (The Netherlands)	43,8	43,6	43,5	44,3	45,1	42,3	35,6
Spānija (Spain)	38,8	39,0	39,0	37,5	37,6	37,9	38,2
Anglija (United Kingdom)	32,6	32,0	32,0	30,8	30,1	29,5	29,7

Ja kopumā Eiropā darbs tiek aplikts ar lielāku nodokļa likmi nekā Ekonomiskās sadarbības un attīstības organizācijas reģionā, šis jautājums ir aktuālāks mazāk apmaksātam darbam. Uztraukums par lielām nodokļu nastām uz mazāk apmaksātu darbu un zemi kvalificēta darba iespējamā aizstāšana ar citiem ražošanas faktoriem vai ražošanas pārcelšana uz citām valstīm pamudināja vairākas ES valstis (Francija, Nīderlande, Spānija un Apvienotā Karaliste) samazināt spēkā esošās nodokļu nastas uz maz apmaksātiem

strādniekiem. Šo iniciatīvu mērķis bija gan palielināt nodokļu un pabalstu sistēmas vertikālo taisnīgumu. Izņemot Nīderlandi, visas aplūkotās valstis maziem ienākumiem (67 procenti *APW*) uzliek mazākas nodokļu nastas. Laika posmā, kad vidēji ES valstis centās samazināt darba nodokļu nastas, samazināšanās, kā redzams, vairāk skārusi maz apmaksātus strādniekus.

IKP uz vienu iedzīvotāju rādītāju izvērtējums The assessment of the indices of GDP per capita

2005. gadā IKP pirktspējas paritātes standarts (*PPS*) vienībās uz vienu iedzīvotāju Luksemburgā bija vairāk nekā divas reizes lielāks par ES-25 vidējo rādītāju, savukārt Īrijā tas bija apmēram 40% virs vidējā ES-25 rādītāja. Nīderlande, Austrija, Dānija, Beļģija, Apvienotā Karaliste un Zviedrija ierindojās robežās starp apmēram 15% un 25% virs vidējā ES-25 rādītāja. Somija, Vācija un Francija uzrādīja skaitļus, kas ir apmēram 10% virs ES-25 vidējā rādītāja, savukārt Itālija un Spānija turējās apmēram vidējo ES-25 rādītāju līmenī. Kipra bija apmēram 10% zem ES-25 vidējā rādītāja, savukārt Grieķija un Slovēnija bija apmēram 20% zemāk. Čehijas Republika, Portugāle un Malta bija apmēram 30% zem ES-25 vidējā rādītāja, savukārt Ungārija, Igaunija un Slovākija bija vēl apmēram 40% zemāk. Lietuva, Polija un Latvija uzrādīja apmēram pusi no ES-25 vidējā rādītāja. IKP uz vienu iedzīvotāju rādītāja dinamiku var aplūkot 5. tabulā.

5. tabula
Table 5

IKP uz iedzīvotāju PPS vienībās, ES-25 = 100
Assessment of indices of GDP per capita (Eurostat, 2007)

Valsts (countries)	2004	2005	2006
ES-25 (EU-25)	100	100	100
ES-25+Bulgārija+Rumānija (EU-25+Bulgaria+Romania)	96	96	96
Eiras zona (Euro zone)	107	106	106
Eiras zona + Slovēnija (Euro zone+Slovenia)	107	106	106
Beļģija (Belgium)	119	119	118
Čehijas Republika (the Czech Republic)	71	72	74
Dānija (Denmark)	120	120	122
Vācija (Germany)	112	111	110
Igaunija (Estonia)	51	53	60
Grieķija (Greece)	80	81	84
Spānija (Spain)	97	97	98
Francija (France)	108	108	108
Īrija (Ireland)	134	136	139
Itālija (Italy)	106	103	100

Valsts (countries)	2004	2005	2006
Kipra (Cyprus)	85	88	89
Latvija (Latvia)	41	44	48
Lietuva (Lithuania)	47	49	52
Luksemburga (Luxemburg)	237	241	251
Ungārija (Hungary)	61	61	63
Malta (Malta)	74	71	70
Nīderlande (the Netherlands)	124	125	126
Austrija (Austria)	123	123	123
Polija (Poland)	47	49	50
Portugāle (Portugal)	73	72	71
Slovēnija (Slovenia)	77	80	82
Slovākija (Slovakia)	53	54	57
Somija (Finland)	109	111	111
Zviedrija (Sweden)	115	115	115
Apvienotā Karaliste (United Kingdom)	116	118	117
Bulgārija (Bulgaria)	31	32	33
Rumānija (Romania)	30	33	34
Horvātija (Croatia)	46	47	48
Bijusī Dienvidslāvijas Republika Maķedonija (former Yugoslav Republic of Macedonia)	25	25	26
Turcija (Turkey)	26	27	28
Islande (Iceland)	119	124	129
Norvēģija (Norway)	149	156	169
Šveice (Switzerland)	130	129	129
ASV (the USA)	146	148	150
Japāna (Japan)	108	108	110

Demokrātiskajās sabiedrībās politiskajam procesam ir izšķirīga loma komplicētu nodokļu sistēmu veidošanā. Daudzi autori ir skaidrojuši to, ka privātā sektora ekonomikas un politiskā procesa mijiedarbība nosaka nodokļu sistēmas aktuālo struktūru. Var izmantot vidējā vēlētajā metodi, lai izpētītu, kāda proporcionāla nodokļu likme, kas uzlikta, lai finansētu valsts pakalpojumus, radīšies līdzsvarotā sistēmā, kad subjektiem ir priekšrocības attiecībā gan uz valsts pakalpojumiem, gan uz privātās ekonomikas produkciju, un nodokļu likme ir izvēlēta ar vairākuma gribas starpniecību. Rezultātā, ja visas priekšrocības ir vienā līmenī, līdzsvara nodokļa likme ir tā, kas palielina vidējā vēlētajā labklājību. (Graetz Michael J., 2006.). Kā vienu no lielumiem, kas raksturo iedzīvotāju dzīves līmeni, var izmantot radītāju, kas atspoguļo IKP uz vienu iedzīvotāju. Analizējot minēto rādītāju, valstis, kas atbilst vēlamajam līmenim, uz ko varētu orientēties Latvija savas dzīves kvalitātes uzlabošanā, ir Nīderlande, Austrija, Īrija un Dānija. Arī pēc teritoriālā lieluma un iedzīvotāju skaita apjoma uz vienu kvadrātkilometru, šīs valstis ir visatbilstīgākās Latvijas variantam. Līdz ar to minēto valstu nodokļu sistēmas analīzei būtu nepieciešams pievērst lielāku uzmanību nākotnē it sevišķi iedzīvotāju ienākuma nodokļa jautājumā.

No pilsoņiem tiek sagaidīts, ka tie izvēlēšies savu dzīvesvietu sabiedrībā, kura nodrošinās tiem personīgi optimālo fiskālā sloga un valsts pakalpojumu kombināciju. Tāpēc sabiedrības konkurē, un līdzsvara situācijā tās tomēr dod dažāda daudzuma un veida valsts preces atbilstoši pilsoņu izvēlei. Tomēr, ja kvalificēts darbs un kapitāls nav absolūti mobili, rodas atšķirīgas nodokļu likmes, kurām var būt kaitīga ietekme uz pilsoņiem.

Secinājumi un priekšlikumi Conclusions and Suggestions

1. Iedzīvotāju ienākumu nodoklis ir progresīvs lielākajā daļā ES valstu, kaut arī dažādās pakāpēs. Vācija uzrāda skaidri izteiktu nodokļu struktūru dažādiem ienākumu līmeņiem, savukārt Francijā, Spānijā un Apvienotajā Karalistē progresivitāte ir vairāk koncentrēta ienākumu līmeņos, kas ir zem vidējā līmeņa, bet Īrijā, Itālijā un Nīderlandē – ienākumu līmeņos, kas ir virs vidējā līmeņa.
2. Izņemot Vāciju, kur lieto vairākas nodokļu formulas, citās valstīs iedzīvotāju ienākumi tiek sašķelti kategorijās, kas skaitliski svārstās no divām (Īrijā) līdz septiņām (Francijā). Augstākās nodokļu likmes svārstās no 40,0 procentiem (Anglijā) līdz 48,09 procentiem (Francijā). Vēl būtiskāk ir tas, ka Īrijā un turpat jau seko arī Anglija nodokļu maksātāji, kam ir *APW* ienākumu līmenis, jau ir pakļauti augstākajai iedzīvotāju ienākuma nodokļa likmei, kamēr Itālijā un Spānijā strādniekiem jāgūst vairāk nekā trīs reizes lielāki ienākumi par vidējiem, lai viņi sāktu maksāt augstāko likmi.
3. Dažas valstis (Francija, Vācija, Īrija, Spānija) tiecas vairāk pēc horizontālā taisnīguma, nekā citas (Itālija, Nīderlande, Apvienotā Karaliste). Izņemot Nīderlandi, sociālās nodrošināšanas maksājumi nav paredzēti nodokļu horizontālā taisnīgums mērķiem.
4. Kā vienu no lielumiem, kas raksturo iedzīvotāju dzīves līmeni, var izmantot radītāju, kas atspoguļo IKP uz vienu iedzīvotāju. Analizējot minēto rādītāju, valstis, kas atbilst vēlamajam līmenim, uz ko varētu orientēties Latvija savas dzīves kvalitātes uzlabošanā, ir Nīderlande, Austrija, Īrija un Dānija.

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METHOD AND APPROACH FOR ACHIEVING RURAL DEVELOPMENT OBJECTIVES THROUGH MORE TARGETED AND APPROPRIATE SUPPORT POLICY: CASE STUDY OF A POLARIZED AND CENTRALIZED COUNTRY, LATVIA

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Abstract

Studies of previous financial support policy in Latvia indicate increased economic and social gaps between regions and different social groups of society and are not consistent with nationally defined development objectives. The support policy is manageable in a way that the rural development objectives could be achieved after changes of principles and approach in the support implementation mechanisms. The creation of financial envelopes (territorial allocations) for Latvian regions, similar to country envelopes in the EU budgeting system, is a useful and suitable approach for Latvian rural development in order to target lagging regions, moderate disparities and decrease economic and social gaps between regions and different groups in society. Some alternative approaches to designing envelopes and principles for common support policy in Latvia are implementable at any time during 2007-2013.

Key words: Rural development measures, typology, financial envelopes, lagging rural areas

1. Introduction

Latvia's rural development program (RDP) supported by the national and EU pre-accession funds has made a positive impact on the country's rural development. However, the 2005 assessment study of rural support policies (Saktiņa and Meyers, 2005), supported by the World Bank and the Latvian Ministry of Agriculture, found that the RDP implementation has not reduced the polarization between richer central and western regions and poorer eastern rural areas, and as a whole, the sustainability of rural development in Latvia has remained low.

The contrast was best seen between the distribution of funding for the national Program for Development of Non-agricultural Entrepreneurship, which was relatively well balanced, and the distribution of the funding for Single Programming Document (SPD) rural development measures, which was highly skewed toward the more prosperous Central regions of the country. Another type of contrast was seen between SAPARD (Special Assistance Program for Agriculture and Rural Development) projects and SPD rural development projects for similar measures. Due in part to more flexible application requirements and the lifting of size limits, the average SPD project size was significantly larger and consequently fewer projects could be funded. In the most extreme case of investments in the processing industry, the average amount of public funding per project increased from LVL 372 thousand in SAPARD to LVL 1,57 million under the SPD rural development measures. With a similar amount of funding, the SPD measure was able to fund less than one third as many projects as SAPARD.

The analysis of district level allocations of various support and investment programs indicated that these programs contributed to increasing capital concentration in central areas of Latvia, while there was growth of poverty and lack of capital in the majority of peripheral rural areas. While this type of economic polarization may be a natural result of the advantages of location, size, and influence of the central areas, it is not consistent with stated rural development policy that these advantages should be enhanced by Government policy.

Increased targeting of government programs is a means to offset the advantages of the favoured areas and provide a more level playing field in terms of access to financial resources for those in disadvantaged areas. It was recommended that for each program, differentiated approaches be evaluated in the early stages of program design. Both the territorially differentiated approach and differentiated support policy implementation for different social groups of entrepreneurs (competitive, less competitive) should be considered. Differentiated support could include territorial allocations to ensure that access is more broadly available and limits to project size to ensure that a few large projects do not consume a large share of financial resources. Each measure and activity has particular features which mean that the same type of differentiation is not suitable for all cases.

It is possible that there is a trade-off between equity and efficiency in terms of program design, but it is also not certain that past methods of implementation have been so efficient in use of scarce financial resources. If investment support goes to a project that would have been implemented even without program support, there is no economic impact and resources are wasted. So, it is also possible that greater targeting can increase efficiency in the use of resources as well as helping to speed up economic convergence within Latvia.

Having explored the implementation of national and EU co-financed support programs, the study assessed the character of support beneficiaries, the amount of support received and the planned targets, hence, providing information on the likely impacts of these programs and implementation measures on the development of rural areas. The results indicated that economic development was increasing polarization of certain groups of entrepreneurs and increasing capital concentration in central areas of Latvia, while there was growth of poverty and lack of capital in the majority of peripheral rural areas. The state support policy, lacking a differentiated approach that could provide greater access and opportunities to all, resulted in supported investments and additional direct payments and full compensation payments generally to those entrepreneurs who might not be the priority target audience in the support policy.

The previous study produced key policy recommendations. The objective of this paper is to summarize the analysis of lagging rural areas and make recommendations to improve the targeting of rural development funds to these territories. The results can serve as an input to the Government of Latvia's National Rural Development Programme 2007-2013 and in a broader sense can improve design and management of rural development funds in order to reduce income disparities within Latvia.

2. Results and discussion

Methods and results on identification of leading and lagging areas

In order to obtain a more detailed typology than one would obtain from standard OECD methods, statistical analysis was conducted to identify leading and lagging territories in Latvia (Saktiņa, Meyers and Rabinowicz). The selection of areas was performed at the level of local municipalities of Latvia (530 in total). Using different socio economic, demographic and environmental indicators/variables and statistical methods such as factor and cluster analyses, the Latvian local municipalities (urban and rural) have been divided into different groups. The group of local municipalities which was evaluated as comparatively less economically and socially developed and also geographically remote, was identified. Most of these were in one region, Latgale, which has been defined as the study area.

2.1. Methodology

The factor and cluster analyses used as a sequential methodology provide a comparative view of the selected territory or problem, which is the target for decision making and support policy implementation.

Using factor analysis, there were four factors defined which are derived from different types of indicators available at the level of local municipalities. Four factors were identified by use of this analysis. They are

- Factor 1: Economical environment in agriculture;
- Factor 2: Quality of human resources;
- Factor 3: Utilization of land resources;
- Factor 4: Characteristics of agricultural enterprises.

As a result of the cluster analysis, it is possible to obtain internally homogeneous and externally heterogeneous groups. This analysis is done at the municipality level. As a result of grouping of factor values, five different groups were defined, and locations of the different groups are shown in Figure 1. They are (location of groups see in Figure 1 below):

- ✓ group 1- agricultural region with comparatively active economy and a high potential for resources
- ✓ group 2- extreme cases - cities
- ✓ group 3- extreme cases with a comparatively high impact of forestry
- ✓ group 4- economically less developed region where the agricultural sector has a greater impact and a poorer quality of resources
- ✓ group 5- average case

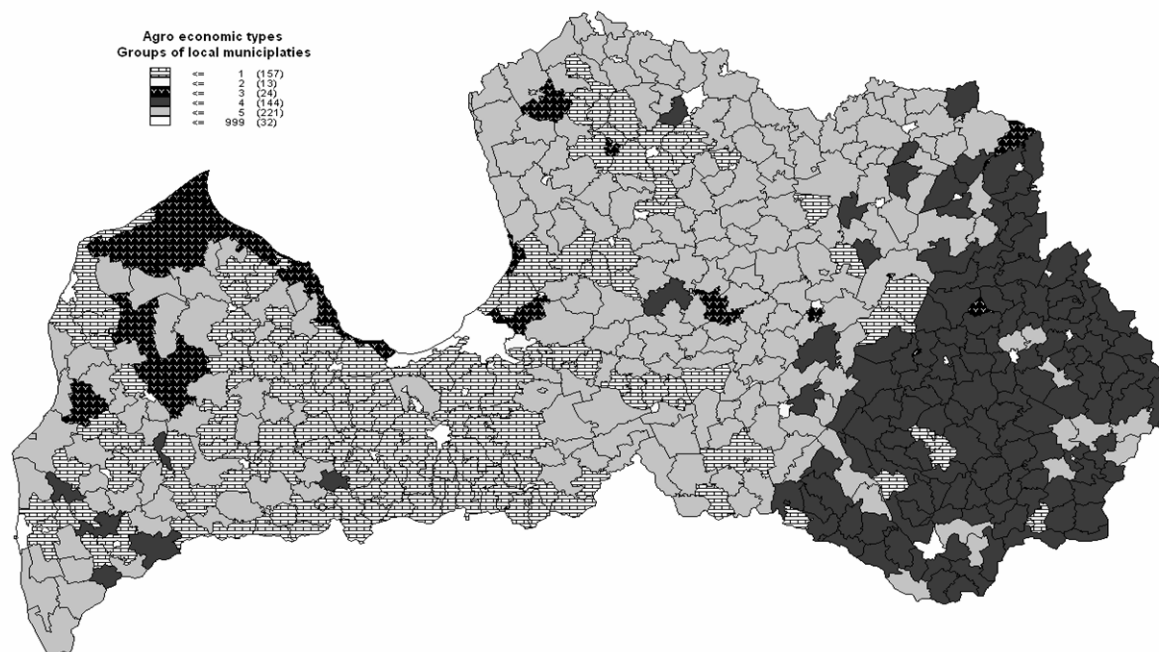


Figure 1. Location of differently developed local municipalities

Source: LSIAE, TERA, 2006

Summary indicators on land, demographics and agricultural holdings in these municipalities show that certain indicators, such as unemployment, percent of inhabitants employed in agriculture, and inhabitants over working age are higher in Group 4, while population density and income tax per inhabitant is lower.

2.2. Results on identification of the lagging region

The group of local municipalities, which was evaluated as comparatively less economically developed and also geographically remote, was defined as the lagging area. It comprised most of the municipalities classified in group 4. While a few of group 4 municipalities are scattered around Latvia, the districts where lagging municipalities dominate the area and population are clustered in the Latgale Region.

For policy recommendations, the positive aspect of these research results is that, the study area's municipalities form a very compact region in the eastern part of country. It facilitates further work on the formulation of policy recommendations and also their implementation in national policy. To support this approach, the designated area was analyzed at the district (NUTS 4) level and then at the regional (NUTS 3) level. Approximately 87 percent of the grouped rural area belongs to the Latgale region, and this compactness is a good argument to choose the whole region (rural and urban) for further analysis and design of policy recommendations on specific support mechanisms.

2.3. Key Findings

Key findings on lagging regions, their constraints and potential are:

- Of 530 local municipalities in Latvia, ¼ were found to meet the criteria as lagging areas, and most of these in terms of area and population are clustered in Latgale Region
- By nearly every social, economic and institutional indicator, Latgale as a region and especially the rural districts within Latgale are lagging significantly behind national average levels. These gaps may be inevitable results of resource endowments and location. However, they are also, in part, a result of constrained access to development resources that could enhance productivity of land, labour and capital in the region.
- Labour productivity in Latgale agriculture is well below the national average, especially in field crops, the most disadvantaged sub-sector. FADN¹ data indicate that animal agriculture and the related mixed cropping have the least comparative disadvantage and possibly even comparative advantage in Latgale.
- Latgale in particular and other lagging areas in general need more targeted attention in terms of rural development funding, especially for measures that are most appropriate for business development, job creation, and increasing productivity of agriculture and forestry activities. Income support is not bad, but it has little impact on sustainable development.
- Alternative methods to calculate territorial envelopes were presented based either on weighted factors such as shares of population, agricultural land, per capita Gross Domestic Product (GDP), and past SPD rural development investments or on the District Development Index of the Ministry of Regional Development and Local Government (MRDLG). The weighted share methods are very practical and can be easily applied to any measure or combination of measures and adjusted by the policy maker in terms of weights and factors included.

2.4 Calculations of territorial envelopes

This section summarizes how region and district envelopes can be estimated according to the factors and weights that the policy makers prefer. One such allocation formula is described below and an example is provided to illustrate its implications. The formula calculates a weighted average of the factors selected. The share of GDP has to be treated differently, since the objective is to have a higher allocation when GDP share is lower. Therefore, the calculation is based on (100-share of GDP), then adjustment is made so that this measure operates in harmony with the other factors. Thus the formula is:

District/region allocated share in Scenarios B = a*population share (or rural population) + b*land share (or agricultural land) + c*(100-GDP share)/(n-1) + d*(100-share of SPD/RD investments)/(n-1),

where ***a, b, c, d*** are the “weights” on primary factors and $a+b+c+d=1$

And n... is the number of districts/regions.

To develop the scenarios, different factors available at the regional level were applied. These are selected in order to represent key development constraints or needs. They are described below:

1. Gross domestic product in real prices. The GDP share indicates the relative level of economic development.
2. The number of inhabitants. Population share characterizes available human resources, the number of potential beneficiaries of support policy, and fiscal needs.
3. The area of the district/region. The land share characterizes the scale of the rural territory to be developed.
4. The financing drawn for rural development measures of the SPD 2004-2006. This characterizes the benefits gained for the economic development in the district/region during the first year of the programme.

Several scenarios were calculated, using different weights and different indicators in designed formula. Because the main focus of rural development programs is economic growth, the GDP factor is given the greatest weight. Population and land area are next in importance, as they indicate the human and resource

¹ FADN- Farm accounting data network

endowment of the territory which impacts the scale of resources needed for development. As noted earlier, the fourth factor related to past allocations under the SPD rural development (RD) measures may not be a very good indicator of current or future need but could be applied as an adjustment for past discrimination. As such, it is suggested to have a small “weight” if used at all. Introduction of this factor would reduce the weights on land and population.

We compared the support per rural inhabitant under different scenarios to the ranking of the districts according to the district development index used by Ministry of Regional Development and Local Governments (MRDLG). Though there was some correlation of less favourable development indicator (lower number) with a higher allocation, this correlation was not as close as one may wish. So we experimented with using the development indicator itself as a allocation formula.

This MRDLG indicator has a range from 1.797 in Riga District to – 1.515 in Rezekne District of Latgale Region. Since we wish to have a formula that allocates a higher amount to districts with lower development index, we need to transform the index into one that is higher for lower developed areas. The simplest way to do this is to take a constant number minus the index. We chose one that is only slightly above the highest index in Riga. So we first transformed the index by calculating allocation index $AI = 2$ minus MRDLG. This series of numbers was then calibrated so that they sum to 100 (inflate each one proportionately till the sum of all is 100).

The result is that very little is allocated to Riga District, and the level of funding tends to reflect the inverse of the level of development (see Figure 2 below). If this allocation pattern is compared to Scenarios in the weighted shares formulas, we can see more variation across districts and greater tendency to support toward Latgale region and away from Riga region. This is most noticeable in the per capita support. Another comparison shows the transformed development index and the support per capita, indicating a closer correlation between the development index and allocations. However, it is another issue to decide if the regional development index represents the factors that policy makers want to emphasize in the allocation decisions.

3. Conclusions, proposals, recommendations

There are three basic principles that are essential to enhance the targeting of available resources in general and especially for the identified lagging rural areas of Latgale Region.

First, keeping in mind the Latvian experience with the allocation of rural development measures of SPD in the current programming period, it is important to take a place-based (territorial) approach to allocation of available funds. This is the first step in preventing the EU and national funds from being concentrated in the most prosperous areas of Latvia, as was the case with rural development measures in the SPD framework for 2004-2006.

The second and related principle is to set a maximum grant size for each measure. This is far more important than setting a maximum on eligible project cost, since it is the size of grants that matters in terms of equitable use of scarce resources. A corollary principle is to provide a higher rate of grant support to lagging territories and a lower rate to more prosperous territories.

The third principle is to exploit, as far as possible, the synergies between the Rural development fund (EAFRD) measures and the EU Regional development funds. It is clear that regional development measures can improve the quality of life and the environment for entrepreneurship in rural as well as urban areas. For example, the effectiveness of investment projects can be enhanced if there is increased coordination with regional development activities that improve physical and social capital in rural areas.

What is the rationale for regional financial envelopes? The objective is to provide the opportunity for broad access to financing for selected measures. In past experience with a number of investment and rural development measures in Latvia (most notably those under the SPD), lagging regions have had very constrained access when measures were implemented on the basis of national competition. It is similar to what may be expected if Latvian farmers and entrepreneurs had to compete with all of the other applicants in Germany, France and other EU countries on an equal footing. The EU, by providing an envelope of funding for Latvia and each other member country, prevents crowding out by more competitive enterprises in the rest of the EU who may be more experienced in accessing such programs.

Our proposal is to provide indicative envelopes allocated on a regional basis. These would be allocated on an annual basis but would be subject to reallocation periodically to ensure that the funds are certain to

be utilized elsewhere if not in the region to which they were originally allocated. These envelopes would be only for selected measures deemed to be especially important to lagging regions, whose access has been constrained up to now.

So these indicative envelopes would be an opportunity and incentive to stimulate increased participation in the lagging regions, but they would NOT be a regional entitlement. We present several possible options as means to calculate such envelopes and also suggest reallocation rules to ensure that the funds are utilized and would not revert to the EU budget.

We can compare some of the options that have been discussed in the Latvian study on targeting (Saktiņa, Meyers and Rabinowicz, 2006). There is some difference between the allocation formula using weighted shares of population, land and GDP/per capita and the direct transformation of the district development index into an allocation formula (see below in Figure 2). The development index formula gives more weight to districts in Latgale and less to the central districts around Riga. But it is also clear that even the more modest variations in allocations that occur with the weighted shares formula are a very major improvement over what occurred in the SPD allocations for rural development measures of the current programming framework, where Eastern districts got less than 2 percent and Riga district more than 16 percent of the funding.

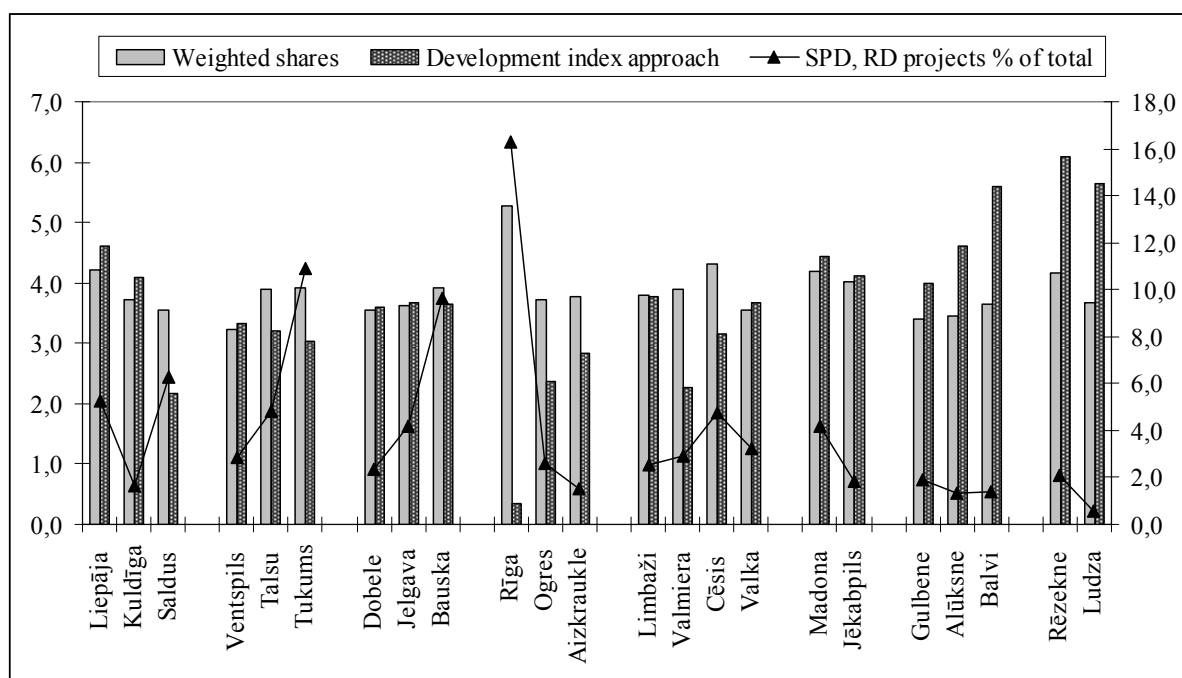


Figure 2. The percent of funding provided using the weighted shares formula or development index formula compared with the actual SPD rural development investment distribution

Source: Saktiņa, Meyers Ewa Rabinowicz (2006)

When these three alternatives are compared in terms of share of total funding by planning regions, the differences become clear. The largest impact of the envelope from **weighted shares** would be to limit the Riga region to half of its SPD/RD allocation share and greatly increase the Latgale share from 9 percent to over 23 percent. The Vidzeme share is also significantly higher and the Kurzeme share slightly lower, while Zemgale is nearly the same. As in the case of the weighted shares formula, the largest impact of using the **development index** as the envelope basis is to shift more resources from Riga region to Latgale region. There is relatively little change in other regions. However, it may concern policymakers that Latgale could not absorb 23 percent of these resources, and efficiency of financial resources could be sacrificed if the absorption capacity is too low.

There is a solution to the concern that a particular region, such as Latgale, could not use the total allocated envelope due to lack of viable projects or capacity to implement programs. The solution is to establish an agreement (in advance of program implementation and as part of the envelope system) on

reallocation at the end of a specific period. For example, there would be annual allocations according to the established envelope formula. Then at an agreed time not later than the midterm review an evaluation of absorption would be conducted of each region by the managing authority (MOA), and where absorption is lagging, surplus resources from the previous years allocations would be moved to better performing regions that had exhausted allocations before this time and are likely to have capacity to absorb additional resources. The fast disbursing regions should keep a backlog of projects that can be quickly approved in anticipation of such reallocation. The process could be repeated again in subsequent years.

Table 1

Comparison of financial allocations for planning regions, percent of total

Scenario	Kurzeme	Pieriga	Zemgale	Vidzeme	Latgale
Dev Index formula	17.4	9.5	19.9	22.1	33.0
Weighted shares	18.3	16.3	19.0	22.7	23.5
SPD 2004-2006 rural development projects	20.8	32.3	19.6	18.3	8.9

Source: Saktiņa, Meyers Ewa Rabinowicz (2006)

Also, capacity building would be needed in regions with slow absorption capacity. In this way, there remains an incentive for slower regions to improve their capacity to find viable projects in the later years of the programming period. In this manner, projects within each region would be competing with each other rather than with the whole country until such time as a reallocation occurs. Their incentive would be to improve capacity so as to increase their absorption capacity over the time span of the programming period so as to utilize more of the envelope over time.

Finally, recommendations are also made on the best use of rural development policies and measures in lagging territories. Appropriateness of the choice of measures and budget allocation can be judged based on following principles:

1. The policy should, in the first place, focus on measures that can mitigate market failures which prevent the agricultural sector and the rural economy in the region from functioning efficiently. Measures that primarily aim at an income transfer should be distributed equitably and generate as low distortions as possible.
2. The measures should focus on special characteristics of the region and pay attention to comparative advantage or least comparative disadvantage. The measures should be coordinated in order to enhance their impacts and to stimulate creation of economic clusters.

Keeping in mind that increased agricultural productivity resulting from more investment support for the lagging territory will increase labour surpluses in the region, it is hardly possible to solve the problem of low productivity of farm labour by measures that are primarily oriented towards agriculture. On the contrary, the best way of improving labour productivity in agriculture is through outflow of labour from agriculture. This could be achieved by prioritizing measures aiming at supporting diversification into non-agricultural activities on farm and, in particular, outside farming.

Support to improvement of transport and communication facilities could facilitate commuting to jobs in towns and cities for people living on farms. This type of support, unfortunately, falls outside the framework of axis 3.

The third principle is to prioritize activities that involve economic clusters. For example, agri-tourism or other recreational facilities are likely to be more successful in mutually supporting clusters. Other types of mutually reinforcing activities could be environment, afforestation and tourism activities or afforestation and biofuels activities. Similarly, a cluster that may involve both EARDF and ERDF activities can enhance the business environment and combine clustering and synergy benefits. This is another form of place-based emphasis, which seeks to create a critical mass of related economic activities and infrastructure development. It is difficult to see whether any attempts to create a cluster have been made. It does not appear to be the case.

Finally, though this paper is focused on targeting of rural development programs, Latgale and other rural areas of Latvia would also benefit from more general attention to the rural impacts of broader policies and programs in Latvia. An institutionalization of rural impact assessment such as has occurred in Finland,

Canada or the United Kingdom, for example, would enhance sensitivity of policy making to rural perspectives and help to make policies and programs more rural-friendly. Such assessments typically go beyond rural or regional development programs to include any policies that may impact rural populations and rural space.

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DIFFERENT CAP SUPPORT SYSTEMS – EVALUATION OF THE IMPACT ON SUPPLY OF AGRICULTURAL PRODUCTS

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Summary

A unified methodological approach is required in order to perform within the policy harmonization process the quantitative evaluation of the impact of various elements of the CAP direct support systems upon the supply of agricultural products and its structural changes. Possibilities of formalization have been assessed on the basis of the econometric model of agricultural and food products AGMEMOD, which is used and developed for all Member Countries incl. Latvia within the Framework 6 Programme Project „AGMEMOD 2020”.

The AGMEMOD models mainly focus on the effect of direct payments and responds on changes in key European market prices as a factors incentive for production development. For taking into account the impact of a new support unrelated to volume of production, presumptions are made for the present regarding it’s formalization via supply inducing coefficients – multipliers, or incentive price. It is assumed that the support related to a product or to the resource for its production has direct impact upon the volume of supply. The support granted for the land irrespective of the type of obtained product can act as an additionally stimulating factor, however, it should be evaluated as negative if the payment rate constitutes the economic bases for alternative business activity.

Results of the research show that in order to improve policy analysis in the AGMEMOD model, it should be taken into account that both the policy systems and the fiscal envelopes are variable by 2013. To make the models capable to incorporate the switches in agricultural policy regimes implementation of the envelopes for all types of direct support and direct support measures currently not included should be similarly applied for all countries. The multipliers measuring the weight of impact of the direct support on production are crucially important for the calculations. Consequently, for future evaluation of compliance of the values of these multipliers, the analysis of econometric coherences is required.

Key words: Common agricultural policy, direct support system, policy harmonization, modelling.

Introduction

The current Common agricultural policy (CAP) of the European Union is focused towards reformation of the support system with a view to facilitate increase of competitive capacity of the producers of agricultural products. The diverse social and economic structure and production structure in the rural areas of the Member States determines the selection of the applied policy within the framework of the direct support schemes established by the EU legislation. The new Member States can use at least until 2009 the transition period support system, one of advantages of which is a flexibly applicable assignment of additional national funding from the national budget. The old Member States on their part, are supposed to change over to a new system by 2007, either preserving the historical amounts of the support on farm-level or developing a regionally diverse support policy through support for a certain or a special quality product, or through full decoupling taking no efforts in stimulating the supply of certain products.

It is expected that by 2013, the policy harmonization process will take place, and such diverse policy systems will be equalized to the utmost. In view of different types of support applied in various Member States on the level of both sectors and farms and regions, there is challenge to develop an analytical approach, which would enable evaluation of the impact of policy upon the supply of agricultural products and the changes in its structure and which would be methodologically well-grounded.

From the point of view of policy evaluation, formalization of the policy harmonization process is

required in order to determine by quantitative methods how do the different types of agricultural support systems affect production.

The aim of the report is to show the possibilities of quantitative assessment of the impact of the various elements of the direct support systems proposed by CAP upon the supply of agricultural products within the context of the policy harmonization process.

The possibilities of formalization will be evaluated on the basis of the econometric, dynamic model of agricultural and food products AGMEMOD, which was developed for all Member Countries incl. Latvia within the Framework 5 Programme Project, and is used and adapted in compliance with the CAP being developed within the Framework 6 Programme Project „AGMEMOD 2020”.

1. Current Policy modelling – based on policy factors impact evaluation in pre-reform period.

The AGMEMOD models [5] used for assessment of policy impact on supply of agricultural products are mainly focusing on the effect of coupled direct payments and responds on changes in key European market prices.

In the time period starting from 1992, where the Common agricultural policy was implemented generally via production related direct support (payments per area and animal head), it was possible to evaluate direct payments as incentive factors for production development (see Table 1). The modelling approach elaborated according to the EU agricultural policy under “Agenda 2000” in reference period until 2004 is in general appropriate also for New Member States (NMS) as the pre-accession support was granted mostly coupled to agricultural production, crop area or animals.

Table 1

Direct support incorporation in AGMEMOD models

Sectors modelled	Direct support measures according to AGMEMOD modelling approach	Effect on use of production resources
Grains	Grain compensation payment	Grain area
Rapeseed	Rapeseed compensation payment	Rapeseed area
Beef	Sucker cow premium	Number of sucker cows
Pork	-	
Poultry	-	
Milk	-	

Source: AGMEMOD

Since the EU enlargement in 2004 NMS have implemented Single area payment (SAP) scheme (with the exception of Slovenia and Malta which joined to the Old Member states (OMS) classical “Agenda 2000” policy) while the new CAP reform with the four main measures – changes in market support, decoupling of support from production, cross compliance requirements and support modulation, was agreed. SAP for NMS is a transitional scheme to reformed policy where part of direct support funding became available for the first time without obligation to produce certain production [2]. That raises a question about appropriate modelling approach (see Figure 1).

In order to take into account the impact of the support unrelated to production upon the volume of produce, the block of the Latvian AGMEMOD model was supplemented with the new support measures, during the time period of which the variable rates are calculated inside the model taking into account the values of the sector envelope and the reference, as well with presumptions regarding it’s formalization via supply inducing coefficients – multipliers, or incentive price. The policies variables related to sectors which are analysed and included in AGMEMOD model and their conformity with the current agricultural policy measures implemented in Latvia are reflected in Table 2.

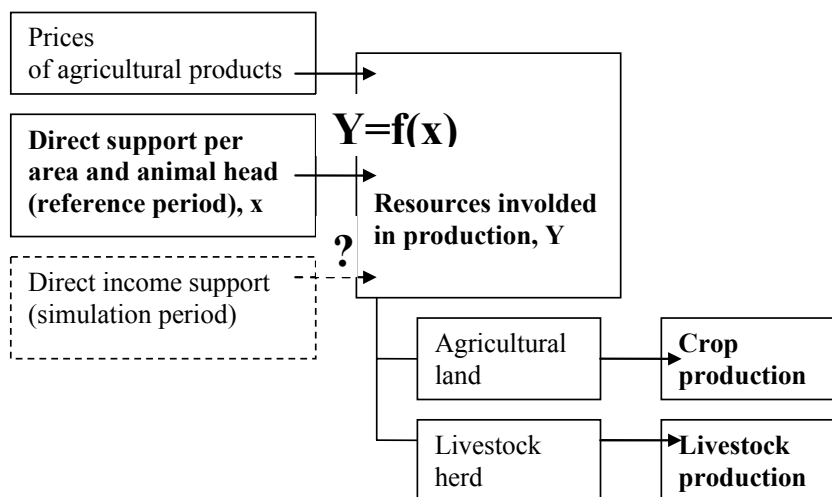


Figure 1. Modelling of direct support

Source: LSIAE

Table 2

Direct support implementation in Latvian AGMEMOD model

Sectors modelled	Direct support measures according to AGMEMOD modelling approach	Effect on use of production resources	Adjustments in Latvian model		
			Current CAP measures	Support rates calculated inside the model	Multipliers reflecting impact weight
1	2	3	4	5	6
Grains	Grain compensation	Grain area	Top-ups for arable crop area	Based on sector envelope, top-up rate, reference area for arable crops	1
		Grain area	Decoupled SAP	Based on national ceiling, phasing-in rate, eligible area for SAP	0.3
Rapeseed	Rapeseed compensation	Rapeseed area	Top-ups for arable crop area	Based on sector envelope, top-up rate, reference area for arable crops	1
		Rapeseed area	Decoupled SAP	Based on national ceiling, phasing-in rate, eligible area for SAP	0.3
Beef	Suckler cow premium	Number of suckler cows	Top-ups for suckler cows	Based on sector envelope, top-up rate, reference number of suckler cow	1
		Number of suckler cows, cattle slaughter weight through the incentive price for beef	Decoupled SAP	Based on national ceiling, phasing-in rate, eligible area for SAP, average livestock density threshold	0.3
			Top-ups for fodder crop area	Based on envelope for fodder crops, top-up rate, reference area for fodder, average livestock density threshold	0.6

Source: LSIAE according to Latvian AGMEMOD model

Columns 4 to 6 show adjustments done regarding introduction of the SAP scheme policy into the Latvian AGMEMOD model. All support available for arable crops is introduced in the model through the calculations of expected gross return per ha which affects the area allocated for certain crops. The direct support for cattle sector is built up from payments for suckling cows, decoupled SAP and fodder crops affecting the volume of beef. Single area payment and top-ups for fodder are added to beef incentive price increasing the margin between beef price and input costs. This means that part of decoupling effect is moved to the market effect, which occurs via changes of incentive prices for agricultural outputs or inputs – with a foreseeable responds of farmers [3].

Taking into account that the supply inducing impact of the direct support will be essentially decreased since introduction of SAPS, different multipliers are set based on expert assumption on how decoupled payments could affect the production decisions. The rates of multipliers applied for subsidies depend on the nature of support payment. The multiplier of value 0.3 is applied in the model to reduce fully decoupled support factor's impact on production. If the payment is kept coupled with production (product related top-ups for SAP scheme up to 2008) the multiplier is set to 1. For fodder crops the multiplier is set to 0.6 due to the reason that fodder payments are area based being more incentive factor for beef production. Recalculated per tonne of beef meat on the ground of assumption on animal density threshold these payments are added to the market price for beef in order to get the incentive price.

Assumptions regarding differentiated impact of support measures under different evaluation of multipliers are applied in AGMEMOD models of all countries and in Latvian model as one of NMS as well. According to the Latvian model results, the share of subsidies covered by the model and to be granted for producers of agricultural commodities modelled in the total envelope (national financial ceiling) in 2013 is expected to be only 54%. This calculation is done for baseline scenario, in which the maximum permitted coupling of subsidies to the production is assumed. A part of the rest of direct support is forecasted to be paid for sectors not included in Latvian AGMEMOD model (e.g., potatoes, green fodder areas) or distributed outside the agricultural sector for the land maintained in good agricultural condition. Comparing the actual gross agricultural income with the income level where support factors influencing production decisions are adjusted with multipliers, the first one is higher by 9%. These “adjusted” subsidies and incomes are shown in the bottom of Table 3.

Table 3

**Agricultural output value, subsidies,
feed costs and gross income in Baseline scenario, Latvia (2005=1)**

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agricultural output value	1.00	1.03	1.10	1.18	1.20	1.23	1.26	1.29	1.33
Subsidies	1.00	1.17	1.26	1.27	0.84	0.95	0.98	1.00	0.99
Feeding costs	1.00	1.01	1.06	1.09	1.09	1.10	1.11	1.13	1.16
Gross agric. income	1.00	1.06	1.13	1.21	1.15	1.20	1.23	1.26	1.28
Subsidies *	1.00	1.17	1.24	1.20	0.49	0.56	0.57	0.59	0.59
Gross agric. Income *	1.00	1.05	1.13	1.20	1.10	1.14	1.17	1.20	1.23

Source: Latvian AGMEMOD model calculations; * - adjusted with multipliers

The modulation measure is not introduced in the model directly through the decrease of support rates; however, the threshold for farms subject to modulation is quite low and can be assumed with regard to all farms. There are no opportunities for analysis of the effect of cross compliance requirements on supply of agricultural products.

2. OMS and NMS different policy systems – demanding unified approach in AGMEMOD model for assessment of the effects on common market

In 2007 within the framework of CAP there are two direct support schemes applicable in Member states incorporating diverse forms of their implementation [1]:

- SAP scheme (according to current legislation - transitional to SP scheme only in NMS until 2009) -

diverse policy systems due to the quite flexible application of top-ups. Different complementary support measures for each country may result in different share of CAP support introduced and evaluated in model as incentive factor;

- SP scheme - diverse support systems (from fully decoupled to utmost coupled, with the prevalence of historical or flat rate regional payments in OMS and Slovenia and Malta) and different assumptions how to simulate them, may result in different assessment of similar support as incentive factor for each country.
- From 2013 when top-ups will be phased-out and fully reformed policy must be implemented agricultural policies in NMS and OMS are supposed to be harmonized. The development of policy harmonization process is reflected in Figure 2.

Time	Policy measures	Policy systems	
		NMS* SAP scheme (different top-ups implementation)	OMS+ Slovenia and Malta SP scheme (regional, historic, static hybrid, dynamic hybrid moving to a flat rate model)
2007	Decoupled	40%	87%
	Coupled	30%	13%
	Support available (from national ceiling)	70%	100%
	Support envelopes →		
2013		OMS+ NMS SP scheme (regional, historic, static hybrid)	
	Decoupled		?
	Coupled		?
	Support available (from national ceiling)		100%

Figure 2. Policy harmonization

Source: LSIAE according to R1782/2003 [1], R118/2005 [2]; * - excluding Slovenia and Malta

Classification of direct support under different systems can be aggregated in two general groups:

- Decoupled support (according to OECD classification of PSE components – payments based on historical entitlements [4]).
- Coupled support (according to OECD classification of PSE components – payments based on output, the planted area or the number of animals [4]).

In case the support is related to a product or the resource for production of the particular product, it has a direct impact upon the volume of supply. The support granted for the resource of production – the land irrespective of the type of obtained product can act as an additionally stimulating factor; however, it should be evaluated what decoupled payment rate constitutes the economic bases for alternative business activity, and therefore should be assumed as a negative facilitator of production.

The approach for implementation of the policy selected by the state and the policy instruments, which should be classified as support for farmers' income, affects the supply of agricultural products; however, the competitiveness of such products in the EU market and the motivation for their production will strongly depend on the support system applied by other countries for their producers.

Therefore the weak point is modelling the direct payments without using all policy instruments applied and without the whole amount of available funds with market effects.

3. Improvement of policy modelling considering policy harmonization process

On the ground of comparison between the direct support systems in the old and the new Member States and their potential development, for improvement of the policy analysis in the AGMEMOD model, it should be taken into account that both in the old and in the new Member States:

- the policy systems are variable;
- the financial envelopes of the direct support are variable.

The old Member States have a variable structure of the envelope, which is gradually changed from historical farm payments into single-rate regional payments. The scope of the envelope gradually increases for the new Member States; consequently, the structure of the envelope also changes with gradual increase of the specific weight of decoupled payments and disappearance of the top-up payments related to production.

Regarding NMS, the model must be capable to incorporate the switches in agricultural policy regimes. If there are no links between different policy measures in the model, in case of switch between policy schemes, policy effect will not be evaluated correctly due to the changes in policy objects.

Scenarios cannot provide reasonable results if pre-accession support is omitted from the particular national model [6]. On the other hand, as the pre-accession support system was applied during transition period and was not consistent from year to year, it would be better to concentrate efforts on including more recent policy data (2004-2006) for estimation. Considering different topping-up rates applicable for different sub sectors (according to Council Decision 2004/281/EC) in order not to complicate transitional pre-reform policy block, top-ups could be exogenously calculated outside the model.

At the same time, funding from the EU budget and their distribution according to common rules should be calculated inside the model in order to build the policy block transparent as the different modelling approach between the OMS and NMS will be in general not relevant from 2009, and not relevant any more from 2013 due to the SP scheme implementation in all Member States.

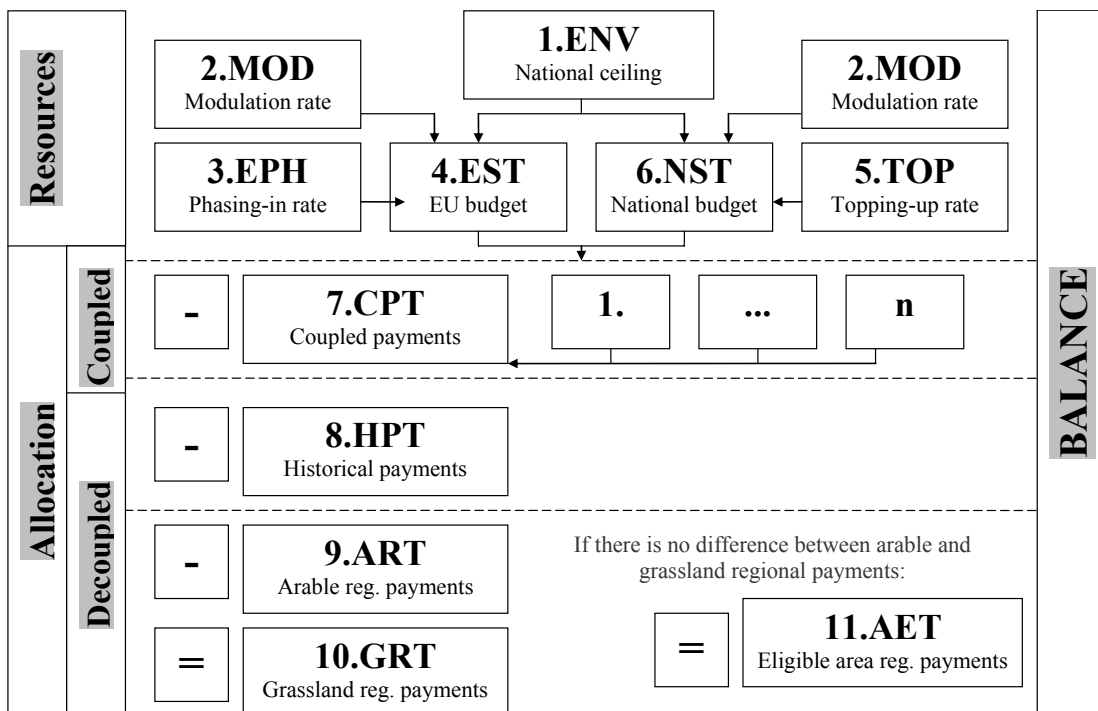


Figure 3. Allocation of total direct support

Source: LSIAE, [6]

Therefore regarding modelling of policy instruments in national models two essential points should be similarly applied for all countries:

- To calculate envelopes for all type of direct support (See Figure 3) providing the balance of amount of money granted to the sector,

- To add direct payments related to definite sub-sector and not included in model as a factor (e.g., slaughter premiums, payments for fodder areas and other policy measures which are not fully implemented yet) to incentive price in order to evaluate the impact of total support.

As a production of commodities has become more independent on the level of direct support since introduction of decoupled payments, the multipliers (coefficients) are crucially important (not any other approach has been developed) in the calculations measuring the weight of impact of the direct support upon production. In order to perform an adequate analysis of the values of these multipliers, analysis of econometric coherences should be done:

- relationship of the changes in the volume of support with the changes in the volume of production;
- relationship of the re-distribution of the support outside the agricultural sector with externalities.

In case the decoupled historical payments are applied along with the coupled payments in the same sector (e.g., historical payments in the beef sector and coupled payments for cattle breeding) in order to encourage continuation of the previous type of farming, a stronger weight of impact is expected. However, concerning historical payments, in general a gradual redistribution in agricultural sector is expected.

4. Conclusions

The research provides the bases to conclude the following:

1. The AGMEMOD modelling approach elaborated to evaluate support as incentive factor for development of certain production should be improved in order to tackle new regimes of CAP. Since supply inducing impact of the direct support is decreased, expert assumptions on how decoupled payments could affect the production decisions should be applied. The decoupling effect could be partially attributed to the modelling of market effect - via changes of incentive prices for agricultural outputs or inputs, in order to presume foreseeable responds of farmers.
2. In baseline scenario where the maximum permitted coupling of subsidies to the production is assumed, the share of subsidies covered by the model in the total national financial ceiling for Latvia in 2013 is expected to be only 54%. Part of the rest of direct support is forecasted to be distributed outside the agricultural sector for the land maintained in good agricultural condition.
3. Support related to a product or the resource for production of the particular product has a direct impact upon the volume of supply. The support granted for the land as a resource of production can act as an additionally stimulating factor. In case that decoupled payment rate constitutes the economic grounds for alternative business activity that should be assumed as a negative facilitator of production.
4. The competitiveness of agricultural products in the EU market and the motivation for their production will strongly depend on the support system applied by other countries for their producers. Therefore all policy instruments applied and the total amount of available funds with market effects should be implemented in the models taking into account that:
 - both the policy systems and the financial envelopes of the direct support in mid term period are variable and moving to harmonized policy systems in OMS and NMS until 2013;
 - links between different policy measures should be established for modelling the switches in agricultural policy regimes in order to evaluate policy effects correctly in case of changes in policy objects.
5. The multipliers important for measuring the weight of impact of the direct support upon production might differ in diverse schemes. In case the decoupled historical payments are applied along with the coupled payments in the same sector, a stronger weight of impact should be expected. In order to perform an adequate analysis of the values of these multipliers, econometric analysis based on the most recent data regarding changes in the volume of support, the volume of production, re-distribution of the support outside the agricultural sector and externalities provided should be done.

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BETTERMENT OF ESTONIAN AGRICULTURE VIA CO-OPERATION AND CREDIT UNIONS*

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Abstract

Co-operation is one of the main possibilities of self-help for producers, especially agricultural small-producers. This gives a possibility to buy cheaper and sell more expensively. This expands the investment possibilities of farmers and agricultural enterprisers. The history of agricultural co-operation in Estonia dates back to a hundred years. With the initiative and co-financing of credit unions it is possible to build up a functional co-operative system of farmers and agricultural enterprisers, which benefit both agricultural producers of the parish and local inhabitants as consumers. To execute this, the joint initiative of local inhabitants and credit unions is necessary, preceded by active explanatory work by the co-operative circles of Estonia. The role of co-operation in Estonian agriculture is to withstand the monopolising economic circles, holding the greater part of agricultural processing industry.

Key words: agriculture, financial institutions, co-operation, financial co-operatives, credit unions

Introduction

Co-operation is one of the main possibilities of self-help for producers, especially agricultural small-producers. This gives the possibility to buy cheaper and sell more expensively. This expands the investment possibilities of farmers and agricultural enterprisers. The history of agricultural co-operation in Estonia dates back to a hundred years.

Co-operation developed in Estonia especially quickly in the 1920s and 1930s. In 1940 there were approximately 140,000 farms in Estonia, which had joined into more than 3,000 co-operatives. The joint ownership of Estonian people included union banks and co-operative insurance companies. In the rural areas co-operative industry, co-operative services and co-operative trade dominated. The profits gained were divided among members. The property of the collective enterprise belonged to the members-owners. By 1939 283,768 members had joined economic co-operation (Ekbaum 1963: 207).

The co-operative system of Estonia was completely liquidated by 1951. In 1939 co-operation in Estonia was on a level that could be considered among one of the most exemplary in Europe, but during the post-war years all kinds of self-initiative and joint co-operation of inhabitants were prohibited. In addition to co-operatives all intellectual centres were also liquidated. Collective farms and Soviet co-operatives were established, based on vague common property.

At the end of the 1980s private ownership was restored. The Farm Act adopted in 1989 was efficient, and proceeding from this, thousands of new farms were established and co-operation also began to develop on a small scale. The developments of recent years in the European Union and other states show an increase in co-operation and this gives rise to the hope that it will be understood also in Estonia that co-operation is beneficial and necessary not only to single members, but to the Estonian society as a whole.

Research methods and object

The aim of this article is to show the necessity of co-operation and one of its specific forms - credit unions - to the development of agriculture in Estonia. Both the problems and the possibilities accompanying it will be dealt with. Hence, the research object of the article is agricultural co-operation.

First, we will bring out historical experience of agricultural co-operation in Estonia from 19th century up to present. Then we will discuss over agricultural and co-operative banking developments in post-soviet Estonia and bring out the role of credit union in developing Estonian rural economy.

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Discussion

Historical Experience of Agricultural Co-operation

Agricultural co-operation can be divided into periods in the same way as all kinds of joint activities in Estonia in general. A primitive form of agricultural co-operation can be attributed to shifting cultivation practised in Estonia more than 2,000 years ago (Krinal 1996: 9). More close to the present-day co-operatives were the societies of farmers established in the 19th century.

During the 19th century Estonia underwent significant changes in economic and social life: urbanization fastened, industrial production expanded. In accordance with new social and economic circumstances the production methods had to be modernised, which at that time mainly meant modernisation of agriculture. The possibilities for improving economic results were explained to peasants by drawing on foreign examples. People were introduced to co-operation in Finland, Denmark, Germany and even Japan. During the first years of co-operation there were almost no successful local examples available (Rootslane 2001: 28).

In different fields of collective activities problems specific to that field also occurred.

In case of credit unions it was the question of the population concentration and membership that turned out a problem. The stand was taken that considering the circumstances of Estonia the establishment of at least one credit union per parish would be necessary, whereas the credit unions should not compete with each other. It had to be ensured that the credit association would know for what purpose the money was spent. The Estonian credit societies were concerned because of their low liquidity, having only 5-6% of free money instead of the recommended 20% (Rootslane 2002: 40).

Some of the problems of co-operation were caused by specific national and political reasons. At the beginning of the 20th century some co-operatives of Estonians had also been founded outside Estonia, e.g. at Gatchina or Sukhumi in Russia, etc. Co-operatives of Estonians existed even in Canada. National discrimination was not uncommon for Estonian co-operatives. In the St. Petersburg province the articles of association of some co-operatives of Estonians were not confirmed for the reason that all members were Estonians. The requirement was that at least half of the members should be Russians. The establishment of central co-operative associations of Estonians was also hindered.

In spite of the difficulties and problems, the basic structure of Estonian co-operation was developed by the beginning of the 20th century. Before World War I there were more than 700 co-operatives with approximately 100,000 members in Estonia. In about two decades co-operation had basically become a mass movement.

Thanks to the obtained management and leadership skills, the experience of co-operation was of great help when establishing the free and democratic state. In addition to the experience of joint management, co-operation also made it possible to establish an economic system based on private ownership and small farms (as compared to big estates). Of special importance to agricultural co-operation was the Agrarian Land Reform of Estonia adopted in 1919, which gave the rights to their land back to local inhabitants. Since the majority of the newly established farms were small, the co-operative form was adopted to solve several problems. The members of co-operatives made up approximately 25% of the whole population. Thanks to the activities of co-operatives both production and jobs survived in the rural areas.

In addition to favourable conditions (a lot of small private farms), the rise of co-operations was also supported by the previous promotion of co-operation and the positive experience from the period preceding independence. It is essential to recall the role of the state in supporting co-operation through laws and subsidies, due to which co-operatives were in a better situation as compared to capital associations. New farmers were supplied with agricultural equipment and livestock expropriated from the former landlords. The support of the state can be explained by the fact that the statesmen of that period came themselves from agricultural associations and co-operatives and therefore favoured the role of co-operation (Leetsar 1999: 46).

The activities of the co-operatives were extremely manifold, allowing co-operation of different co-operative societies in different fields. At the same time co-operation was coordinated through central associations and establishments, which helped to make contacts and find the necessary partners of co-operation.

1940-1951 saw the beginning of the expropriation of the property of co-operatives, although by law nationalisation of the property of co-operatives was not allowed. In 1944 there were 15 central co-operative associations and bigger co-operatives in Estonia, the majority of which dealt with agriculture. For example the Central Consumers Association of Estonia provided co-operatives with goods and dealt with buying-up of agricultural products; The Central Association of Dairy Societies Export of Butter had

the exclusive right of buying and selling dairy products. Voluntary co-operative activities ended with deportation in March 1949. Almost all of the private property and especially all land were nationalized.

From the period of Soviet co-operatives from 1951 to 1989 only the joint construction organisation, factories of mixed fodder, etc., could be regarded as partly co-operative activities in the field of production, but the state interfered into their activities. The collective farms outwardly resembled co-operatives, but their results were different. Both co-operatives and collective farms were made up of members with general meeting as the highest organ of managing the collective farm. In reality the collective farm had very little power of decision and in fact was not an independent economic unit. On the basis of co-operative property a network of agricultural production and service enterprises was developed during the Soviet period (Leetsar 1999: 58).

Agricultural Co-operative Activities in the Post-soviet Estonia

The prerequisite of fast economic growth, including agricultural development, is the even development of the state, including co-operation. Co-operation is of special importance to smaller agricultural producers who are short of money for making investments. For example, machinery societies would allow farmers to use modern machines and thus increase the efficiency of production; dairy societies and horticultural societies would enable them to sell their production more profitably and with a more stable price. Thus, the range of possibilities is wide.

When at the end of the 1980s farms began to be restored and the Commercial Associations Act was adopted, co-operation did not get any support from the state. The property of collective farms was not returned to co-operatives, but was sold to enterprisers by auction following the Privatisation Act (State Gazette-I, 1993:45). Nevertheless, the development of farms and enterprises provided conditions for the reestablishment of agricultural co-operation in Estonia. The foundation of the Central Farmers Association of Estonia at the beginning of 1989 is considered to be the beginning of co-operation, being the first association established by farmers voluntarily. In 1992 the Estonian Co-operative Association was restored, uniting more than 70 co-operatives with approximately 100,000 members (Tomson 1999: 127).

Co-operatives operating in the field of agriculture in Estonia are classified as follows:

- Production units of the primary level are co-operatives based on joint work.
- Farming co-operatives based on joint activities of several farms. Their aim is to invest together for acquiring modern technology and giving production of higher quality (machine societies, co-operation for buying up milk, soil improvement societies, etc.).
- Regional co-operation is reorganised joint activity on a certain territory. For example, dairies serving surrounding farms; or meat industries uniting local producers of meat. This group also includes consumers' co-operatives.
- The activities of central co-operatives or co-operative associations uniting regional and local co-operatives (Ühistute... 1998: 24).

At the beginning of 1998 1,524 co-operatives were registered in Estonia. The majority of them were dealing with agriculture – 34.2% of the total, processing industry 15% of the total. Thus, 49% of all registered co-operatives were operating in the field of agriculture. (Ühistute.... 1998: 24). In the European Union co-operatives employ 2.3% of full-time wage earners, but the respective share in Estonia is only 0.3%, which shows the great perspectives for development. According to the management of agricultural market act it was possible to support co-operative enterprises in 2001-2002 from the state budget within the range of up to 2 million EEK (Leetsar 2003: 117).

Financial Co-operatives in Estonia

According to a generally accepted definition the aim of union banking is to unite the small financial resources of its members and give them out as loans to its members for making larger investments and to promote their consuming capability. Co-operative financial enterprises are in principle non-profit organizations rendering services to their members at cost value. The members (clients) of union banks have a vote over decisions concerning the course of action. These two main aspects distinguish co-operative financial enterprises from commercial banks.

Union banks and credit unions can nowadays be useful mainly for the development of enterprise and agriculture in rural areas. At least two important reasons for this can be brought out. First, in the countryside the network of commercial banks is sparse, making the availability of even the most elementary bank services difficult to obtain for country people. Second, commercial banks are more interested in serving clients from urban areas because they are more solvent. Thus the founding of a system of financial co-operatives would fill an empty niche and would help to spur rural life in Estonia.

According to the Credit Institutions Act and Savings and Loan Associations Act in force in Estonia at present, financial co-operatives should be divided into two categories – credit unions (CU) and union banks. Credit union is a financing institution the main and regular activity of which is to accept deposits and give loans to its members, also to render simpler bank services. Many Estonian credit unions also function as insurance intermediaries and enterprise consultants. The Irish co-operative circles have also considered this kind of additional activities necessary (Ward 2006: 5).

The establishment and operating of union banks is mainly based on the Credit Institutions Act, which foresees that a credit institution can operate as a public limited company or a co-operative. Thus a union bank is a credit institution, as compared to the credit union, and from the legislative point of view it has the same rights and obligation as commercial banks.

The third possibility to operate as a co-operative financial establishment in Estonia is to establish a financial co-operative operating according to the profit co-operation law, which is in essence an ordinary profit co-operative. The aim of a financial co-operative is to promote the economic activities of its members, for which the co-operative takes a loan from its members who have free money surplus (deposits) and lends it out to members who need loan resources (e.g. apartment associations, agricultural enterprises, house-owners, small shops, etc.). In essence it is a co-operative, the main activity of which is to mediate loans. Financial co-operative is not a credit institution or financing institution from the point of view of the Estonian Savings and Loan Associations Act and thus, for example, depositing in a financial co-operative cannot be called depositing but borrowing from its members. Financial co-operative cannot transfer deposits or make payments from the deposit accounts of its members, and for buying and selling foreign currency a special licence from the Bank of Estonia is necessary.

The operation of a financial co-operative as a co-operative financial institution is still more restricted than that of credit unions due to certain reasons. For instance, to increase loan resources they have to render subsidiary services (e.g. bookkeeping and management services, etc.) because usually an ordinary profit co-operative cannot obtain additional loan resources from external aid coming to the state or through the Foundation for Promotion of Estonian Rural Life. Nevertheless, the foundation and successful operation of a financial co-operative enables to reorganise the financial co-operative into a credit union. The activities of a financial co-operative help to gain readiness for meeting the confidence standards of credit unions and train competent personnel. Such a scheme of action may be of benefit for the emergence of new credit unions.

The Role of Credit Unions in the Development of Agriculture in Estonia

The union banking, i.e. the system of credit unions in rural areas is the basis for the effective financing of farms and agricultural co-operatives. The reason why the system of rural entrepreneurship based on commercial banking cannot be considered as effective, lies in the ambition of commercial banks to gain profit. This in turn means up to 50 times smaller interest rate in depositing (in credit unions 6-10% per year, in commercial banks 0.2% per year) and more inflexible conditions on taking a loan. Thus the aim of commercial banks is not to circulate money for the benefit of a certain area, but to gain as big profit from equity earnings as possible for the owners. In 2005, the owners of commercial banks took 533 million Euros of revenue out of Estonia in dividends (Consolidated Financial Statement of Estonian Credit Institutions 2006). In case the whole Estonian banking was based on unions, it would mean considerable increase in the interests of time deposits and more favourable loans. Estonia has positive historical experience in this sphere from the economic arrangement of the 1930s, when more than 50% of banking was union based. At that time credit unions operated in every parish of Estonia – altogether 216, and these were the main sources for financing rural economy (Sörg 2006).

We propose that the contemporary credit union system in Estonia should concentrate on the following questions:

- Collecting deposits of farmers and agricultural enterprisers by paying at least 6% of interest per year.
- On the account of collected deposits and other resources giving out favourable loans to farms and agricultural enterprises.
- Counselling on agricultural enterprises and business activities.
- Assisting in establishing agricultural co-operatives and financing them.
- Promoting collective activities of its region in every way.

The role of credit unions is to manage co-operative money circulation in their region. For starting such money circulation it is first of all necessary to bring in the deposits of the inhabitants and enterprisers of the parish as main sources of loan resources. Favourable possibilities for this were established by interest rate of 6-10% offered by Estonian credit unions. In 2005, 109,000 Estonian families (19%) kept their savings at home (F-monitor, 2005). The majority of such families live in the countryside. Therefore it is important to develop trust in country people towards the credit union operating in their parish or region. The main work in this field must be done by the credit unions themselves through presentations and advertising. Also, the standards of deposit insurance of credit unions established by law need to be reviewed because these do not protect deposits kept in credit unions, leaving them unprotected and thus diminishing the liquidity of credit unions as a whole.

On the account of the deposits involved in the credit union of the region it is possible to start to finance the activities of the enterprisers of the parish. In the first place it is necessary to give loans to farmers for spring sowing, obtaining and renewing livestock, building and repairing farm buildings, etc. Nevertheless, a contemporary credit union should desirably be the ideological centre of the co-operative activities of the region. For example, when several farmers have the need for taking a loan for the acquisition of agricultural machinery, the credit union should set a precondition for these farmers to establish a machine co-operative. The loan for purchasing machinery would not be given to single farmers but via the machine co-operative they have founded together. The credit union also has to calculate the efficiency of the agriculture of the region. For example, it should be calculated together with the farmers whether it is more sensible to take their milk and meat to private dairies and slaughterhouses or whether it would be more profitable to establish their own dairy society or slaughterhouse. Also, the organization and financing of the joint activities of the consumers of the parish should be initiated by the credit unions. In the contemporary context it is also necessary to render consultation services concerning the agricultural subsidies of the government and the European Union.

In summary, it is possible to build up a functional system of farmers and agricultural enterprisers, initiated and co-financed by the credit unions, which would be beneficial to both agricultural producers operating in the parish and local inhabitants as consumers. To bring this into life the joint initiative of local inhabitants and credit unions is necessary, preceded by active explanation by Estonian co-operative circles.

Conclusions

Estonian society has not yet apprehended the human-centred essence of joint activities based on private ownership and its possibilities to support the development of statehood. Due to the weakness of co-operative movement, insufficiency of education concerning co-operation and shortness of knowledge, the development of co-operation has not been sufficient in recent years. Due to the insufficiently developed co-operation the Estonian nation loses hundreds of millions of Euros every year. At the same time, there are possibilities for achieving co-operation in the Estonian society by making use of the forms of co-operation already existing in the countryside: the co-operative society, societies of producers-farmers, horticultural and apicultural societies, hobby groups, etc.

Co-operation is the most important means of developing rural life because it helps to use both economic and intellectual resources purposefully. All in all it can be said that:

- Co-operation expands investment opportunities. The improvement of production conditions ensures better quality of products and enhances the possibilities of finding market for the products.
- Co-operation increases the prosperity of country people. Agricultural producers gain extra profit from processing and marketing.
- Co-operation enables to produce with a lower manufacturing cost and gain more profit.
- By joint marketing, co-operation enables to sell bigger quantities with stable quality.

Special credit-union system has to start concentrating its attention to the following questions:

- Collecting the deposits of farmers and agricultural enterprisers by paying at least 6% of interest per year.
- Giving favourable loans to farms and agricultural enterprisers on the account of collected deposits and other resources.
- Giving consultations on agricultural enterprises and business activities.
- Assisting the establishment and financing of new agricultural co-operatives.
- Promoting all kinds of co-operation in one's area.

In summary, it is possible with the initiative and co-financing of credit unions to build up a functional system of agricultural co-operation that would profit both the agricultural enterprisers of the parish and local people as consumers. To carry it out the joint initiative of local people and credit unions is needed, preceded by active explanatory work by co-operative circles. The role of co-operation in Estonian agriculture is to withstand the monopolising economic circles holding the greater share of agricultural processing industry.

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FINANCIAL SUPPORT FOR AGRICULTURE AND RURAL DEVELOPMENT: CREDITS, CREDIT GUARANTEES, AND INVESTMENTS

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Abstract

Agriculture is one of the few sectors of national economy requiring specific state regulated support, as many farmers and agricultural undertakings lack their own sources to finance investments and subsequently modernise agricultural production. The shortage of financial means leads to competitive difficulties in foreign markets. Therefore the article focuses on the study of credit and investment flows in particular sectors, as the aim of the research is to identify the potentialities of credits, credit guarantees and investment, and to evaluate their flows in the promotion of the development of agriculture, forestry, food production, and alternative rural entrepreneurship. The analysis is done for the period between the mid 90's and 2005. The research concludes that several factors, like new and efficient machinery and other equipment purchased by means of credits could facilitate the growth of the mentioned sectors; however, the amount of credits available under targeted crediting programmes is still insufficient.

Key words: Agriculture, rural development, financial support, credits, guarantees, investment.

Introduction

Latvia has experienced the collapse of industrial sector that was distorted during the fifty years of the Soviet regime; therefore the process of restoring traditional agriculture and rural regions is complicated and painful. In order to ensure a successful transition to innovative development, it is necessary to provide more support to Latvian rural enterprises that are seeking to modernize their technology, by attracting more investments and facilitating loan facilities.

During recent years, the situation in agriculture has changed significantly and these changes are closely connected with the integration of the agrarian sector within the common European market. Consequently, issues like the increase of competitiveness of production made by farmers and rural entrepreneurs in local and foreign markets; the attraction of foreign long-term investments in the form of credits or co-financing; efficient use of financial resources currently available; as well as complete use of the means provided by the legislation of the Republic of Latvia for the indirect support of entrepreneurs have become outstanding.

In compliance with the purpose of the law "On Agriculture and Rural Development" adopted by the Parliament of the Republic of Latvia on April 7, 2004 it is envisaged to provide a legal basis for agricultural development and to specify sustainable agricultural and rural development policy in accordance with the Common Agricultural Policy and the Common Fisheries Policy of the European Union. The law determines, however does not provide, ways for the achievement of the policy:

- 1) the fundamental principles for the implementation of the agricultural and rural development policy, which include the observance of specific regional features; and state and foreign investments;
- 2) the methods of implementation of the agricultural and rural development policy, alongside with other measures including state aid, the European Union support, and credit policy (Lauksaimniecības un lauku attīstības likums, 2004).

Both resources from the national budget and foreign support or co-financing from different programmes and targeted investment, as well as private capital is used to cover the needs for the achievement of agricultural and rural development in Latvia.

There are several studies and research done on several aspects of crediting and investing in agricultural and related sectors in Latvia and other EU new member states (Jasjko D., 2000; Kotane I., 2003; Makutenas V., Makuteniene D., 2004; Mazūre G., 2000, 2002; Ohvril T., 2003; Špoģis K., Strīķis V., 2002; Saktiņa D.,

2005; Jakušonoka I., 2001; Naujokiene R., 1999; Danilowska A., 2002; Nurmet M. 1999; Paarts V. 1999; Stanikunas D., 1999), yet they look upon the problem from different aspect. The present research focuses on the particular analysis of the dynamics and amount of financing received in agricultural and rural sectors, therefore the *hypothesis* of the study: financial support for agriculture and rural support increases, yet it is insufficient due to a small number of crediting programmes. The *aim* of the research is to identify the potentialities of credits, credit guarantees and investment, and to evaluate their flows in the promotion of the development of agriculture, forestry, food production and alternative rural entrepreneurship.

The research comprises the development of the following *tasks*:

- 1) identification of credit resources envisaged for agricultural and rural development;
- 2) evaluation of agricultural and rural development crediting programmes;
- 3) estimation of the results of credits guarantees provided to rural entrepreneurs.

The information compiled by the Ministry of Agriculture, the Central Statistical Bureau of Latvia, the legislation of the Republic of Latvia, materials of the Mortgage and Land Bank, the Rural Development Fund, the Association of Latvia Commercial banks, scientific publications and other materials have been used for the purpose of the study.

The research is mainly based on the monographic descriptive method, as well as the methods of analysis and syntheses are used to study the problem elements and synthesize coherencies or formulate regularities.

Results and discussion

Development of Credit Market of Agriculture and Rural Entrepreneurship

The credit market of agriculture and rural entrepreneurship in Latvia has been basically initiated and developed through the resources allocated by international financial institutions. The first loans allocated by international organizations and received already in December 1991 were followed by agricultural credits disbursed in 1992 and G-24 loan allocated by the International Monetary Fund and the European Union. These credits were aimed at stabilization of the balance of payments, development of production in agriculture and private sector. Next from 1994 to 2001 crediting of the agrarian sector has been implemented under the credit lines approved by the International Bank for Reconstruction and Development, i.e., the farmers and rural entrepreneurs received loans through the Agricultural Development Project and Rural Development Project credit lines.

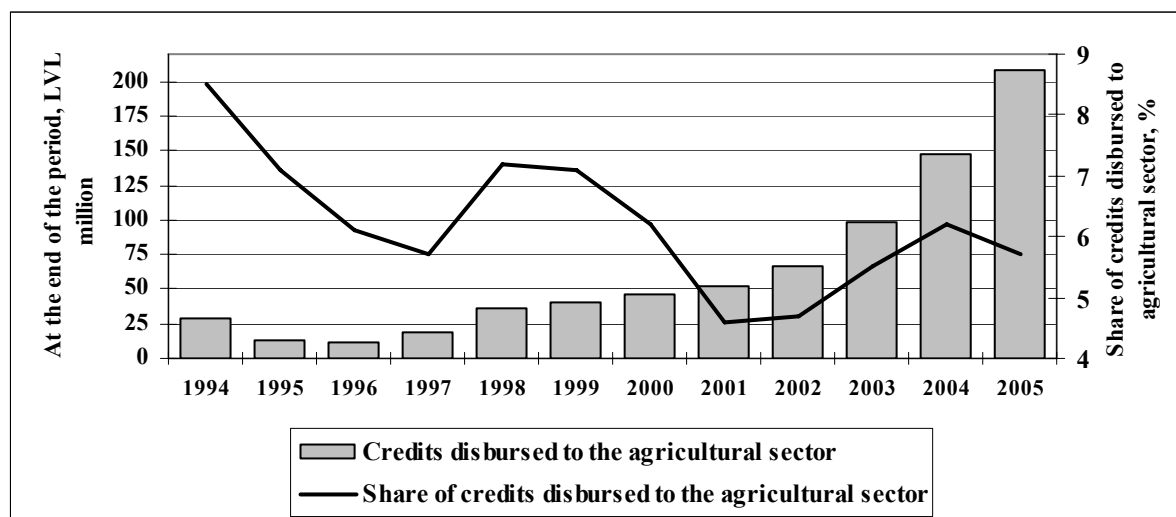


Figure 1. The dynamics of the balance of credits disbursed to the agrarian sector of Latvia and its share in the general credit portfolio within 1994 – 2005

Source: the Association of Latvia Commercial banks (1994-2005)

The Association of Latvia Commercial banks has started to compile the information on the breakdown of credits disbursed to domestic enterprises in the sectors of national economy only from 1994. Therefore, this year was assumed as the base year for the analysis of the agrarian credit market. In 1994, the credit balance of the agricultural enterprises in the commercial banks of Latvia was LVL 28.3 million (Figure 1).

The radical changes and fluctuations shown in Figure 1 give the basis for several conclusions and estimations:

- both the amount of credit balance and the share of credits disbursed to the agrarian sector in the general credit portfolio has radically decreased during the first years of the period analysed. The financial crisis started in the spring of 1995 and the following measures of the Bank of Latvia restricting and relieving the activities of several commercial banks explain the reduction. During 1995 and 1996, the banks practically ceased granting of credits, and passed over to other sources of income. The credit market was experiencing a marked stagnancy, since the amount of disbursed credits practically did not increase up to the end of 1996;
- radical changes were observed starting from 1997 and the amount of credit balance disbursed to the agrarian sector has consistently continued to grow for the following years; and in 1998 the share of agrarian credit balance increased simultaneously with the growth of the balance of credits disbursed to the agrarian sector. The state financial support to the agriculture initiated in 1998 explains the growth of the figures. This support helped the agrarian sector to regain the financial trust and consequently the banks came at a more active crediting of the sector;
- within 1999 - 2001 the two figures have changed in antipodal directions – the share of credit balance in the general credit portfolio rapidly decreases with a consistent and significant growth of the amount of the balance of credits disbursed to the agrarian sector. The main reason for the unfavourable situation is a sharp increase of the share of credits disbursed to other sectors of national economy;
- during the period analysed the share of the agrarian credit portfolio in the general credit portfolio has decreased from 8.5% in 1994 to 5.7% in 2005. The share of agrarian credits has fallen regardless of the fact that the amount of credits being at disposal of commercial banks increases with every year.
- within the couple of recent years the amount of credit balance has consistently grown, which is mainly impacted by the improvement of the economic situation in the country and accession to the EU.

The analysis of the absolute dynamics on the balance of disbursed credits also evidences the comparatively radical fluctuations in crediting of the agrarian sector (Figure 2).

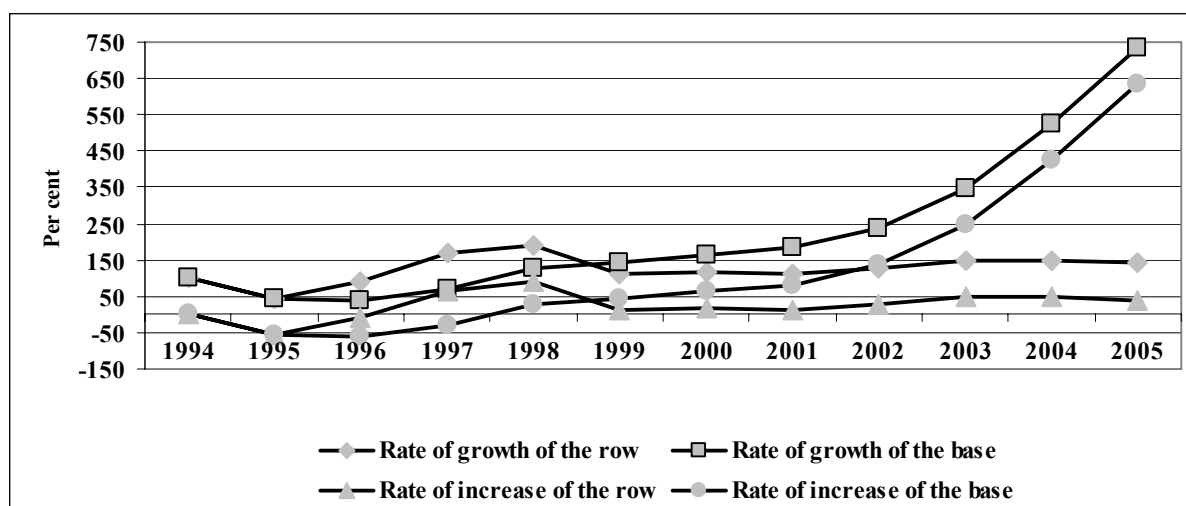


Figure 2. The absolute dynamics of credits disbursed to the agricultural sector within 1994 – 2005, LVL million

Source: Calculations according to the Association of Latvia Commercial banks (1994-2005)

The largest absolute increase of the row was observed in 2004, when the amount of credits has increased by LVL 60.4 million in comparison with the previous period.

The establishment of a non-profit state joint stock company “Rural Development Fund” in 1994 was another factor leaving a significant impact on active involvement of the banks in agricultural and rural crediting. The objective of the fund is to guarantee the repayment of credits disbursed to the farmers having insufficient collateral securities.

The largest absolute increase of the base of disbursed credit balance was observed at the end of the period analysed – in **2005**, when the amount of credit balance has increased almost 7 times in comparison with the base year and has amounted to LVL 208.5 million.

Agricultural and rural entrepreneurship crediting programmes in Latvia

The Ministry of Agriculture in cooperation with the Latvia Mortgage and Land Bank has elaborated programmes of special purpose crediting to enhance the attraction of capital for agriculture and rural entrepreneurship. In 2001 and 2002, the government of the Republic of Latvia accepted these programmes and envisaged the financing for the programmes from the state principal budget.

Long-term Investment Crediting Programme of Agriculture

The Long-term Investment Crediting Programme of Agriculture (Investment Programme) was approved by the decision No 48 of the Cabinet, the Republic of Latvia on October 9, 2001. The programme was initiated in April, 2000 after the signing of the contract between the Ministry of Agriculture and the state joint stock company “Latvia Mortgage and Land Bank” (LMLB).

The total disbursement of the programme amounts to LVL 24 million. Therefore, in 2001 LVL 8 million increased the equity capital of the state joint stock company “Latvia Mortgage and Land Bank”. The government allocated the financing through the capitalization of the World Bank loan. The rest of the funding amounting to LVL 16 million was credit resources attracted by the bank itself.

The main objective of the programme is to promote the establishment of sustainable and competitive farms in capital capacious sectors of agriculture. The programme aims to achieve the set objective through:

- the establishment of a long-term financial offer acceptable to rural farmers;
- the promotion of positive structural changes and acceleration of attraction of investments for the establishment of an optimum size farms;
- the promotion of increase of the competitiveness of rural farms;
- the reduction of agricultural maintenance costs in the future;
- the establishment of conditions for more valuable use of the European Union agricultural support programmes after the accession to the EU;
- the reduction of social strain in rural areas caused by incapability of small or medium-scale farmers to attract financing for the development of agricultural production (Lauksaimniecības ilgtermiņa investīciju kreditēšanas programma, 2001).

The Long-term Investment Crediting Programme of Agriculture is envisaged only for the producers of agricultural produce in Latvia and cooperative societies providing agricultural services. The financial objective and mission of the programme is to provide the farmers of Latvia with cheaper credit resources for long-term investments – loans with the repayment period up to 20 years and annual lending rate of 7%.

Since initially the actual lending rate exceeded 7%, the Ministry of Agriculture decompensate the existing difference of interest rate using the agricultural subsidy resources. At the end of 2002, the lending rate fell below the limit of 7% and there was no need for further additional compensations. Starting from June 2003, farmers might receive long-term investment loans with the annual lending rate of 6.8%, but from January 2005, the annual lending rate is 4% for the farmers engaged in biological agriculture, and agricultural cooperatives; and 5% for other farmers.

The following projects are eligible for financing under the programme: buildings under construction for the production of agricultural produce and buildings of hydro-technical structures for licensed entrepreneurship in fishery; reconstruction of agricultural production units, and technological equipment, including the procurement of land used for agriculture; investments in water and energy supply equipment; and development of rural infrastructure.

The programme does not envisage the financing for the purchase of livestock, construction of hydro-stations, building and reconstruction of non-agricultural structures, as well as the purchase of mobile agricultural machinery necessary for outdoor activities. The criteria for loan eligibility are selected to stipulate the formation of larger-scale farms and also to support financially greater number of farmers, therefore the financial amounts for projects under crediting were restricted in the range from LVL 5 000 up to LVL 200 000 (Lauksaimniecības ilgtermiņa investīciju kredīšanas programma, 2001).

On January 1, 2006 totally 338 loans for the amount of LVL 11.63 million were allocated. The average lending period is 8.7 years and the average size of loan is LVL 34 thousand. The largest share of loans constituting 45.4% has been approved for the development of the main priority sector in Latvia – dairy farming (construction and reconstruction of cattle-sheds, purchase of milking units). Such a solution may be considered as a success and logic action. Also farmers cultivating grain have been very active, as 22.7% of the total amount of loans has been approved to this sector (construction and reconstruction of grain drying-kilns and storage houses).

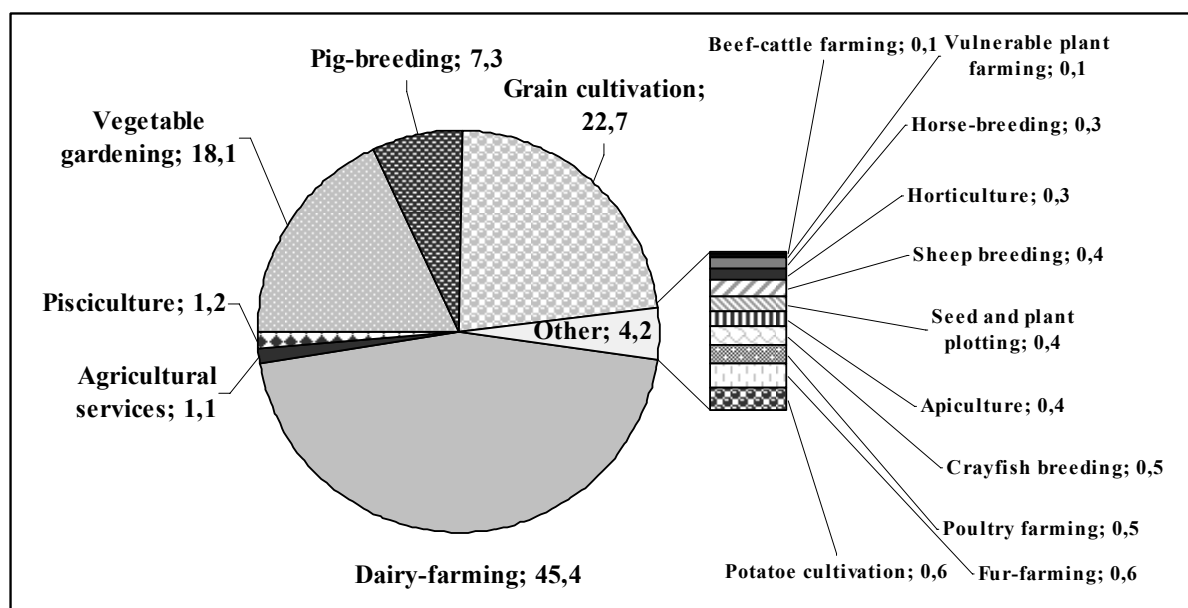


Figure 3. The structural breakdown by sectors of loans approved under the Long-term Investment Crediting Programme of Agriculture between 2002 and 2005

Source: Latvia Mortgage and Land Bank and the Ministry of Agriculture of the Republic of Latvia (2002 - 2005)

According to Figure 3, which includes the results of the research on the structural breakdown of loans, it is seen that agricultural services constitute very small share, however it could be a quite profitable type of income providing services to those small and medium-sized farmers who cannot afford credits for the procurement of technological equipment and machinery. Unfortunately, due to the small amounts of loans it is difficult to assess the interest of farmers.

Programme for Crediting the Procurement of Land Used for Agriculture

The issue for the re-establishment of the title to land has been the primary aspect of the land policy in Latvia so far. The land reform has resulted in such a topical issue as a rational use of land used for agriculture. Therefore the Ministry of Agriculture elaborated the *Programme for Crediting the Procurement of Land Used for Agriculture* (Land Programme) under which the state joint stock company “Latvia Mortgage and Land Bank” opened the credit line for the amount of LVL 1.5 million, later the credit line was expanded. Land Programme was started in 2002 and finished its functioning at the end of 2005, because the total credit amount of LVL 9 million was used. Within the Land Programme, farmers might receive long-term loans (with repayment term of 20 years) with the annual lending rate of 4% for the procurement of land used for agriculture. Since the existing market lending rates were higher than 4%, the Ministry of Agriculture covered the rate difference from the agricultural subsidy resources.

The programme had the following objectives:

- 1) to launch the functioning of efficient market of land used for agriculture;
- 2) to enable the development of competitive production areas and land consolidation in compliance with the EU standards;
- 3) to promote efficient management of land used for agriculture (Lauksaimniecībā izmantojamās zemes iegādes kreditēšanas programma, 2002).

On January 1, 2006 totally 545 loans for the total amount of LVL 7.8 million have been disbursed with the average price of land 264 LVL/ha. The programme has ensured the investment of loans into the procurement of land necessary for the expansion of the priority agricultural spheres – dairy farming, grain production and vegetable growing.

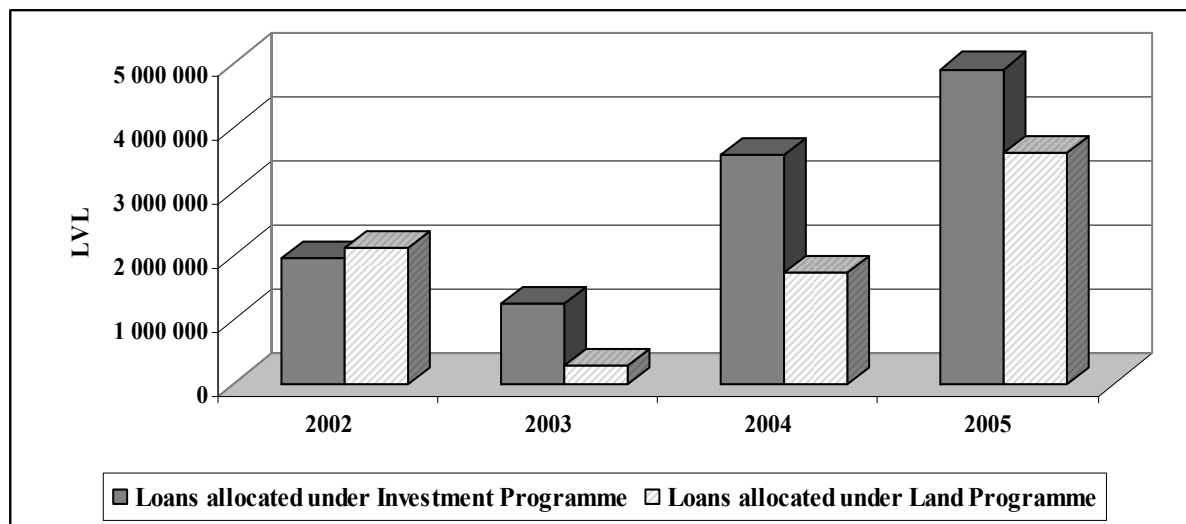


Figure 4. The amount of loans allocated under the Long-term Investment Crediting Programme of Agriculture and Programme for Crediting the Procurement of Land Used for Agriculture between 2002 and 2005

Source: Latvia Mortgage and Land Bank and the Ministry of Agriculture of the Republic of Latvia (2002 - 2005)

According to Figure 4, the year 2003 has been the year of the change, when the activity of both programmes has diminished, mainly due to uncertainty related with the expected accession to the EU. The situation has changed from 2004, due to the receipt of the EU area payments and the resulted unstable relations between the farmers and landowners from whom the land is leased. Uncertainty on the possible future actions of landowners forced the farmers to search for solutions to become the owners of land themselves thus ensuring further production and existence potential.

Programme for the Development of Non-agricultural Entrepreneurship

The Cabinet approved *the Programme for the Development of Non-agricultural Entrepreneurship* at the end of 2002, which means that actually, the implementation of the programme was started and it was finished also in 2003. The general objective of the programme was the promotion of the rural economic development, supporting non-agricultural entrepreneurship, improving the rural infrastructure, perfecting the rural scenery according to the business needs and observing the requirements for environmental protection. The programme had the following tasks:

- 1) to facilitate the receipt of financial support for the start and development of non-agricultural business in rural areas, thus solving of rural population employment problems and increase of income are promoted;
- 2) to promote the development and livening of rural population incentive to enhance the participation of economically non-active rural inhabitants into the rural entrepreneurship (Nelauksaimnieciskās uzņēmējdarbības attīstības programma, 2003).

The total financing of the programme was LVL 5.2 million and it was completely disbursed in 2003.

The programme envisaged a significant reduction of rural unemployment (by 9%), increase of income per one household member (in average by 2%) and possibility that 0.3% of natural farms started commercial activities (Lauksaimniecības gada ziņojums, 2003). The target territory of the programme included the whole territory of Latvia, except for the largest seven towns and regional centres having no status of the region of special support. The largest share of loans and grants were approved to the sector of tourism and recreation, as well as for the development of woodworking (LMLB, 2003).

Credit Guaranties for the Rural Farmers

The state joint stock company “Rural Development Fund” established in 1994 because of the decree of the Cabinet of Ministers is responsible for granting credit guarantees to the farmers and other rural entrepreneurs of Latvia. The basic objective of the fund is to promote the development of rural areas and the agrarian economy in Latvia by supporting the increase of the efficiency of agricultural produce, creation of new jobs in rural areas, as well as the growth of the quality of agricultural produce and exports.

Between May, 1997 and December 31, 2005 the fund granted 2151 credit guarantees for the total amount of LVL 48.13 million, thus farmers and rural entrepreneurs might receive credits for the amount of LVL 127.07 million (Latvijas lauksaimniecība un lauki, 2005).

The number of the given guaranties has decreased for amount of 30% compared to 2003 that is related to the interruption of implementation of the Development Programme of Non-agricultural Entrepreneurship and the SAPARD programme.

The analysis on the targets of the use of guaranteed credits showed that credits are most often guaranteed for the procurement of machinery (46.3%), to cover the needs for the working capital (14.1%) and construction and purchase of equipment (12.3%). Credit guarantees have been granted in the following spheres: modernization of agricultural technique and equipment, purchase of high value animals, construction of new production structures and reconstruction of the existing facilities, construction of warehouses for fruit, vegetable and grain, construction of small hydropower stations, renovation of fur-farming, development of rural tourism, non-traditional agriculture, fishery and other spheres (Latvijas lauksaimniecība un lauki, 2005).

Due to refunding of credits, 914 credit guaranties have lost validity for the total amount of LVL 13.82 million. 1257 credit guaranties for the amount of LVL 22.66 million were in force on 1 January 2006.

Table 1

Credit guaranties granted by the state joint-stock company “Rural Development Fund” between 1997 and 2005

	Number of guarantees	Amount of allocated guarantees (thousand LVL)	Amount of received credits (thousand LVL)
1997	55	489	1 567
1998	108	1 266	4 615
1999	94	593	2 286
2000	53	518	1 709
2001	156	1 968	3 848
2002	307	6 046	15 002
2003	618	15 215	33 288
2004	423	12 086	34 024
2005	337	9 952	30 732
1997-2005	2151	48 134	127 071

Source: Rural Development Fund (1997-2005)

In 2005, the Fund has ensured the guaranties for all the credit guaranties requested by the banks for the rural entrepreneurs that complied with the provisions of the Fund for guaranteeing loans. The credit guaranties of the Fund ensured the possibility for the rural entrepreneurs to acquire the funding of the SAPARD Programme, as well as contributed to up taking of the financing of the EU Structural Funds.

According to Latvia State Institute of Agrarian Economics (Jasjko D., 2000; etc.), the possibilities of the farmers to participate in the financing of investment projects are restricted and insufficient, to ensure the competitiveness of the farmers of Latvia with the EU entrepreneurs after the joining the EU. The amounts of foreign investment funded into the equity capitals of agrarian and forest enterprises are small in comparison with the investment stock in food and wood production enterprises. The estimation of the sectors gives the basis for the conclusion that the food and drinks production enterprises have received the greatest amount of foreign investments, comprising 47.4% on 31 December 2005, in comparison with the agrarian enterprises where the corresponding figure is only 8.44% of total amount of foreign investments in the sectors analysed. If the amount of accrued foreign investments in the sectors analysed is compared to the amount of accrued investments in all the sectors of national economy, it may be concluded that this share is relatively small. Positive changes start with the year 2001, when the share of accrued foreign investments in the sectors analysed versus the total amount of accrued investments in the national economy of Latvia has increased, yet excluding 2004 (Investments in Latvia, 2000-2005).

The EU entrepreneurs mainly invest the capital into the enterprises producing food and drinks. But the CIS entrepreneurs invest the majority of the capital into timber industry, while the resources from the investors representing the continent of America are invested both into food and timber industries. The assessment of general tendencies shows that the enterprises manufacturing export-worthy goods are attractive to foreign investors and thus they receive the majority of investments (Investments in Latvia, 2000-2005).

Conclusions

1. Since fragmented and unspecialised management hinders agricultural production to meet the EU standards and impedes the supply of agricultural produce for processing industry, it is necessary to allocate financial support for agriculture to improve the efficiency of agricultural production and promote the development of commercial and competitive farms resulting in a growth of farm income level and economic and social welfare of farmers.
2. The Long-term Investment Crediting Programme of Agriculture and the Programme for Crediting the Procurement of Land Used for Agriculture have created the possibility for farmers to receive loans for economically more advantageous reduced lending rates.
3. The largest share of loans under the Long-term Investment Crediting Programme of Agriculture constituting ca. 46% has been disbursed for the financing of dairy-farming projects, as the main priority agricultural sector of Latvia.
4. The credit guarantees granted by the state JSC "Rural Development Fund" have most often been used to obtain credit for the procurement of new highly efficient machinery. The procurement was facilitated by the state program of subsidies for the development of agricultural production and technological modernization.
5. Several factors, like the state macroeconomic stability, level of produced assets, load of the present capacities and compliance with modern technologies and other factors, explain the recently increasing amount of financial resources and consequently investments into agricultural and rural sectors.

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EFFECTIVE AND OBJECTIVE-ORIENTED BUDGET ALLOCATION FOR AGRI-ENVIRONMENTAL PROGRAMMES IN POLAND FROM A REGIONAL PERSPECTIVE

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Abstract

The main objective of the paper is to answer the question of an effective and objective-oriented budget allocation for the agri-environmental programmes in Poland. Poland is since May 2004 a new EU member state and has little experience in decision-making in agri-environmental policy. As political decisions in terms of agri-environmental policy are taken on the national level by the Ministry of Agriculture and Rural Development, there is no possibility for regional actors to participate in the decision-making process. Regional actors, however, can estimate regional priorities considering economic, environmental and social conditions. To consider regional preferences agricultural experts, agri-environmental advisors and farmers were interviewed in the region Podkarpackie in South-eastern Poland. They assessed the importance of the respective agri-environmental measures with regard to the given objectives. The estimated objective coefficients were used in a linear programming approach according to Kirschke and Jechlitschka (2002) in order to calculate an effective budget allocation. Using linear programming, we discuss in this paper how regional preferences would guide budget allocation while considering environmental objectives.

Keywords: Agri-environmental policy; environmental objectives; budget allocation; linear programming; Poland

Problem setting and objectives of the study

The agri-environmental measures in Poland are planned and monitored by the Ministry of Agriculture and Rural Development and the Agency for Restructuring and Modernization of Agriculture. Therefore there is no possibility for farmers or regional actors to participate in the decision-making process. This, however, is necessary to consider regional preferences regarding environmental objectives in agriculture to better and more effectively implement political instruments, which is important due to differentiated natural and farming conditions in different regions of the country. This again results in different objectives in rural areas in every region of the country and different environmental priorities.

The aim of the paper is thus, to:

- analyse the agri-environmental policy in Poland,
- define the problems regarding financing issues,
- define the objective function for the agri-environmental measures,
- calculate an optimal and objective-oriented budget allocation from a regional perspective,
- discuss the importance of regional preferences for an objective-oriented budget allocation.

The paper is structured as follows: the first chapter gives an overview of the agri-environmental policy in Poland. Next, a case study, data and the methodical approach are depicted. In the following chapter results are discussed. Finally, conclusions for an interactive decision-making process in the agri-environmental policy are drawn.

Agri-environmental policy in Poland

The agri-environmental policy in Poland is implemented since the accession to the EU in May 2004 according to the EU regulation 1257/99 (Europäische Kommission, 1999). Since then, the agri-environmental policy is obligatory for creating policies for rural areas.

The first measures to protect natural resources in agriculture in Poland were, however, established in 1990 with the „National Environmental Policy“ (Ministry of Environmental Protection, Natural Resources and Forestry, 1991). The agri-environmental measures planned for the pre-accession phase with the Programme SAPARD (Special Accession Programme for Agriculture and Rural Development) were not realised due to political strategy changes and missing legal rules (Ministerstwo Rolnictwa i Rozwoju Wsi, 2002). The first successfully implemented agri-environmental measures were conducted in 2000 and 2001 with the EU project Phare99. After Poland's accession to the EU, the financing and formation of agri-environmental measures is based on the National Agri-Environmental Programme, which is an integral part of the “Plan for Development of Rural Areas” (PROW - Plan Rozwoju Obszarow Wiejskich). The measures implemented with the National Agri-Environmental Programme 2004-2006 are as follows: ‘Sustainable agriculture’, ‘Organic farming’, ‘Extensive meadow farming’, ‘Extensive pasture farming’, ‘Ground and water protection’, ‘Puffer zones’, and ‘Domestic farm animal species’. The main objectives of the programme are: ‘Protection of natural resources’, ‘Conservation of biodiversity’, and ‘Protection of cultural landscape in rural areas’.

As agri-environmental measures are new in Poland, there is little experience in evaluating the new policy. Problematic is also, how the preferences should be set to achieve the environmental objectives in a best possible way. The question of an efficient agri-environmental policy and an objective-oriented budget allocation considering regional preferences is, therefore, of a great importance.

Methodical approach and data

The analysis is based on a case study conducted in the region Podkarpackie in South-eastern Poland. In this study, 8 agricultural experts, 21 agri-environmental advisors and 100 farmers were interviewed. They assessed the importance of the respective agri-environmental measures with regard to environmental objectives in agriculture by means of the AHP-approach (Analytic Hierarchy Process). The estimated coefficients were used in a linear programming approach according to Kirschke and Jechlitschka (2002, 2004, 2005) in order to calculate the effective budget allocation from the point of view of different actor groups.

The voivodship Podkarpackie in South-eastern Poland was chosen for the analysis due to its specific environmental and economical conditions. The voivodship is characterised by a large number of valuable natural resources and protected areas. The employment share in agriculture amounts to about 47% (Podkarpacki Urzad Wojewodzki, 2004) and the size of agricultural farms equals to 3,5 ha on average (Dmochowska, 2003). Considering these aspects, the voivodship seems to be a good example to analyse questions of budget allocation with regard to the objectives of environmental protection in agriculture.

The interviewed actors in the voivodship assessed the importance of the respective agri-environmental measures using a hierarchical additive weighting method - the AHP-approach according to Saaty (1990). The assessment was based on a pair wise comparison between each of two measures with regard to each analysed objective: ‘Protection of natural resources’, ‘Conservation of biodiversity’, and ‘Protection of cultural landscape’. Using the consistency ratio, the validity of the estimated objective coefficients was confirmed.

The estimated coefficients were used in a linear programming model according to Kirschke and Jechlitschka (2002, 2004, 2005). The linear programming approach is an instrument to support political decision-making. To estimate an objective-oriented budget allocation in the region Podkarpackie we define the objective function as a weighted sum of two objectives: ‘Protection of natural resources’ and ‘Conservation of biodiversity’. Both objectives were defined as a product of budget expenditures for the respective agri-environmental measures and objective coefficients estimated by regional actors. The third objective was included in the model as a restriction. The objective function was maximised under the given restrictions such as: income losses, available area supported with the given budget and the objective ‘Protection of cultural landscape’. The upper bounds were set to a level of 200% of the budget amount for the agri-environmental measures applied by farmers, while lower budget bounds were set to zero.

Provided budget scarcity for agri-environmental policy in Poland an optimal budget allocation from the regional perspective was calculated.

Results and discussion

The basis for the analysis of an objective-oriented budget allocation was the budget amount applied by farmers for the agri-environmental measures in 2005. The applied expenditures on agri-environmental measures in the voivodship Podkarpackie in the analysed time period are displayed in figure 1.

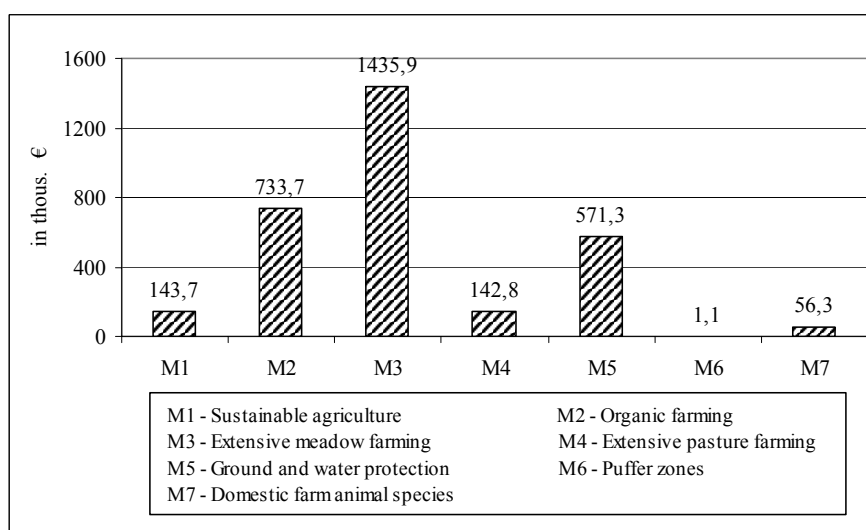


Figure 1. Expenditures on agri-environmental measures in the voivodship Podkarpackie in 2005

Source: ARiMR, 2006.

Taking into account the objective coefficients by different actors and other restrictions, an optimal budget allocation for agri-environmental measures was calculated. In this calculation the objective coefficients for the objective ‘Protection of natural resources’ and ‘Conservation of biodiversity’ were equally weighted and set to the level of 0,5, respectively, while the objective ‘Protection of cultural landscape’ was not weighted.

A difference to the current allocation considering the assessment of three actor groups is displayed in figure 2.

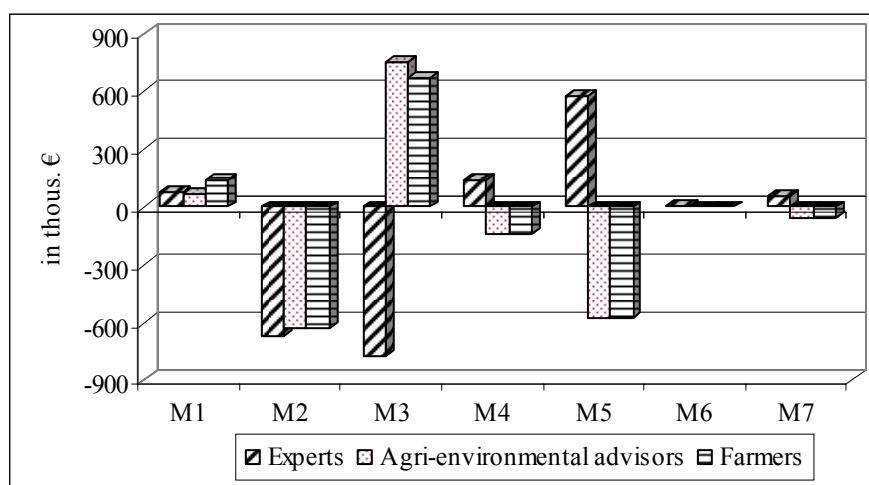


Figure 2. Difference to the current allocation for the agri-environmental measures from the point of view of regional actors

Source: Own calculation

The computed optimal results show visible differences in the budget allocation between the respective agri-environmental measures by the different actor groups. However, the results for agri-environmental advisors and farmers denote a similarity. This can be explained by the fact that both actor groups know environmental problems in agriculture from their own experience. According to the results, only in the case of two measures such as: ‘Sustainable agriculture’ and ‘Organic farming’, conformity in the actor assessments in terms of budget allocation can be stated. For all other measures the budget allocation is different.

Considering the assessment of agricultural experts, the budget should be extended for financing the measures: ‘Sustainable agriculture’, ‘Extensive pasture farming’, ‘Ground and water protection’, ‘Puffer zones’, and ‘Domestic farm animal species’, and shortened consecutively for the measures: ‘Organic farming’ and ‘Extensive meadow farming’.

Considering the assessment of agri-environmental advisors and farmers, the budget should be spent on the measures: ‘Sustainable agriculture’ and ‘Extensive meadow farming’, and shortened simultaneously for the measures: ‘Organic farming’, ‘Extensive pasture farming’, ‘Ground and water protection’, ‘Puffer zones’ and ‘Domestic farm animal species’.

This calculation indicates the importance of a consideration of different actor groups’ opinions in the political decision-making process.

An important question while analysing the optimal budget allocation for the respective agri-environmental measures is weighting the objective functions. For this reason the objective weights for the objectives ‘Protection of natural resources’ and ‘Conservation of biodiversity’ were changed stepwise between 0 and 1. As a result, the budget shift between the respective measures was analysed. Additionally, the trade-off functions between the analysed objectives were calculated for all actor groups. The trade-off functions show the highest possible values for the objective functions, which can be achieved by different weight levels for the respective objectives. The trade-off functions are displayed in figure 3:

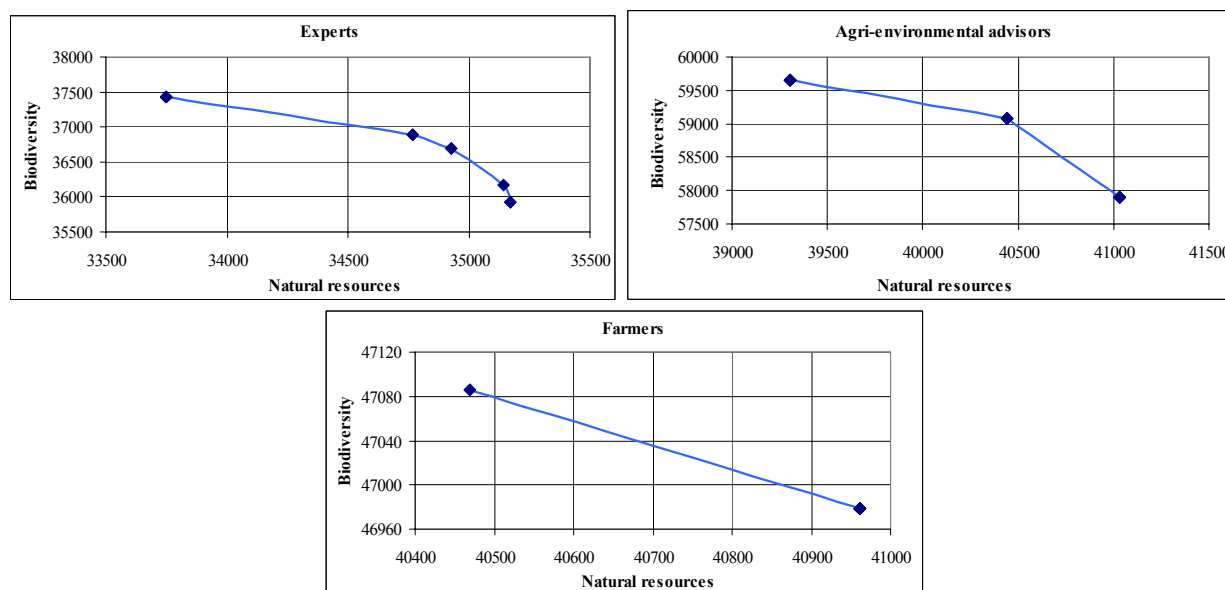


Figure 3. Trade-off functions between the objectives ‘Protection of natural resources’ and ‘Conservation of biodiversity’

Source: Own calculation

Comparing the trade-off functions, visible differences between the actor groups can be stated. The trade-off function for experts shows five optimal solutions in the budget allocation for the respective agri-environmental measures. In the case of agri-environmental advisors three solutions can be found whereas for the farmers group only two.

While comparing the trade-off functions for experts and agri-environmental advisors similar numerical changes in the objective functions values can be stated. The values for the objective function for farmers are different. However, the evaluation of the changes in the objective function is highly dependent on the assessment in terms of the analysed objectives.

The objectives 'Protection of natural resources' and 'Conservation of biodiversity' have, therefore, a different importance and can influence budget allocation to a different extent.

Conclusions

The presented analysis shows how to use a linear programming approach to support an interactive decision-making process. Considering regional preferences and group preferences would influence budget expenditures, which can be proved by the optimal and objective-oriented allocation different than the current allocation. According to the results, from the point of view of experts, the financial support for the measures 'Sustainable agriculture', 'Extensive pasture farming', 'Ground and water protection', 'Puffer zones' and 'Domestic farm animal species' should, under the given conditions, be extended. According to the assessment of agri-environmental advisors and farmers, the budget should be allocated for the measures 'Sustainable agriculture' and 'Extensive meadow farming', and shorted for all other agri-environmental measures.

Weighting objectives 'Protection of natural resources' and 'Conservation of biodiversity' in different ways would lead to budget shifts between the respective agri-environmental measures. Moreover, weighting objectives, in terms of preferences of the interviewed actors, would result in different objectives values and different trade-off-functions. The presented analysis can be used as an evaluation instrument in the political decision-making process to improve planning and financing the agri-environmental policy in the following years.

The analysis underlines the importance of interactive decision-making. Therefore, regional actors should be engaged to participate in this process to better consider regional priorities, and thereby achieve an effective and objective-oriented budget allocation.

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THE POSSIBILITIES OF GOVERNMENT'S FINANCE SUPPORT FOR AGRI-PRODUCER GROUPS IN POLAND

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Abstract

After 1990 economic conditions in Poland have undergone many changes. Before 1990 food and agri-policy were subject to Command Economy. System of contractation secured markets for the producers and provided the latter with goods of limited accessibility.

When the economic system transformation began, the mechanism of free-market economy became the driving power for economic processes and verified efficiency of management. Consequently it occurred that individual farms were too weak to face and meet requirements of market economy. Introduction of free market mechanism resulted in a kind of chain reaction: first it appeared that both quantity and quality of agri-production had to be adjusted to demand in the market, which caused "market shock" among agri-producers, who – so far - had not been used to acting in unlimited markets, operating without fixed prices. Moreover, decreasing chances to sell products, in case of their surplus, were caused by limited abilities of the State to intervene in the market, because of the State's insufficient budget. In that situation responsibility for results of production decisions was entirely transferred onto managers of farms.

Chances of improvement of market position should be seen in the horizontal integration of the functional type, which consists of creating producer groups. Due to group activity it is possible to gain a lot of advantages, which are difficult to reach using individual actions.

Agricultural producer groups had already began forming in the beginning of nineties in Poland. However, just in the year 2000 the first laws were passed, which stipulated the conditions, which should be fulfilled by co-operating farmers in Launch Internet Explorer Browser.lnk order to apply for public support.

The paper presents conditions that contributed to the development of agri-producer groups in Poland. The major part of the paper describes legal regulations concerning agri-producer groups and financial support for agri-producer groups in Poland

Key words: agri-producer group, recognised organisations, preliminary recognised groups, financial support

Introduction

Efficiency improvement of agricultural production in the circumstances of market competition should be the aim of agri-producers. In the present economic situation of many farms in Poland, farmers should endeavour to increase income from production on their farms. One of the ways of overcoming these difficulties is the undertaking group activities by producers. Farmers' cooperation helps production and capital concentration and as a result contributes to structural changes in rural areas.

A single farm's small production scale requires cooperation of farmers within agri-producer groups, which enables them to increase their market strength and become partners for consumers of agricultural products.

Consumers' expectations are connected mainly with quality, quantity and homogeneity of a batch, a way of preparing it for commerce, supplies' continuity, and price stability of raw materials.

Transformation, which is taking place in the food processing industry and commerce as well as a necessity of coping with increasing competition, enforce changes in the way of operation of consumers as well as producers of agricultural products. Everyone must fulfil final consumer's expectations.

Agri-producer groups fulfil a lot of important functions. Mostly they realise following tasks¹:

- production planning and adjusting to demand with regard to assortment, quantity and quality,
- supply concentration, which is an answer for occurring demand concentration,
- building market connections (a group - processing industry – commerce), which help supply planning and stability as well as price stability,
- advantages for consumers in form of homogeneous products of good quality, well packed and marked.

Along with demand concentration, which is observed in Poland, supply concentration must take place. The place of many intermediaries operating now should be taken over by agri-producer groups and their associations. Currently there are many super- and hypermarket chains, which are supplied by logistic centres, where agri-producer groups are direct suppliers. Organization of farmers producing for market into groups, and creation of intermediary organisations gathering agri-producer groups and their associations and entrepreneurs conducting commercial or processing activities will allow to adjust production, processing and commerce. Introduction of these pro-market changes in agriculture demands time and resources as well as system and durable solutions in state agricultural policy.

1. Legal regulations concerning agri-producer groups in Poland

The legal act, which stipulates conditions of establishment and functioning of agri-producer groups in Poland is the law dated 15 September 2000 *on groups of agricultural producers and their unions*.²

This law does not introduce a new organisational and legal form (agri-producer groups) but only determines conditions which must be fulfilled by farmers co-operating with each other in order to be able to apply for financial support from public resources. The term “agri-producer groups” used in the law does not mean any legal form but regards an organisation, whose main aim is to introduce products from their members’ farms on a market. Natural persons and legal persons holding a farm can be members of a group.

Agri-producer groups operate as entrepreneurs with legal personality under following circumstances:

- have been established by producers of one product or a group of products (a list of products or a groups of products for which there is a possibility to establish agri-producer groups is included in an annex to *the regulation of the Minister of Agriculture and Rural Development dated 3 February 2005*)
- operate on the base of a statute or an agreement (a charter)
- consist of members, stakeholders or shareholders (none of them can have more than 20% of shares on a general meeting or shareholders’ meeting)
- revenue from sale of products or groups of products produced on members’ farms represents more than a half of group’s revenue from sale of products or groups of products, for which it was established;
- determine rules for group’s members concerning quality and quantity of products provided for by a group and ways of preparing products for sale.

A necessary condition, which must be fulfilled if a group wants to be an organisation registered by voivod, because only this kind can use financial support, is having legal personality. That is why farmers must choose legal forms which are within the bounds of Polish law and have legal personality like a cooperative, limited company, public limited company, an association, etc.

Common organisation of agricultural markets involves common organisation of market in fresh fruit and vegetable as well as common organisation of market in processed fruit and vegetable. Community fresh fruit and vegetable market and processed fruit and vegetable market are regulated by separate acts of European law, which foresee various support instruments for them.

Issues of fresh fruit and vegetable market organisation in Poland are regulated by the law dated 19 December 2003 *on organisation of fruit and vegetable market, hop market, tobacco market dried fodder*³

¹ M. Lemanowicz, Organisations and agri-producer groups as a chance for improvement of Polish agriculture competitiveness, Warsaw Agricultural University Press SGGW, Warsaw 2005, p. 89.

² Journal of Laws of 2000, No. 88, item 983.

³ Journal of Laws of 2003, No. 223, item 2221.

market and issues of processed fruit and vegetable by the law dated 19 February 2004 *on organisation of processed fruit and vegetable market*.⁴

Following entities can apply for financial support regarding common organisation of markets in fruit and vegetable:

- preliminary recognised groups of fruit and vegetable producers and their associations,
- recognised organisations of fruit and vegetable producers and their associations.

The status of preliminary recognition and recognition is afforded by way of administrative decision based on criteria of preliminary recognition and recognition according to EU legislation.

The minimum value of products sale is 50 thousand euro for preliminary recognised producer groups and 100 thousand euro for recognised producer organisations.

Of course groups, which do not want to benefit from support, do not have to fulfil the above-mentioned criteria of recognition.

Moreover, issues of organisation and financial support for fruit and vegetable producer groups directed for processing is regulated by the law dated 19 February 2004 *on organisation of processed fruit and vegetable market*.⁵

2. Characteristic of financial support instruments provided to agri-producer groups as well as organisations and fruit and vegetable producer groups

2.1. Financial support for agricultural producer groups

Groups registered based on the law dated 15 September *on groups of agricultural producers and their unions* are allowed to apply for financial support from public resources. Support for groups registered before 1 May 2004 is provided from the state budget but financial support for groups registered after 1 May 2004 is provided within Rural Development Plan (RDP).

Financial aid is provided to establish and support the administrative operation of agri-producer groups, during the first five years after voivod has delivered an opinion on the fulfilment of requirements determined in the law by a group. Financial aid for an agri-producer group for consecutive years is 5%, 4%, 3%, 2%, 1% of documented net income from sale of products, for which a group was established and for products produced on their members' farms. Concurrently this aid cannot exceed the cost of group establishment and annual cost of its administrative operation.

Moreover agri-producer groups can apply for preferential credits. A credit can be allocated for realisation of undertakings which can involve inter alia:

- purchase, modernisation, adaptation and building of farm buildings,
- purchase and assemblage of machines and devices,
- purchase of basic herd,
- purchase of tractors, trucks, delivery vans, specialised vehicles,
- purchase of machines and devices used for: slaughter, refrigeration or freezing of meat, drying of tobacco leaves, hop drying,
- purchase of necessary equipment for premises located on the area of agricultural stock exchanges or wholesale markets, where a group handles wholesale sale and financing fees for the use of these premises,
- and a lot of others.

The amount of credit cannot exceed 70% of the value of capital spending on undertakings realised by an agri-producer group but not more than 8 million zł or not more than 16 million zł for meat processing.

⁴ Journal of Laws of 2004, No. 62, item 572.

⁵ Journal of Laws of 2004, No. 62, item 572.

2.2. Financial support for recognised organisations of fruit and vegetable producers

Financial support for recognised organisations of fruit and vegetable producers includes:

- co-financing of the operational fund for realisation of operational programme,
- recompense for not delivering fruit and vegetable for sale, which is a kind of interventional activity on fruit and vegetable market.

Financial aid through co-financing of the operational fund is granted for activities realised by producer organisation for achieving aims determined in the operational programme. These aims can be:

- decrease in production costs of fruit and vegetable;
- increase in fruit and vegetable quality;
- production and supply adjustment to market needs and requirements;
- implementation of production methods safe for environment.

The operational fund is established from contributions of producer organisation's members and financial support gained from the budget of the European Union and is determined for every year of the operational programme's implementation

The amount of financial aid granted for establishment of the operational fund is equal to value of contributions paid by an organisation's members but cannot exceed:

- 4.1% of value of sold products that were produced by members of producer organisation and sold by its intermediary as well as
- 50% of spending accepted or actually spent on the operational programme realisation, whichever amount is lower.

Financial support in form of financial recompense for not delivering fruit and vegetable for sale is paid for every tonne of fruit and vegetable not delivered for sale. In Polish conditions especially tomatoes, cauliflowers, apples and pears are entitled to financial recompense for not delivering fruit and vegetable for sale.

2.3. Financial support for preliminary recognised groups of fruit and vegetable producers

Support is granted for a producer group in order to help it reach the status of recognised producer organisation. Financial aid is granted for:

- covering costs connected with producer group establishment and conducting administrative operation,
- covering part of qualified investment costs included in an accepted plan of reaching recognition, for which a credit was taken.

Common organisation of market in processed fruit and vegetable includes also financial support granted for recognised or preliminary recognised producer organisations for delivering fruit and vegetable (tomatoes, peaches or pears) for processing.

Financial support is granted for organisations or fruit and vegetable producer groups, which realised deliveries of tomatoes for processing from 15 June to 15 November of relevant economic year. Support is paid for a tonne of delivered raw material for processing.

3. Support for producer groups within the scope of Agency for Restructuring and Modernization of Agriculture

Agency for Restructuring and Modernization of Agriculture (ARMA) is a governmental organisation, which was established in 1994. The aim of ARMA is to support activities in field of agricultural and rural development. The Agency deals with implementation of instruments co-financed by the budget of the European Union and grants support from national resources.

The Agency supports development of producer groups from 2002 within national aid. After Polish accession to the EU and involvement in Common Agricultural Policy support for agricultural producers

was widened within the framework of Rural Development Plan 2004-2006 and Common Organisation of Market in Fruit and Vegetable. Support in above-mentioned fields will be continued in the new programming period from 2007-2013.

3.1. National support

1. Credit for investment undertakings realisation in agricultural and food processing and services for agriculture by producer groups - GP

Credit line GP with the ARMA's interest rate support was started in 2002. Producer groups recognised as entrepreneurs with legal personality with regards to its premise and activity by voivod's decision on registration in relevant a group register can apply for this credit. The preparation of a plan for investment undertaking and a positive opinion of the Agricultural Advisory Centre (AAC) are prerequisites for obtaining the credit.

Table 1

The number of credits within GP line in the years 2002-2006

Year	Number of credits
2002	1
2003	7
2004	10
2005	7
2006 (till 31 August 2006)	-
Total	25

Source: Department of National Support, ARMA.

2. Support for agi-producer groups

Financial aid for agi-producer groups was started in 2002 for establishment and support of administrative operation. Support is directed to groups registered by voivods till 30 April 2004, for the first five years from the date of an administrative decision stating fulfilment of requirements determined in the law for a group.

Table 2

Realisation of financial support for agi-producer groups

Year	Number of agi-producer groups provided with support
2002-2003	31
2004	61
2005	49
2006 (till 31 August 2006)	37
Total	178

Source: ARMA's report 2005.

In the years 2002-2005 ARMA paid support worth 10 million zł (about 2,5 million Euro) within this instrument.

From the beginning of 2006 till 31 August 2006 nearly 2 million were paid for 37 groups realising 51.6% of expense plan of resources granted for this aim in 2006 (including 88.8% of liabilities from the previous year).

3.2. Rural Development Plan 2004-2006

One of the supportive measures of RDP 2004-2006 co-financed by the European Agricultural Guidance and Guarantee Fund is a measure "Agri-producer groups", which was started on 15 December 2004.

Support is granted for establishment and administrative costs of agri-producer groups operation during the period of five years from group establishment. Financial support is realised in form of annual payments during the period of five years from date of delivering decision on group registration.

By 31 July 2006 registered producer groups submitted in all 55 applications for support and 33 applications for payments. ARMA delivered 26 decisions on granting payments and realised payments worth 4.5 million zł (about 1.125 million euro). According to principles of RDP 2004-2006 support for 172 agri-producer groups was planned, which indicates that there is still significant aloofness from farmers towards establishment and participation in producer groups.

3.3. Financial support within Common Organisation of Markets in Fruit and Vegetable

Common organisation of markets in fruit and vegetable includes market in fresh fruit and vegetable as well as market in processed fruit and vegetable. Financial support is granted for recognised fruit and vegetable producer organisations and preliminary recognised fruit and vegetable producer organisations.

On 31 July 2006 there were 7 fruit and vegetable producer organisations which had the status of recognised producer organisation and 54 fruit and vegetable producer organisations gained the status of preliminary recognized group.

- ❖ Financial support for fruit and vegetable producer organisations for co-financing of the operational fund

By 31 July 2006, 20 applications for granting financial aid for co-financing of the operational fund were submitted and payments worth 1 million zł (250 000 Euro) were realised.

- ❖ Financial aid for preliminary recognised fruit and vegetable producers

By 31 July 2006, 77 preliminary recognised fruit and vegetable producer groups submitted applications for granting financial aid for covering costs connected with producer group establishment and conducting administrative operation. The Agency realised payments totally worth 3,8 million zł (about 950 000 euro).

- ❖ Financial aid for producer groups by virtue of delivering tomatoes for processing

In the economic year 2005/2006, 25 applications for granting aid by virtue of delivering tomatoes for processing were registered and 29,6 million zł was paid (about 7,4 million euro).

- ❖ Financial aid for recognised producer organisation by virtue of not delivering fruit and vegetable for sale

By 31 July 2006 there were not registered any applications within aid for recognised producer organisation by virtue of not delivering fruit and vegetable for sale.

4. Support for agri-producer groups from the year 2007

In the period 2007-2013 ARMA will be responsible for realisation of Rural Development Programme 2007-2013. Continuation of the measure "*Agri-producer groups*", which was realised within RDP from 2004 to 2006, is planned. In the period 2007-2013 about 350 agri-producer groups are planned to be supported and the estimated budget for this measure is 130 million euro.

Within the national support, *Aid for Agri-Producer Groups* will be realised till 2009. However in case of mentioned GP credit line, interest rate support for credits taken out by 30.04.2007 will be applied under the same conditions till the end of a credit period. Continuation of national support, including providing new credits till 2007, is possible on the condition that it will be in accordance with the European Union regulations.

Conclusion

Measures have been taken within agricultural policy aimed at modernising of Polish agriculture, improvement of competitiveness of agricultural and food commodities, increase in presence of Polish products on international markets and thanks to that farmers' profitability has been enhanced. In order to achieve this goal farmers and processing industry must adjust the quality of agricultural products and processed products in accordance with requirements and standards governing international markets as well as improve farms' structure, concentrate production, improve distribution and commerce system and guarantee professional marketing. Integration with the European Union offered Polish agriculture a vital

opportunity, opened international markets and facilitated access to the European Union funds. However this integration forces farmers to upgrade qualifications, modernisation of agriculture, processing and distribution system.

Laws on agi-producer groups and organisation of markets in fruit and vegetable being in force in Poland are elements of system solutions concerning agriculture. They give answers for questions: which conditions must be fulfilled if a group wants to use support planned in the law from public resources. Analysis of support granted so far for agi-producer groups leads to the conclusion that farmers are not very interested in establishment of group activities in agriculture.

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SUPPORT FOR THE ACTIONS TOWARDS SUSTAINABLE DEVELOPMENT OF RURAL AREAS UNDER THE COMMON AGRICULTURAL POLICY – THE POLISH EXPERIENCES

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Abstract

The paper presented concerns the preliminary assessment of the range and scope of actions aimed at environmental protection, implemented in Poland within the context of agricultural policy and co-financed with the EU resources. The research methods used were the document analysis (the data of the Central Statistical Office of 2005, and data provided by the Agency for Agriculture Modernisation and Restructuring) and participating observation.

The research showed that the environment is supported not only directly (funding the pro-environmental measures) but also indirectly (through, *inter alia*, LFA payments, investments in farms, support for young farmers, means for adaptation of farms to the EU standards). The obtained payments oblige farmers to meeting the principles of the GAP. The last years' experiences show, however, that the control of meeting the principles may prove difficult to be practically implemented, which in effect may influence the obtained results. It is therefore of essence to establish an effective system of control, which facilitates meeting the standards of environmental protection at the farm level.

Key words: environmental protection, GAP¹, agricultural policy

Introduction

Poland is a country with great diversity in terms of the level of economic development, state of infrastructure and conditions of agricultural production. It is a lowland country, with 96% of its territory situated below 350 m above the sea level. Arable land accounts for 50.8% of its total area. There are 1.71 million agricultural farms in Poland² with the average area of a single farm in 2005 amounting to 6.7 ha; the value varies from region to region and is as low as 2.4 ha in the Province of Małopolska and 2.5 ha in the Province of Śląsk (Silesia) to 16.6 ha in the Province of Warmia and Mazury and 17.0 ha in the Province of Pomorze Zachodnie (West Pomerania).

Besides performing the important function of supplying food products, agriculture plays an important role in environmental protection, landscape shaping and preserving natural habitats and biodiversity. In this respect, sustainable development of agriculture and rural areas denotes socio-economic development in which political, economic and social activities are integrated with those aimed at preservation of the natural balance and the stability of the basic natural processes (Gołębiewska B., Klepacki B., 2001). In order to apply the principles of sustainable development of rural areas, appropriate instruments of support and incentives for farmers have been introduced. Their aim is to support the actions taken with a view to preserving and improving the condition of natural habitats. The programmes in the policy of rural areas development, executed in the years 2004-2006, primarily include the Plan of Rural Areas Development (PRAD) and the Sectoral Operational Scheme (SOC) "Restructuring and modernisation of food producing sector and development of rural areas".

The objective of this study was to conduct a preliminary assessment of the scale and scope of actions aimed at environment protection, conducted in Poland within the framework of the EU's Common Agricultural

¹ Good Agricultural Practice

² A farm is defined as arable land with forests, buildings and livestock, if all this makes up or can make up an organised whole

Policy and an assessment of their significance for the implementation of the principles of sustainable development of rural areas.

Material and methods

The research focused on the agricultural farms, which submitted applications for financial support to individual PRAD and SOC activities. During the research answers to the following research questions were sought:

- Do the financial assistance resources under CAP support maintaining the environmental balance, and to what extent?
- Is the scope of the GAP standards' observance control efficient?

The research methods used were the document analysis (Apanowicz 2005) and participating observation (in 2004 the University of Warmia and Mazury in Olsztyn, Poland was the inspection unit which carried out both the on-site inspection and the GAP inspection in the Kujawsko-Pomorskie Voivodship). The study draws on the results of the Common Agricultural Survey of 2002 and the data of the Central Statistical Office of 2005, and also data provided by the Agency for Agriculture Modernisation and Restructuring³ concerning those farms, which filed applications for subsidies within particular programs in the years 2004-2006. The data were subjected to comparative analysis to compare them to data from other provinces.

Results and Discussion

A farm within a system of sustainable agriculture should fulfil three key requirements (Woś A, Zegar J., 2002, Runowski H., 2000, Baum R., 2002): production and economic (production of determined volume of agricultural products as well as providing for a suitable level of farmers' income), environmental (adequate use of the environmental resources and maintaining sustainability of the environment) and social (preserve the beauty of the farming landscape).

The first goal is fulfilled by means of intensifying production and improving the farm management efficiency. Generally, fertiliser consumption in Poland is rather low; in 2003-2004, 91.9 kg NPK per 1 ha was used, with considerable differences between farms depending on various factors, including their size. According to specialists, the principles of sustainable development in the macro scale do not have to be observed on the micro scale, nor do they have to be followed in all farms (Heller J., 2004). It is therefore obvious that legal regulations and financial support for the actions, or a combination of both of these measures, is the most effective tool to support environmental protection efforts on the micro scale on single farms.

The agricultural policy followed in Poland in the years 2004-2006 provides wider support for environmental protection than was the case before accession to the EU. Of the largest effect on environment protection is support provided to farms situated in less favoured areas⁴.

Financial support takes the form of annual lump subsidies for each hectare of arable land situated in the less favoured areas (LFA) and used for agricultural production. The rates of subsidies vary depending on the LFA zone and are equal to € 38/ha in zone I – lowland and € 56/ha in zone II - lowland. The amounts of subsidies for large farms are proportionally reduced and no LFA subsidies are paid to the farms which are larger than 300 ha.

In 2004, which was the first year of implementation of this action, 628,762 farmers filed their applications for LFA subsidies; this accounts for 35.3% of all the farms in the country. In 2005, the number of farmers applying for this type of payments increased by 12.7%, but in 2006 it rose by only 1.3%. In total, 40.3% of Polish farmers applied for LFA subsidies in 2006. The high diversity in terms of the number of farms, which benefit from this instrument of support is largely due to various areas qualified as LFA in different provinces and the size of farms. The largest increases in the number of farms which filed their applications

³ Agency for Agriculture Modernisation and Restructuring is a payment agency responsible for scheme implementation.

⁴ The following areas are qualified as LFA in Poland: mountainous areas – 1.21% of arable land, lowlands – 52.31% of arable land, areas with specific impediments – 3.0% of arable land. Altogether, LFA in Poland accounts for 56.5% of the total arable land.

for LFA subsidies in the years 2004-2006 were recorded in the provinces of Podlasie (an increase of 20.6%), Lubuski (19.3%) and Pomorski (18.1%) (Table 1).

Table 1

The number of farms filing their applications for LFA payments by province

Province	Applications filed and under consideration			Changes in years, %		
	2004	2005	2006	2005/2004	2006/2005	2006/2004
Poland	628 762	708 675	717 635	112,7	101,3	114,1
Dolnośląskie	18 283	20 602	20 905	112,7	101,5	114,3
Kujawsko pomorskie	27 893	30 336	30 678	108,8	101,1	110,0
Lubelskie	56 230	63 663	64 522	113,2	101,3	114,7
Lubuskie	13 670	15 826	16 306	115,8	103,0	119,3
Łódzkie	64 623	73 221	74 055	113,3	101,1	114,6
Małopolskie	48 831	56 065	55 822	114,8	99,6	114,3
Mazowieckie	113 516	131 653	133 806	116,0	101,6	117,9
Opolskie	6 143	6 405	6 429	104,3	100,4	104,7
Podkarpackie	38 654	43 105	43 313	111,5	100,5	112,1
Podlaskie	57 199	67 498	68 997	118,0	102,2	120,6
Pomorskie	19 672	22 712	23 234	115,5	102,3	118,1
Śląskie	15 539	16 568	17 140	106,6	103,5	110,3
Świętokrzyskie	34 024	36 118	36 548	106,2	101,2	107,4
Warmińsko-mazurskie	26 979	30 551	31 097	113,2	101,8	115,3
Wielkopolskie	70 805	75 946	76 050	107,3	100,1	107,4
Zachodniopomorskie	16 701	18 406	18 733	110,2	101,8	112,2

Source: Own study based on the system of Management Information of the Agency for Agriculture Modernisation and Restructuring

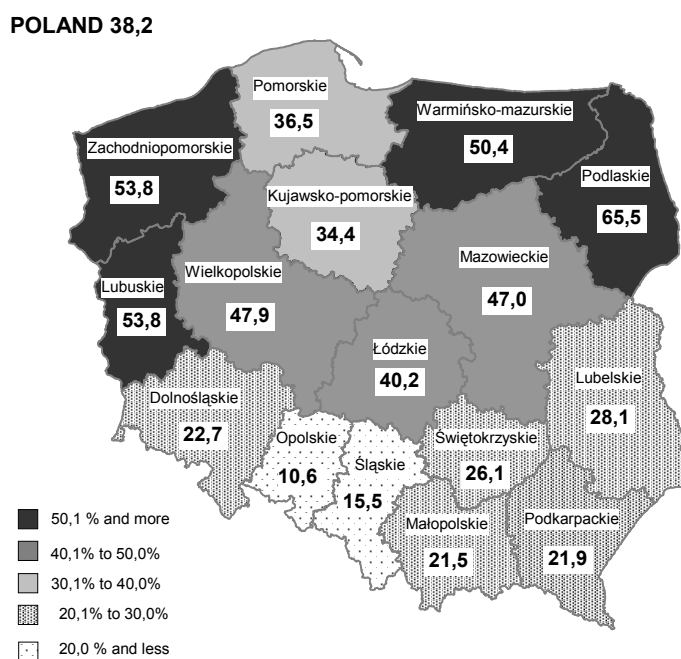


Figure 1. Percentage of LFA reported to be eligible in total area of agricultural land in Poland

Source: Own study based on the Report on the Agricultural Census 2002, Central Statistical Office, Warszawa 2003; the data of Agency for Restructuring and Modernisation of Agriculture (ARiMR), Warszawa

More than 6 451.4 thousand hectares were declared for payments due to LFA, which accounted for 68.1% of the LFA-eligible arable land and 38.2% of the total area of arable land in Poland. The provinces with the highest proportion of arable land covered by the LFA support mostly include the northeastern regions: Podlaskie (65.5%), Warmia and Mazury (50.4%), and northwestern regions: Zachodniopomorskie (53.8%) and Lubuskie (53.8%). It is clearly noticeable that the percentage of arable lands covered by LFA support is rather low in the southern provinces (less than 25% of the total arable lands) (Fig.1).

The concentration of arable land covered by the LFA support scheme in certain regions (the northeastern and northwestern parts of Poland) means that the farmers there are obliged to follow the principles of Good Agricultural Practice⁵ throughout the entire farm area. Each year, farms are randomly chosen for inspection from among those, which have applied for payments from the scheme; the inspection includes (Zwykła Dobra Praktyka Rolnicza, 2003):

- fertiliser application and storage (dates of application, doses, nitrogen balance, manure boards, slurry tanks – obligatory after 25 October 2008);
- application of pesticides (equipment in good working condition, completed training);
- Managing grassland (ban on burning plants and excessive pasturage);
- Protection of natural habitats in national and landscape parks (observing the detailed plans of environment protection);
- soil protection (land drainage devices, applying anti-erosion measures);
- protecting water resources.

There is justified fear that many farms will not be able to achieve these standards in the nearest future. In addition, some of the GAP recommendations are difficult to inspect, which does not guarantee that they will be followed. The GAP inspections are carried out in the summer months, therefore checks of, as an instance, the use of organic fertilizers (not using them on frozen soil or the necessity to ploughing them under on the day of use, etc.) is only based on farmers' statements. Problems are also related to checks of the nitrogen balance in farms (no more than 170 kg N per ha). The actual situation may therefore significantly differ from the calculations provided.

In the project of the Rural Areas Development Programme (PROW) for the years 2007-2013, environmental protection standards are not yet precisely determined; there is only a provision of the necessity to observe the statutory environmental standards.

Another form of support for environment protection programs is agricultural and environmental schemes. The future results of the scheme around the country are difficult to estimate, as it was a novelty in the years 2004-2006 and it covered only about 5% of the arable land in Poland; it also focused on selected priority zones. In the years 2007-2013, such schemes will be introduced for about 10% of the arable land in Poland. These programs are intended for many years, which mean that their proper implementation may permanently benefit the condition of the environment.

The scale of support for sustainable development provided in other programs is much smaller than in LFA. In 2004-2006, 1.6% of farms in Poland applied for investment subsidies and 1.1% of them benefited from support for young farmers (Table 2). The farmers who received subsidies through the programs were obliged to meet environment protection standards on their farms. In the case of an investment subsidy or other such grant to young farmers (50 thousand), the farmer is obliged to meet the standards at the moment of filing the application or his farm should meet them after completion of the undertaking. In practical terms, it means that if the standards are not met, the obtained funds should be assigned to facilities necessary to meet them.

In 2004-2006, Polish farmers could apply for subsidies for development and improvement of agriculture associated infrastructure, including sewage treatment plants, construction and modernisation of water and energy supplying facilities. Only 0.3% of the farms filed an application and only 22% of the available funds were used.

Another important program for the sustainable development of rural areas was an afforestation scheme for arable land of low agricultural usability. In 2004-2006, applications were filed by about 0.7% of farms. This program is aimed at increasing the area of forests as well as maintaining and strengthening their ecological stability by reducing the fragmentation of forest complexes and creating ecological corridors.

⁵ A set of principles related to sustainable agricultural economics and environmental protection, which is binding throughout the entire farm area.

Most of the programs discussed above are currently in progress, hence, the consumption of funds as of 31 October 2006 varied. The highest level of consumption of funds was recorded for the easy start scheme for young farmers (Table 2).

Table 2

The number of applications filed and consumption of the available funds within selected actions SOC and PRAD as of 31 October 2006.

Action	Applications filed		Consumption of funds, %
	n	%*	
Support for agriculture and environment actions and improvement of animal welfare	72681	4.1	33.5
Aforestation of arable land	12956	0.7	45.6
Adopting farms to EU standards	73310	4.1	50.1
Easy start for young farmers	18856	1.1	99.8
Investment in farms	29224	1.6	44.2
Development and improvement of technical infrastructure in agriculture	4945	0.3	22.0

* - % of the total number of farms in Poland

Source: Own study based on the system of Management Information of the Agency for Agriculture Modernisation and Restructuring

Conclusions

Sustainable development of rural areas requires that general social goals be met at the level of a single farm. Undoubtedly, the agricultural policy, which has been implemented in the years 2004-2006, places a great emphasis on the fulfilment of these goals. An assessment of the scale and scope of environmental protection programs within the framework of schemes supporting the development of rural areas leads to the following conclusions:

1. The natural environment is most affected by long-term programs: support provided to the farms situated in LFA (38.2% of the arable land in Poland) and support for undertakings, which aim at environment protection in agricultural production (about 5%). Farmers who were granted funds within the framework of these schemes are obliged to meet the standards of the Good Agricultural Practice policy for five years; this means that application of fertilisers and pesticides should be rational and the landscape should be protected even on farms, which do not receive any financial support.
2. Most of the other programs implemented within the EU's CAP (through, *inter alia*, LFA payments, investments in farms, support for young farmers, means for adaptation of farms to the EU standards) support the environment indirectly. The obtained payments oblige farmers to meeting the principles of the GAP.
3. The standards of farm management laid down in the Good Agricultural Practice policy are difficult to inspect. Therefore, since 2007 new criteria for assessment will be established within the environmental standard' observance control. It is of importance that the control system acts efficiently, i.e. reveals the actions which do not meet the environmental protection standards in individual agricultural farms.

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ROLE OF PAYING AGENCIES IN POLAND IN THE MANAGEMENT AND DISTRIBUTION OF EU AGRICULTURAL AND RURAL FUNDS¹

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Abstract

The paper considers the financial management and control as well as the distribution of EU funds for agriculture and rural development in Poland as a Member State. It presents data on the allocation of EU expenditure to Poland over the period 2004-2006 disaggregated by the expenditure headings. The research results suggest that two Polish paying agencies in charge of services related to the implementation of the CAP, CMO and rural development mechanisms play a vital role but there is lack of theoretical and empirical research on how those agencies can be designed to perform effectively. This study addresses these issues from the perspective of a transaction cost economics and public choice framework.

Key words: Agency, funds, Poland, agriculture, rural development

Introduction

Common Agricultural Policy (CAP) is an area in which government or public administration plays significant role in formulating and delivering policy that requires considerable public expenditure. The pressure to improve the efficiency, legitimacy and transparency of EU budgetary procedure and spending pushed the EU to clarify, simplify and adjust the division of competence between the EU institutions and the Member States. This has stimulated among others the emergence of paying agencies at national levels to administer payments under the CAP fairly and in full accordance with the EU requirements.

The goal of this paper is to discuss the problems of effectiveness, efficiency and transparency of EU funds management and administration by national paying agencies. In analyzing those issues, the paper draws on the first experiences of two paying agencies in Poland.

The research is based on review of relevant theoretical literature as well as primary sources derived from investigated agencies and from the European Commission. Because of the relatively short period to give a quantitative analysis, the main idea of the paper is to raise problems and examine crucial issues of administration of the EU agricultural and rural funds in Poland by paying agencies.

To draw attention to issue of share management of EU funds and performance measurement, this article integrates two economic approaches to public governance structure: principal-agent and transaction cost approaches, which help to explain the problem of incentives and control in the public sphere, principally in Government organization. On the other hand, economics literature on public choice sees politics as a market with its own entrepreneurs, rules and conventions. From this theory perspective, policy agendas are the result of bargaining process, typically delegated to elected representatives or bureaucracies. Competing bureaucracies may not be willing to easily give up responsibilities, from which they derive prestige and influence in various policy domains (Alesina et al., 2001). Much of the theory and discussion on public bureaucracies treats them negatively, as if they incline inevitably toward weak performance (Rainey and Steinbauer, 1999).

In Poland, one of the problems of agricultural administration, including agencies, is excessive change of staff after elections and the large scale of political recruitment. Additionally, according to *Rzeczpospolita* daily newspaper, the attractiveness of the public service for trained young professionals is low because of low remuneration, lack of incentives and rewards for good work as well as too little scope in decision-making.

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The concept of public agency and its position within public governance structure

The recent public economics literature has a core concern with governance. The term ‘governance’ with respect to the public sphere refers to “institutional arrangements serving public interests” (Ruiter, 2005). Governance approaches depend on the assumption that many public goals can be more efficiently realized through the agency of individuals and private organizations pursuing their own interest rather than by direct government action. This transfer of ownership is based on the idea that market forces and private ownership can lead to better performances, for instance by insulating management by way of political interference.

Transaction Cost Economics understands governance as ‘organizing transactions in order to economize on transaction costs. Williamson (1975, 1985) gives a methodical analysis of the characteristics of transactions and of the way they influence the abilities of different organizational forms to economize on the costs of transactions. He identifies three models of public governance structures (i.e. rule regimes established by legal acts): full privatization (contracting out to a private bureau); regulation (contracting out to a private bureau supervised by a regulatory agency), and public agency (execution of tasks by state organs).

Governance structures differ in incentive intensity, administrative controls and dispute settling mechanisms. Public agency combines: low-powered efficiency incentives; strong administrative controls; employment relations with weak autonomy and high staff security; internal dispute settling, which together lead to a combination of weak autonomous and strong cooperative adaptability (Ruiter, 2005).

Transactions in public sphere are understood as material acts of transferring goods or services regulated by public governance structures. The government itself organizes some transactions not for the reason that government is cheaper or more efficient but since it alone embodies the public’s authority (Wilson 1989).

The principal-agent model offers an analytic framework for understanding the agency relationship, in which one party, the principal, contracts with another party, the agent, for the performance of some tasks. The principal may wish to delegate the task rather than perform it itself since the agent holds specialized knowledge or skills, or since the complexity or scale of the principal’s activity. Delegation takes place when some people ask others to perform tasks on their behalf. In most polities, the most prominent form of delegation is from lawmakers (e.g. parliaments) to government agencies.

Shared management of EU funds

The idea of shared management of EU funds can be explained with the help of principal-agent approach. In the European context, Member States (principals) did “pool sovereignty” to an upper level (Keohane and Hoffmann 1991) and provide their agents with autonomous instruments to ensure efficient decision-making. Member States, as principals, have also delegated to the Community the collection and distribution of the EU budget. However, when considering the EU, the principals designed the institutions so that much of the implementation authority and responsibility remains with them. Thus, the principal is also the agent.

Responsibility for the implementation of the Community budget is entrusted by the EC Treaty to the European Commission only, and the Commission accepts this responsibility. In fact, along with the principles of subsidiarity, lion’s percentage (about 80%) of the total expenditure (agricultural, structural and cohesion spending) has been implemented under shared management, i.e. has been managed, in various modes, and paid out by Member State administrations. Therefore, the way in which funds are used up is based on a system of shared responsibility between the Commission and Member States governments. However, primary responsibility for checking and controlling CAP expenditure was given to the Member States.

In terms of relations with end beneficiaries, the *shared management* method applied by the Commission has the following main characteristics: The Commission entrusts Member States with the implementation of particular programs at national level. The Member States are the Commission’s counterparts and these then allocate EU funds to end beneficiaries at the national level (e.g. companies receiving export refunds from national paying agencies). Community spending constitutes repayment of expenditure made (and pre-financed) by the Member States. This expenditure is then subject to checking by the Commission on the basis of an annual statement drawn up by the Member States.

The Commission manages financial flows for budgetary and accounting purposes by means of its

central financial information and accounting system 'SINCOM/ABAC'. However, for shared management of Community funds, merely the EC contribution to each Member State appears in the mentioned accounting system. The Commission possesses aggregated data on spending under shared management, which are made available on a regular basis both to the European Parliament and the general public through various reporting tools. Data on individual end beneficiaries of EU funds in shared management are normally not available at the Commission. The 'Guarantee' section of the EAGGF was exception in this respect² (European Commission, 2005).

Moreover, European legislation does not oblige Member States to provide information about individual end beneficiaries of EU assistance. In the field of the CAP, information on the beneficiaries of agricultural subsidies is released amongst others in Denmark, Latvia, Netherlands, Slovakia, Slovenia, Sweden, and the United Kingdom. Poland generally does not reveal information about individual beneficiaries.

Since EC budget main spending programs are claims based with complex eligibility criteria and need detailed management, this complexity, together with a need for accountability and transparency in program delivery and financial management, have meant more and more management responsibilities falling on the Commission and the implementing agencies in the Member States.

Place of paying agencies in EU agricultural funds' implementation structures

On 30 May 2005, the Council reached an agreement on a proposal for a regulation implementing a new framework for financing the CAP. The European Commission has laid down the conditions and specific rules for financing expenditure under the CAP. Formerly financed by the European Agricultural Guidance and Guarantee Fund (EAGGF), the CAP is now financed by two new funds which entered into force on 1 January 2007: the *European Agricultural Guarantee Fund* (EAGF) for market expenditure and direct payments, and the *European Agricultural Fund for Rural Development* (EAFRD) for rural development measures.

The main condition a Member State must satisfy in the area of the management and control of EU funds is that expenditure for the CAP can be incurred by authorized paying authorities only. A service, organization or institution can be authorized as such only if it satisfies certain authorization criteria laid down in EC regulations. These criteria contain fundamental conditions on the design of an administrative organization and internal control including the segregation of duties, appropriate staff training, audit trail, etc.

According to Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the common agricultural policy (OJ L 209 of 11.8.2005) paying agencies shall be the departments or bodies of the Member States which, in respect of payments made by them and as regards communicating and keeping information, provide sufficient guarantees that:

- eligibility of requests and, in the framework of rural development, the procedure for allocating aid, as well as their compliance with Community rules are checked before payment is authorized;
- accurate and exhaustive accounts are kept of the payments made;
- checks laid down by Community legislation are made;
- requisite documents are presented within the time limits and in the form stipulated by Community rules;
- documents are accessible and kept in a manner which ensures their completeness, validity and legibility over time, including with regard to electronic documents within the meaning of Community rules.

As paying agencies generally act as agents on behalf both of the Community (European Commission) and EU Member State governments, aforementioned requirements can be seen as an important way to reduce what economists refer to as the principal-agent problem.

In 2005 there were 94 paying agencies across the 25 Member States. Nine out of the ten New EU-Member States have decided to set up only one paying agency. Merely Poland has chosen to operate separate agencies for handling market measures and rural development measures.

The process for making payments to farmers and the controls over these payments are shown in Figure 1.

² The data are collated in the CATS database and used for monitoring and control purposes. The fields identifying individual beneficiaries (name, address, etc) have to be deleted after 5 years.

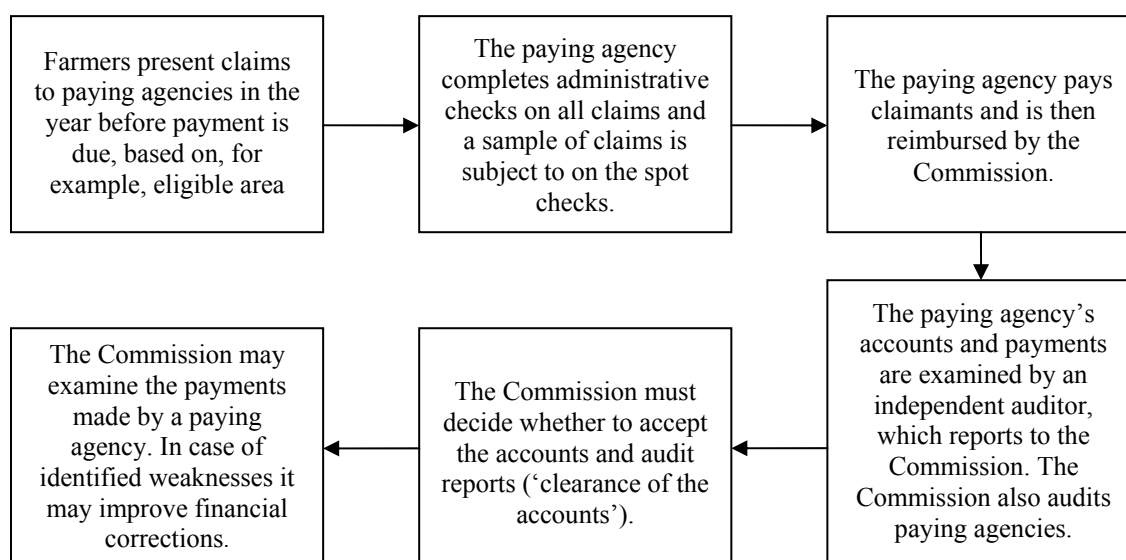


Figure 1. The role of paying agencies in CAP expenditures

Source: Own compilation based on Court of Auditors, Opinion No 1/2005.

The administration of the EU agricultural and rural development schemes in Poland

An efficient public administration to enforce the EU rules is essential for the agriculture and rural development. In Poland there are two paying agencies involved in this process, namely:

- Agency for Restructuring and Modernisation of Agriculture – ARMA (in charge of direct payments to farmers, including IACS, rural development measures, and Less Favourite Areas measures);
- Agricultural Market Agency – AMA (responsible for intervention operations, trade mechanism, quotas management system, export refunds, sugar fees).

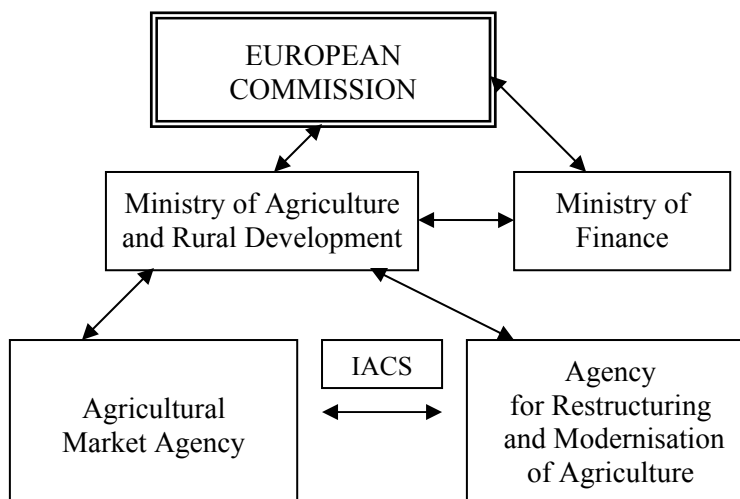


Figure 2. Model of the management and control of CAP expenditures in Poland

Source: Own compilation.

They are State bodies and have been accredited by the Ministry of Finance of Poland which plays a role of the *Competent Authority* responsible for the granting, maintaining and, if necessary, withdrawing accreditation of paying agencies. The Ministry of Agriculture and Rural Development exercises the functions of the *Coordinating Body*, which is responsible for bringing together and supplying information to the

Commission and for promoting the harmonized application of Community rules between paying agencies. The Ministry of Finance (General Inspectorate of Treasury Control) as the *Certifying Body* has the function of conducting an audit and certifying accounts annually and of confirming whether scheme controls are adequate (Fig. 2).

Agencies are dispatched from their “home” Ministry by separate organization and budget. ARMA organizational structure includes the Headquarters and regional structures – 16 regional offices and 314 poviats offices. Regional offices were created in 2000 during the course of preparations for the SAPARD management. Poviats offices were created in 2002 within the framework of preparations for the functions of paying agency under CAP instruments. Respectively, AMA has head office and 16 regional branches (table 1).

Table 1

Organizational structure of paying agencies in Poland

ARMA			AMA		
Levels	Responsibilities	Staff ²	Levels	Responsibilities	Staff ²
Headquarters, Warsaw	Policies, Planning, Monitoring and Supervision, Accounting, Payments	1298	Headquarters, Warsaw	Policies, Planning, Monitoring and Supervision, Accounting, Payments	595
16 Regional Offices	Supervising/monitoring District Offices & on-the-spot controls ¹	2082	16 Regional Branches	Inspections ³ , Authorization of claims – for some measures	711
314 District (Poviat) Offices	Introduction of aid applications	4856			

Notes: 1. on-the-spot farm inspections were partly delegated to external contractors; 2. As of 31 December 2005; 3. some inspections are delegated to other bodies, e.g. to Customs.

Source: Own compilation based on ARiMR (2006), ARR (2006).

As table 1 shows, agricultural agencies in Poland are powerful even taking into account large permanent staff. At the end of December 2005, employment in ARMA stood at 8236, whereas in AMA at 1306 respectively.

Absorption of EU funds on Agriculture and Rural Development in Poland

Public support has a key impact on the agriculture, food sector and on rural areas in Poland.

Table 2 gives a breakdown of EU allocated expenditure by type of measures for budgetary item ‘Agriculture’, and additionally for structural actions financed from EAGGF. Data are expressed in nominal terms, as a percentage of EU total and as a percentage of Poland’s total. In 2005, Poland appeared in eighth position (up from the fifteen position in 2004) amongst the largest recipients of EU agricultural expenditure (3.2% of EU total) following France, Germany, Spain, Italy, the United Kingdom, Greece and Ireland (European Commission, 2006). As a recipient of EAGGF structural expenditure Poland was in sixth position in 2005 (3.8% of EU total) going after Spain, Germany, Italy, France and Portugal.

The ratio of EU allocated expenditure on GNI reached then 0.66% in case of agricultural spending, and respectively 0.06% for EAGGF structural actions. The figures in table 2 show that the implementation of structural funds payments increased slightly between 2004 and 2005 but remained at a low level.

Poland’s payments to EU budget, excluding traditional own resources (i.e. customs duties, agricultural duties and sugar levies) amounted to EUR 1198 million (1.4% of EU total) in 2004 and EUR 2055 million (2.4% of EU total) in 2005. Respectively, in 2005 EU allocated expenditure for agriculture and structural actions financed from EAGGF corresponded to 84% of Poland’s national contribution to the EU budget. However, the operating budgetary balance of Poland established by calculating the difference between the total operating expenditure allocated to and national contribution of Poland amounted to EUR 1853.2 million, i.e. 0.80% of GNI in 2005.

Table 2

**Allocation of EU expenditure to Poland: detail
on 'Agriculture' and 'Structural actions' – EAGGF**

Heading	2004			2005		
	Mio euro	% EU	% total	Mio euro	% EU	% total
Agriculture	297.4	0.7	10.9	1542.1	3.2	38.3
Direct aid	0.0	0.0	0.0	702.0	2.1	17.7
Export refunds	10.8	0.3	0.4	99.3	3.3	2.5
Storage	-24.3	-7.5	-0.9	26.1	3.1	0.6
Rural development	286.6	5.3	10.5	662.1	10.5	16.4
Other	24.3	0.5	0.9	52.6	1.2	1.3
Structural actions						
EAGGF	119.3	3.5	4.4	137.0	3.8	3.4

Notes: '% total' = total allocated EU expenditure to Poland; the negative amount under 'Storage' in 2004 corresponds to interventions on storage for cereals, rice and for butter and cream; 'Other' = clearance of accounts, promotion measures, support measures, etc.)

Source: European Commission, 2006, pp. 68-69.

More recent accumulative financial flows between Poland and EU are presented in table 3. The positive operating budgetary balance reflects one of the benefits that Polish economy, including agriculture, derives from the Community.

Table 3

Poland - EU Accumulative Financial Flows in 2006 (to end of October)

	million euro	%
PHARE	165.62	4.05
SAPARD	0.01	0.00
ISPA/Cohesion Fund	396.81	9.70
Structural Funds	1077.20	26.33
Revenues of AMA	181.90	4.45
Revenues of ARMA	811.58	19.84
Incomes of AMA	6.18	0.15
Incomes of ARMA	3.35	0.08
Other related to CAP	0.04	0.00
Rural Development	870.66	21.28
Transition Facility	23.81	0.58
Cash Flow Facility Instrument	471.43	11.52
Schengen Facility	0.00	0.00
Other Funds	82.21	2.01
TOTAL	4090.80	100.00
Own Resources Payments	-2032.54	
Reimbursement of unused resources	-4.03	
NET BALANCE	2054.23	

Source: Ministry of Finance of Poland.

In Poland, the most popular aid instruments under the Common Agricultural Policy are area payments, that is single area payments (SAP) and complementary area payments (supplemental direct payments per hectare of eligible crops). They represent a considerable share of accumulative transfers related to CAP (Fig. 3).

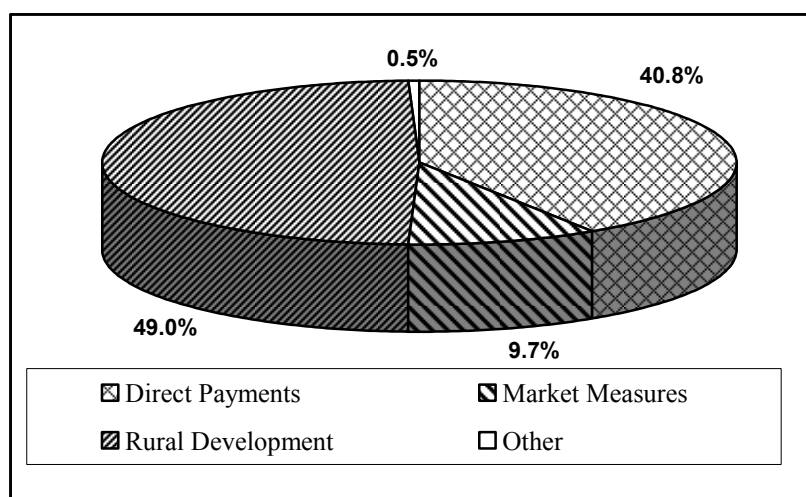


Figure 3. EU-Poland accumulative transfers related to CAP at the end of October 2006

Source: Own calculation based on data from the Ministry of Finance Republic of Poland

SAP funds are entirely from the EU while supplemental funds are drawn from mixed EU and national budget funds. In 2005, the level of EU funded support disbursed by ARMA for SAP amounted to PLN 3.15 billion. Almost 1.5 million applications were submitted (table 4).

Table 4

Single area payments in Poland (as of 25.08.2006)

<i>Year</i>	<i>Number of submitted applications</i>	<i>The land area covered (ha)</i>	The payments made (PLN)
2004	1 400 370	13 689 141	2 852 474 050
2005	1 483 628	14 242 278	3 150 958 130
2006	1 472 551	14 359 163	n.a.

Source: ARMA.

Summary, conclusion and recommendations

EU measures falling under CAP, including rural development, are financed in a context of shared management. It means that financial management responsibilities are allocated between the Commission and the Member States.

In Poland, there are two paying agencies responsible for management and control of EU support to agriculture and rural development: Agency for Restructuring and Modernisation of Agriculture, and Agricultural Market Agency. During the first three years of accession they distributed considerable funds obtained from the Community budget.

The insight available into the efficient use of EU funds in Poland, similar to other countries, remains limited. The extent to which agricultural subsidies have been used efficiently is uncertain due to the short time horizon and the lack of information.

Transparency, i.e. full public disclosure by paying agencies of all the information on projects and end beneficiaries of EU funds in shared management (who gets what, where and why) is considered essential in order to help Poland's citizens understand the system of farm policies which they finance through their taxes, as well as to prevent any fraud and maladministration.

Further analyses will be necessary to actually quantify the link between outputs of EU measures administrated by Member States (the number of beneficiaries, the subsidies allocated to farmers, etc.) and outcomes of those measures (rural development, farm investments, etc.).

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SAPARD AS A FINANCING TOOL FOR AGRICULTURE AND RURAL DEVELOPMENT IN POLAND

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Abstract

The paper presents results of implementing the Special Accession Programme for Agriculture and Rural Development (SAPARD) in Poland. The deadline for submitting applications for SAPARD aid was February 20, 2004 and the deadline for transferring payments to beneficiaries was December 29, 2006. Authors based their analyses on final data on SAPARD implementation, disseminated by Agency for Restructuring and Modernisation of Agriculture (ARMA), which is a Paying and Implementing Agency for SAPARD in Poland. In the elaboration, special attention was paid to the aspect of territorial differentiation in absorption of funds available within Measures 1-4, as well as to a role played by SAPARD in recognizing and meeting economic needs emerging in rural areas. Results of analyses are presented in tables, graphs and maps.

Key words: SAPARD, agriculture, rural development, EU funds

Introduction

The aim of the article is to present financial effects of implementing the Special Accession Programme for Agriculture and Rural Development (SAPARD) in Poland. SAPARD is one of European Union instruments supporting development of rural areas and agriculture in Central and Eastern European candidate countries. Thus, according to the Council Regulation no. (EC) 1268/99, Poland could be supported by SAPARD funds, both before and after the accession.

SAPARD implementation in Poland began in July 2002. All the interested could apply for financial support until February 20, 2004. The deadline for payments was December 29, 2006. Poland used available funds fully.

In Poland, SAPARD was financed within four so-called Annual Financial Agreements (for years 2000, 2001, 2002 and 2003), which were agreed with European Commission. Total funds, defined in the agreements and designed to be spent on all Measures of SAPARD Programme, amounted 944 million euro, of which 708,2 million euro (75 per cent) came from European Union and 235,8 million euro (25 per cent) were co-financed by Polish public finances. Additionally, after negotiations with European Commission and after issuing Decree of July 6, 2004 by the Council of Ministers, finances for SAPARD Programme were increased by 140 million euro, which was transferred from the budget for Rural Development Plan (RDP).

Authors of this paper present analysis of using funds available within SAPARD Programme and spent on realization of four, most important (out of six) Measures, i.e.:

- Measure 1: 'Improvement in processing and marketing of agricultural and fishery products';
- Measure 2: 'Investments in agricultural holdings';
- Measure 3: 'Development of rural infrastructure';
- Measure 4: 'Diversification of economic activities in rural areas'.

The analysis is based on data from Agency for Restructuring and Modernisation of Agriculture (ARMA), which is a Paying and Implementing Agency for SAPARD Programme in Poland and data from the Ministry of Agriculture and Rural Development, Department of Pre-accession Assistance and Structural Funds. Analysis results are presented in tables as well as on maps and graphs.

Results of implementing SAPARD funds show that Poland is quite well prepared to use European Union structural funds for agriculture.

Analysis methods

Presented elaboration includes analysis of SAPARD funds use, based on data showing the number of applications, number of signed agreements and number of agreements that have been paid for. Another aspect of this study shows the amount of money due under signed agreements and the amount of money actually paid to beneficiaries. Authors also defined reasons for differences between these two categories. Absorption of SAPARD funds was analysed both as a total amount and amount divided into separate Measures 1-4, both for the whole country and in voivodships (NUTS 2). The results were shown on maps.

In order to analyse the need for financing rural areas development, authors compared the total number of applications, number of signed and paid agreements as well as amounts paid under those agreements for Measures 1 to 4, both in the whole country and in separate voivodships.

Results of the above analyses were shown in tables, graphs and maps.

Use of SAPARD funds in Poland

Interest in obtaining SAPARD funds in Poland considerably changed from a mere one at the beginning into a very great one at the final stage of signing agreements, which followed significant improvements in bureaucratic procedures resulting in simpler application and qualification procedures [ARMA – year after accession, 2005].

Although many applications were rejected by ARMA [Report of November 30, ARMA 2006] on some stages of verification process, analysis of the original number of applications for aid within separate Measures is still essential, as they indicate what economic and structural needs emerge in rural area. They also show if there is any interest in such sources of funds shown by prospect beneficiaries and if they take any actions aimed at obtaining such funds. The final number of applications submitted by the interested until February 20, 2004, proves that there is a great need for financing aims defined as Measures 1 to 4, emerging in rural areas.

Submitted application required more funds than available financial limits. Total amount of SAPARD funds was overflowed by 24.7 per cent demand for financing. According to the number of submitted applications, Measure 3 ‘Development of rural infrastructure’ was the most popular tool offered within SAPARD. At the first stage it was extended by nearly 40 per cent. It proves that improving and building infrastructure is a vital problem in rural areas in Poland. It is so badly and urgently needed that it should be financed by other sources too. Number of applications within Measures 1 and 4 (adequately 17 and 18 per cent over the financial limit) also indicates that realisation of such tasks is vital. Measure 2 ‘Investments in agricultural holdings’ seemed to be the least interesting when compared to other measures, though the available limit was fully used. In following stages of the qualification procedure, the number of applications in this field was only slightly reduced, which resulted in the final amount of funds paid to beneficiaries on a level similar to Measure 1.

Verification procedures lead to a decrease in the number of applications, which were next signed as agreements between ARMA and beneficiaries, i.e. farmers, local self-governments, producer groups. Table 1 presents data showing these changes.

Table 1

Changes in the number of applications, signed agreements and paid agreements

Specification	Applications			Agreements			Paid agreements			
	number	amount [mln PLN]	per cent of financial limit	number	amount [mln PLN]	per cent of financial limit	number	amount [mln PLN]	per cent of financial limit	
Total	27 761	6 039,2	124,7	24 431	4 758,9	98,3	23 227	4 470,3	92,3	
Measure:	1.	1 516	2 006,4	117,4	1 342	1 663,6	97,4	1 336	1 525,1	89,2
	2.	14 551	678,3	102,6	13 742	636,5	96,2	12 929	588,5	89,0
	3.	5 926	2 836,6	139,5	4 493	2 023,6	99,5	4 637	2 014,5	99,0
	4.	5 768	518,0	118,2	4 854	435,2	99,3	4 325	342,3	78,1

Source: Authors' elaboration based on data from ARMA

Part of applications had to be rejected during verification procedure because of several reasons. Firstly, some applicants did not meet formal SAPARD requirements. Secondly, some projects were not compatible with SAPARD aims and some applicants lacked funds necessary to co-finance their projects. There was a significant difference in applicants' readiness to use available funds in different regions, which is proved by percentage of rejected applications (Table 2). This situation was a hint for the Ministry of Agriculture and Rural Development as well as for ARMA to intensify actions informing about how to apply for and use SAPARD funds. This task was completed by Agricultural Extension (advisory) Centres and by Regional Divisions of ARMA. In 2004-2006 they made use of their experience gained while carrying out SAPARD procedures, as they were also responsible for implementation of new EU funds within Sectoral Operational Programme and Rural Development Programme.

Table 2

Number of applications and number of payments under signed SAPARD agreements

Specification	Measure 1			Measure 2			Measure 3			Measure 4		
	A	B	C	A	B	C	A	B	C	A	B	C
Dolnośląskie	77	43	44%	389	267	31%	324	204	37%	463	166	64%
Kujawsko - Pomorskie	110	93	15%	1 234	1 109	10%	376	258	31%	328	207	37%
Lubelskie	100	81	19%	1 678	1 449	14%	465	381	18%	475	315	34%
Lubuskie	66	42	36%	186	133	28%	182	140	23%	235	107	54%
Łódzkie	141	96	32%	1 077	880	18%	400	264	34%	440	252	43%
Małopolskie	116	89	23%	1 028	828	19%	557	469	16%	785	527	33%
Mazowieckie	216	156	28%	3 718	3 157	15%	650	460	29%	554	290	48%
Opolskie	44	33	25%	276	202	27%	143	100	30%	191	98	49%
Podkarpackie	65	52	20%	272	221	19%	518	484	7%	676	496	27%
Podlaskie	83	65	22%	499	446	11%	366	241	34%	520	296	43%
Pomorskie	132	88	33%	765	635	17%	337	192	43%	513	280	45%
Śląskie	132	107	19%	276	219	21%	384	320	17%	473	342	28%
Świętokrzyskie	45	43	4%	1 495	1 171	22%	360	323	10%	350	196	44%
Warmińsko - mazurskie	101	80	21%	433	360	17%	260	155	40%	485	277	43%
Wielkopolskie	278	231	17%	1 997	1 728	13%	699	515	26%	727	520	28%
Zachodniopomorskie	72	47	35%	263	157	40%	209	134	36%	289	135	53%

A – number of applications; B – number of signed agreements; C – per cent of rejected applications

Source: Authors' elaboration based on ARMA data on SAPARD funds

Signing agreements was the next stage. Despite the necessity to verify and reject some applications, financial limits for Measures were used nearly in full: Measure 1 – 97.4 per cent, Measure 2 – 96.2 per cent, Measure 3 – 99.5 per cent and Measure 4 – 99.3 per cent. Summing up, Poland absorbed 98.3 per cent of SAPARD funds at that moment. This result shows how effective Poland was at using this fund and it also proves that the administrative system was well prepared to implement EU financial instruments.

However, the last stage, which was payment of agreed sums, brought unexpected results [ARMA – two years after accession, 2006]: among 24 431 signed agreements only 23 227 were paid, which means that 1 204 (4.9 per cent) beneficiaries resigned from the funds. It happened because on May 1, 2004 Poland became a member of European Union which enabled Polish farmers and self-governments to obtain other, more effective EU funds, especially within SOP 'Restructuring and modernisation of the food sector and rural development' and RDP, provided that their projects had not been financed by EU pre-accession funds earlier. As SAPARD was in this situation less supportive, part of beneficiaries still had time to resign from SAPARD agreements and apply for funds from different sources. The biggest differences in numbers of signed agreements and number of paid agreements can be observed within Measure 4 'Diversification

of economic activities in rural areas', where signed agreements contracted 435.2 million PLN (i.e. 99.3 per cent of available financial limit), while only 342.3 million PLN was paid – it made 78.1 per cent of available financial limit, i.e. 21.2 per cent point less than contracted. It confirms the above-presented conclusion, as diversification of economic activity in rural areas could also be financed to a much higher degree by other EU funds available after Poland's accession. There were also noticeable differences in case of other Measures. Under Measure 1, ARMA paid beneficiaries 1 525.2 million PLN, i.e. 89.2 per cent of available financial limit instead of 1 663.6 million PLN (97.4 per cent of limit) resulting from signed agreements, which meant 8.2 per cent point (138.5 million PLN) decrease. Similarly, under Measure 2 ARMA paid 588.5 million PLN (89 per cent of available financial limit) instead of 636.5 million PLN due under signed agreements, which meant 7.2 per cent point (48 million PLN) decrease of payments. The least difference was observed within Measure 3 (merely 0.5 per cent point), which was addressed mainly to local (NUTS 4 and NUTS 5) self-governments, that could obtain other EU funds after Poland's accession, on different terms and for different projects than those financed by SAPARD, so there was no conflict.

There were significant differences between the number of applications and the number of paid agreements in separate voivodships. Analysing the highest and the lowest values, we can see that within Measure 1 only one application (4 per cent of all applications in voivodship) was not paid in Świętokrzyskie, while in Dolnośląskie those were as much as 34 applications (44 per cent of all applications in that voivodship). Within Measure 2 the lowest share of applications, 10 per cent (125) was not paid in Kujawsko-Pomorskie and the highest share 40 per cent (106 applications) in Zachodniopomorskie. Payments within Measure 3 were best done in Podkarpackie, where only 7 per cent (34) applications were rejected or not paid, and the highest share of 43 per cent (145) applications were not paid in Pomorskie. The biggest differences between discussed values were observed in Measure 4: in the whole country the smallest share of 27 per cent (180) applications was not paid in Podkarpackie, the biggest share of 64 per cent (166) applications was not paid in Dolnośląskie.

Structure of SAPARD funds use differs in regions of Poland, what is shown in Table 3 and in Figure 1. The biggest share of SAPARD funds was absorbed by Wielkopolskie (14 per cent of total amount) and Mazowieckie (12 per cent), the smallest by Opolskie and Lubuskie (2 per cent each).

Table 3

Structure of SAPARD funds use by Measures

Specification	Measure	Measure	Measure	Measure
	1	2	3	4
Voivodships (NUTS 2):	%			
Łódzkie	9,0	7,0	5,3	6,7
Mazowieckie	12,4	24,1	9,2	7,4
Małopolskie	4,8	5,7	9,9	11,4
Śląskie	8,7	1,8	7,2	7,9
Lubelskie	6,8	10,2	8,1	6,5
Podkarpackie	2,6	1,6	11,0	9,6
Podlaskie	6,7	4,1	4,4	3,9
Świętokrzyskie	3,0	7,8	6,4	4,4
Lubuskie	2,1	1,0	3,1	2,4
Wielkopolskie	16,7	14,9	11,0	13,8
Zachodniopomorskie	4,7	1,2	3,2	3,3
Dolnośląskie	1,9	1,8	4,8	4,4
Opolskie	2,2	1,6	2,3	2,4
Kujawsko-Pomorskie	5,9	9,1	6,1	4,6
Pomorskie	5,9	5,1	4,3	5,7
Warmińsko-Mazurskie	6,5	3,0	3,8	5,8
POLAND	100	100	100	100

Source: Authors' elaboration based on ARMA data on SAPARD

Within Measure 1, financial aid was best absorbed by Wielkopolskie voivodship (16.7 per cent of total amount available for Measure 1), while Dolnośląskie absorbed the smallest share of 1.9 per cent.

Mazowieckie voivodship took the biggest share (24.1 per cent) of aid available within Measure 2 ‘Investments in agricultural holdings’, whereas Lubuskie absorbed only 1 per cent of this amount.

Analysis of absorption of funds granted within Measure 3 by surveyed regions shows, that Podkarpackie and Wielkopolskie benefited most, using 11 per cent (each) of total amount available for this field. The smallest share was taken by Opolskie – merely 2.3 per cent.

When it comes to Measure 4, the biggest share of its funds was paid to beneficiaries in Wielkopolskie voivodship (13.8 per cent), and the smallest share in Lubuskie and Opolskie (each voivodship obtained 2.4 per cent of total funds available for this field).

Despite considerable differences in size of discussed territorial units and in their economic and social structure, the above presented numbers may indicate which regions absorbed the biggest or the smallest share of available SAPARD funds [Report of December 31, ARMA 2006]. Figure 1 presents results of analysis in a form of graphs and a map of Poland.

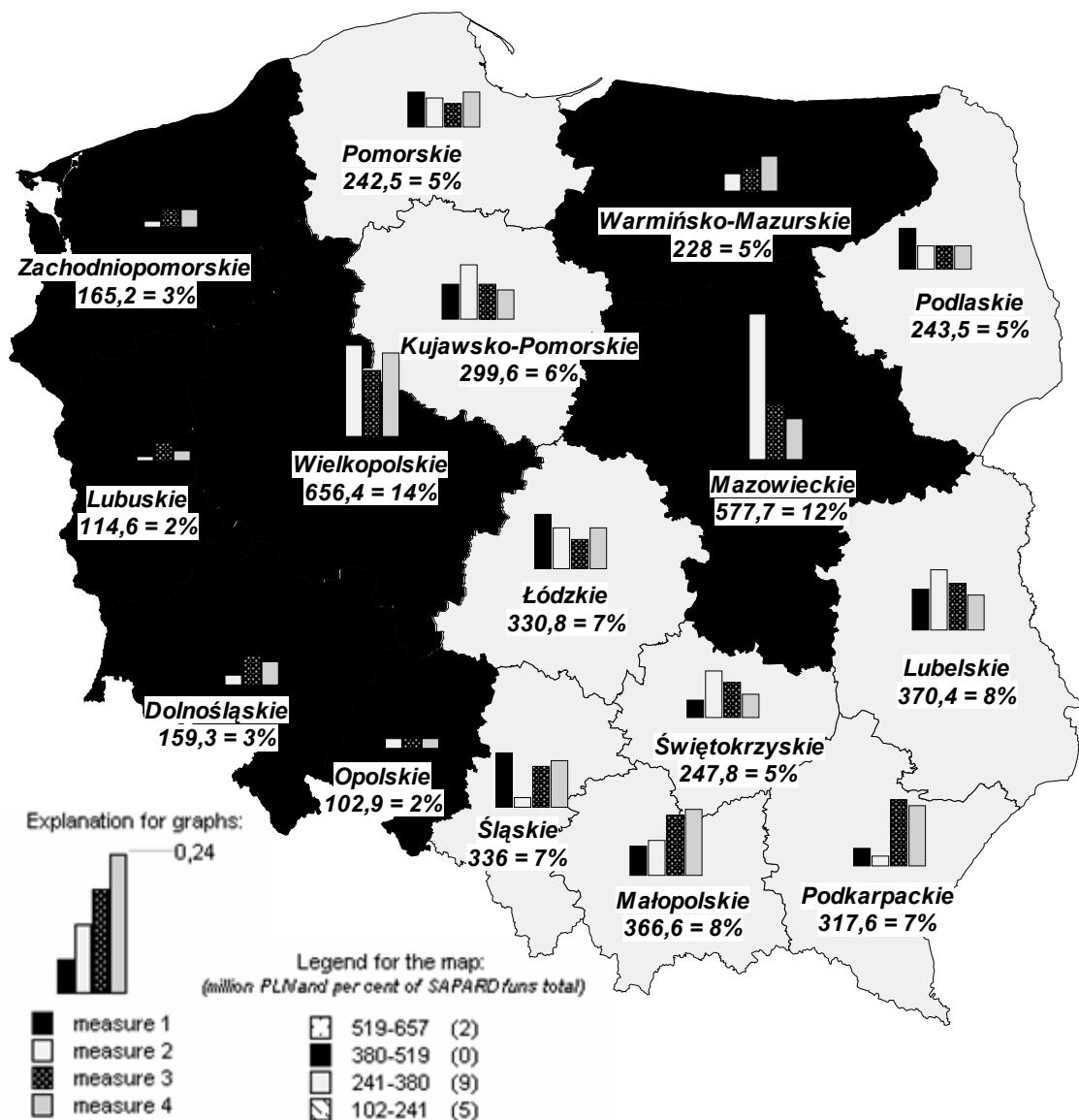


Figure 1. Structure of SAPARD funds use in regions (NUTS 2) of Poland, by Measures

Source: Authors' elaboration based on ARMR data on SAPARD funds for Poland.

Conclusions

Great interest in the possibility of using SAPARD aid funds, proved by the number of applications, absorption of funds and the necessity to increase original SAPARD amount by transferring 140 million euro from RDP, which was fully absorbed as well, prove that it was a needed financing tool for agriculture and rural development in Poland.

Paradoxically, resignation from aid funds by some beneficiaries also indicates that there are great needs emerging in described fields in rural areas, because their decisions were mostly caused by the opportunity of obtaining even higher funds for the same aims (especially in case of Measure 4 ‘Diversification of economic activities in rural areas’) from different European Union sources after Poland’s accession. At the same time it proves that Polish farmers are better and better prepared to use such tools and opportunities resulting from the membership in European Union. This is a result of information actions taken by the Ministry of Agriculture and Rural Development as well as ARMA, which were being improved while gaining more and more experience connected with SAPARD implementation. It also made a basis for elaborating an effective system of implementing other European Union funds available for Poland after accession.

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INVESTMENT BY AGRICULTURAL HOLDINGS UNDER PROGRAMMES CO-FUNDED BY THE EU

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Abstract

The subject matter of the study is concerned with the financial aspects of the development of agricultural holdings in Poland at the beginning of Poland's membership in the EU. This issue is a complex one and requires a variety of factors to be taken into account, including economic, spatial, social, institutional and legal ones. The principal research aim of the study is to assess the impact of an EU co-funded programme on the modernisation and competitiveness of Polish agricultural holdings (in the Zachodniopomorskie region) through investment.

Keywords: investment, agricultural holdings, funding, EU

Introduction

For Polish farmers to be able to adapt to market conditions, changes are necessary in the production structure, workforce structure and production capacity of farms. One of the prerequisites for an agricultural holding to survive on the market, or to be able to adapt to market conditions, is to increase its productivity and competitiveness. An important measure to achieve this is investment. This involves, in particular, modernising the existing production technologies. In addition to investing in the infrastructure of agricultural holdings, of central importance is investing in the technical infrastructure of rural areas, which is the responsibility of local government authorities. As regards investing by agricultural holdings, this normally involves increasing the production potential by acquiring farmland, building new or extending existing farm buildings and other farm facilities, acquiring farm machines, tools and devices as well as animals for breeding, in order to either replace resources (replacement investment) or acquire new resources (net investment) (Woś A., 1996).

The aim and methodology of the study

The subject matter of the study is concerned with the financial aspects of development of agricultural holdings in Poland at the beginning of Poland's membership in the EU. This issue is a complex one and requires a variety of factors to be taken into account, including economic, spatial, social, institutional and legal ones. The principal research aim of the study is to assess the impact of an EU co-funded programme on the modernisation and competitiveness of Polish agricultural holdings (in the Zachodniopomorskie region) through investment. Tasks of the research contain: description of the West Pomeranian region, estimation of submitted application in study area.

The study is based on secondary data provided by the Agency for the Restructuring and Modernisation of Agriculture and the Ministry of Agriculture and Rural Development, and employs both a monographic approach and descriptive statistics. The study provides a description of the area covered by the study and examines the objectives and degree of utilisation of EU funding for investment under the Sectoral Operational Programme – Agriculture. The last part of the study concerns the utilisation of EU funding for investment in the Zachodniopomorskie (Western Pomerania) Voivodeship.

Description of the area covered by the study

The rural areas of the Zachodniopomorskie Voivodeship are highly varied in the level of economic development. This variation results from a number of factors, including the fact that those areas are divided into natural and functional zones (seaside zone, lakeside zone, borderland zone), which provide favourable conditions for the development of non-agricultural industries. However, areas of economic recession, high unemployment and considerable poverty are prevalent. Outside the seaside area and the urban areas of Szczecin and Koszalin, economic development is low, unemployment is high, agricultural production is stagnant, technical and public infrastructure is insufficient, and services are scanty. The poor technical condition of the significantly depreciated electricity and gas distribution networks is also a serious problem. The electricity and gas networks in the rural areas need to be modernised urgently in order to ensure energy security at the local level and allow these areas to develop.

The rural areas of the voivodeship are populated by 520.7 thousand people, i.e. 30.7% of the voivodeship's total population, ranking 12th in Poland. The population density in those areas (24 people per sq km) is among the lowest in Poland and varies across the areas. This results from the fact that the region is highly urbanised, highly forested, and with a rural settlement network characterised by a large number of small-sized agricultural holdings.

Despite a significant decline in the number of unemployed people in the last two years (in January 2005, the unemployment rate was 27.9%), the Zachodniopomorskie Voivodeship continues to be characterised by a high unemployment rate, which was 21.59% in September 2006.

In the last two years, the agrarian structure of the voivodeship has been subject to fairly significant changes in terms of both quality and quantity. The number of small agricultural holdings with an area of between 1 and 5 hectares as well as those with an area of more than 50 hectares has increased. The emergence of increasingly economically strong large agricultural holdings where open-field production prevails is accompanied by the emergence of specialist agricultural holdings, including poultry, vegetable and horticultural farms.

The average area of arable land per individual farm is among the highest in Poland (after the Wamińsko-Mazurskie Voivodeship), currently at 16.8 hectares (in 2002, the average area of a farm was 16.03 hectares and the average area of arable land per farm was 14.27 hectares), which is more than twice the average for all of Poland. Although the majority of individual agricultural holdings are small-sized (with an area of up to 7 hectares), accounting for 49% of all agricultural holdings in the region, large agricultural holdings (i.e. those with an area of between 15 and 50 hectares) account for 22%, i.e. nearly three times the average for Poland. Very large farms account for 3.4% of all agricultural holdings in the region, which is the highest percentage in Poland.

For a picture of the changes taking place in the structure of agricultural holdings, it is also worth looking at the data obtained from the 1996 and 2002 National Censuses of Agriculture (see Table 1). In 2002, the number of agricultural holdings was 71 thousand, down 2.8%, or by 2 thousand farms, compared to the results of the 1996 full census. The number of agricultural holdings with more than 1 hectare of arable land increased by 5.3% against 1996 (by 2.1 thousand agricultural holdings), to 41.6 thousand.

Table 1

The number of agricultural holdings according to the 1996 and 2002 censuses

Specification	1996		2002	
	numbers	sum=100	numbers	sum=100
Cum	73048	100,0	71032	100,0
Private sector	.	X	70928	99,9
agricultural holdings with more than 1 hectare of arable land	38959	53,3	41168	58,0
Public sector	.	X	104	0,1

Source: Raport z Wyników Powszechnych – województwo Zachodniopomorskie, Szczecin 2003, <http://www.stat.gov.pl/urzedz/szczec/publikacje/nsp/raport/index.htm>, 2006.

Total investment and production expenditure by agricultural holdings amounted to PLN 1,106.5 million. For individual agricultural holdings with more than 1 hectare of arable land, the figure was PLN 720.7 million; for other agricultural holdings, PLN 385.8 million (see Table 2). The average amount of investment and production expenditure per one unit of arable land was PLN 1282 for individual agricultural holdings with more than 1 hectare of arable farm and PLN 1900 for other agricultural holdings. The average per farm was PLN 27,702 and PLN 1,536,925 respectively.

Table 2

Investment and production expenditure per farm with more than 1 hectare of arable farm

Specification	Sum in thousand PLN	For 1 hectare arable land	For 1 agriculture holding	% of goods agriculture production
		in PLN		
Sum	720743	1283	27702	69,7
Sum of investments expenditure	232905	629	18906	31,7
Expenditures for running production	487838	873	18993	47,7

Source: Raport z Wyników Powszechnych – województwo Zachodniopomorskie, Szczecin 2003, <http://www.stat.gov.pl/urzedy/szczec/publikacje/nsp/raport/index.htm>, 2006.

2002 National Census of Agriculture surveys showed that investment expenditure accounted for 29.7% and production expenditure for 70.3% of the total expenditure in question. For individual agricultural holdings with more than 1 hectare of arable land, the figures were 32.3% and 67.7% respectively.

In the case of individual agricultural holdings with more than 1 hectare of arable land, the larger the size of the farm, the smaller the amount of investment expenditure per 1 hectare of arable land, from more than PLN 5200 for agricultural holdings of 1-3 hectares, to slightly over PLN 1,000 for agricultural holdings of 7-10 hectares, to less than PLN 500 for agricultural holdings with an area of 100 or more hectares. Agricultural production expenditure per 1 hectare of arable land was less varied. For agricultural holdings with an area of 1-3 hectares, the figure was PLN 2055; for agricultural holdings of 4-7 hectares, it was PLN 1088; and for other agricultural holdings, it ranged from PLN 634 to PLN 983.

The fact that they are investing, increasing resources and accumulating wealth indicates that agricultural holdings have the potential for growth and are willing to continue farming (Mańko S., 2006). Research by the Institute of Agricultural and Food Economics (1990-2001) shows a correlation between the area of a farm, its workforce numbers, its manager's age and level of education and wealth accumulation levels (Gołębiowska B., 2005).

As regards investment, the majorities of agricultural holdings continue to acquire new fixed assets, modernise buildings and extend the area of arable land (Bojar W., 2005).

The Sectoral Operational Programme – Agriculture

Structural funds are the basic instruments of the European Union's structural and regional policies. Structural funds are allocated for the purpose of supporting the conversion and modernisation of EU member countries. Measures in the agricultural sector are funded by the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF), which supports the conversion processes in agriculture and the overall development of rural areas.

Of key importance for the agricultural sector is the Sectoral Operational Programme-Agriculture, which is principally targeted at farmers operating in particular sectors of the agricultural processing industry (Nowogródzka 2006). The objectives set by the programme include improving the competitiveness of the agricultural sector and encouraging sustainable development of rural areas. These objectives are implemented within the framework of three priorities, which include a total of 15 activities.

Priority 1, concerned with supporting changes and adjustments of the food sector, covers five activities: 1.1 Investments in agricultural holdings; 1.2 Setting up of young farmers; 1.3 Training; 1.4 Agriculture advisory and extension service support; 1.5 Improving the processing and marketing of agricultural products.

Priority 2 concerns the sustainable development of rural areas and covers seven activities, while Priority 3 concerns technical assistance and includes three activities. Table 3 shows the number of applications for funds submitted and agreements made, as well as the limit of funding and the percentage of funds utilized under the Sectoral Operational Programme – Agriculture (total figures for Poland).

Table 3

The number of applications submitted and agreements made under the Sectoral Operational Programme – Agriculture in the years 2004-2006 (as at 30 March 2006)

Specification	Limit of funding in million PLN	Submitted applications		Signed deals	
		Number of application	Use of limit (%)	Number of deals	Use of limit (%)
Priority I	5187,87	49 305	139,2	28 101	68,2
1.1. Investments in agricultural holdings	2364,67	28 448	126,7	13 124	58,8
1.2. Setting up of young farmers	708,84	18 852	133	14 163	99,9
1.3. Training	78,85	307	210,9	65	41,7
1.4. Agriculture advisory and extension service support	212,26	56	101,1	29	73,2
1.5. Improving the processing and marketing of agricultural products	1823,23	1642	159,2	720	68,7
Priority II	1673,01	10 921	120,8	5 628	46,9
Priority III	93,70	364	150,2	169	39,6
Sum	6954,58	60590	134,9	33 898	62,7

Source: Own study on: Opracowanie własne na podstawie: Nowogródzka T., Olszewska – Kuźniarska S., Wykorzystanie środków SPO „Restrukturyzacja i modernizacja sektora żywnościowego oraz rozwój obszarów wiejskich 2004-2006” (w:) Przedsiębiorstwa agrobiznesu w rozwoju obszarów wiejskich, Akademia Podlaska, Siedlce, 2006, s. 63 – 65.

The largest amount of funding was allocated for Activity 1.1 Investments in agricultural holdings. Also, the largest number of applications was submitted for funding for this activity (the total amount of funding applied for was PLN 2,995.21 million, which accounted for 126.7% of the limit of funding).

Based on the available data, it can be said that the programme met with considerable interest from its beneficiaries (which is confirmed by the number of applications submitted). The degree of utilisation of the funds provided under the programme deserves to be rated as successful, as farmers are receiving not only funding, but also modern technology, knowledge and information. As Nowogródzka and Olszewska-Kuźniarska note rightly, the programme provides opportunities for making a large number of investments leading to increased competitiveness of agricultural holdings in the EU market. According to Kobyłecki, the result of this EU support is the fact that Poland’s agricultural and food industry is today, in large part, among the most modern in Europe (Marcysiak A., 2006).

As regards the Zachodniopomorskie Voivodeship, the amount of funding applied for exceeded the limit of funds allocated for the years 2004-2006. As a result, the responsible authorities decided to stop accepting applications for funds for activities 1.1 and 1.2 in March 2005, for activities 2.4 and 2.6 in late 2005, and for activity 1.5 in October 2006. Another reason for this decision was the fact that the number of applications submitted in that voivodeship accounted for 2.54% of all the applications submitted in Poland. The percentage of applications for activity 1.2 was the highest (3.11%), the lowest being for activity 2.6 (1.5%). The number of applications submitted under activity 1.1 accounted for 2.35% of total applications for all of Poland (see Table 4).

The largest number of applications for support, both in all of Poland and in the Zachodniopomorskie Voivodeship, were submitted under activity 1.1, almost 48% and 44.5% respectively. The number of applications submitted in the Zachodniopomorskie Voivodeship under the other activities was also not

significantly different from the average number of such applications submitted in all of Poland, except for activity 2.6, where almost the number in the voivodeship was almost 50% fewer than the average for all of Poland. The opportunity to receive support for activities under particular programmes encourages many farmers to make investments.

Table 4

**The number of applications and the amount of funds applied
for under the Sectoral Operational Programme-Agriculture in 2004-2006**

Specification	Zachodniopomorskie voivodeship			Poland			Part of Zachodniopomorskie (2:5)
	number of applications	amount of funds applied in million PLN	Part of activity in sum %	number of applications	amount of funds applied in million PLN	Part of activity in sum %	
1	2	3	4	5	6	7	8
1.1. Investments in agricultural holdings	669	101,66	44,48	28 448	3056,66	47,96	2,35
1.2. Setting up of young farmers	586	29,30	38,96	18 852	942,8	31,78	3,11
1.5. Improving the processing and marketing of agricultural products	40	173,44	2,66	1642	2922,08	2,77	2,44
2.4. Dividing agriculture activity	144	11,25	9,57	6050	523,68	10,20	2,38
2.6. Development of technical infrastructure related to agriculture	65	6,23	4,32	4321	261,25	7,29	1,50
Sum	1504	321,88	100	59313	7706,47	100	2,54

Source: Conducted research on data gathered from ARiMR 2006.

Nonetheless, the number of applications submitted under particular activities is not, by itself, evidence of farmers' commitment to seeking funding for investment. It is worth noting that the average amount applied for per application under activity 1.1 was PLN 150,000 in the Zachodniopomorskie Voivodeship, compared to the average of PLN 107,000 for all of Poland.

Table 5

**The number of applications submitted –
variation across the Zachodniopomorskie Voivodeship**

Districts	Number of application wniosków	amount of funds applied in million PLN	Average amount of application in PLN
Białogardzki	18	3 552 852	197 381
Choszczeński	40	6 789 097	169 727
Drawski	24	4 079 331	169 972
Goleniowski	31	4 488 212	144 781
Gryficki	44	6 124 007	139 182
Gryfiński	68	10 400 222	152 944
Kamieński	25	4 613 603	184 544
Kołobrzeski	20	2 625 197	131 260
Koszaliński	35	6 029 046	172 258

Continuation of Table 5

Districts	Number of application wniosków	amount of funds applied in million PLN	Average amount of application in PLN
Łobeski	29	5 300 205	182 766
Myśliborski	50	5 922 722	118 454
Policki	15	1 904 239	126 949
Pyrzycki	40	6 005 972	150 149
Sławieński	24	4 530 397	188 767
Stargardzki	72	9 545 470	132 576
m. Szczecin	7	1 170 456	167 208
Szczecinecki	26	5 215 783	200 607
Świdwiński	44	7 200 006	163 637
Wałecki	57	6 161 075	108 089
Sum	669	101 657 900	151 955

Source: Conducted research on data gathered from ARiMR 2006.

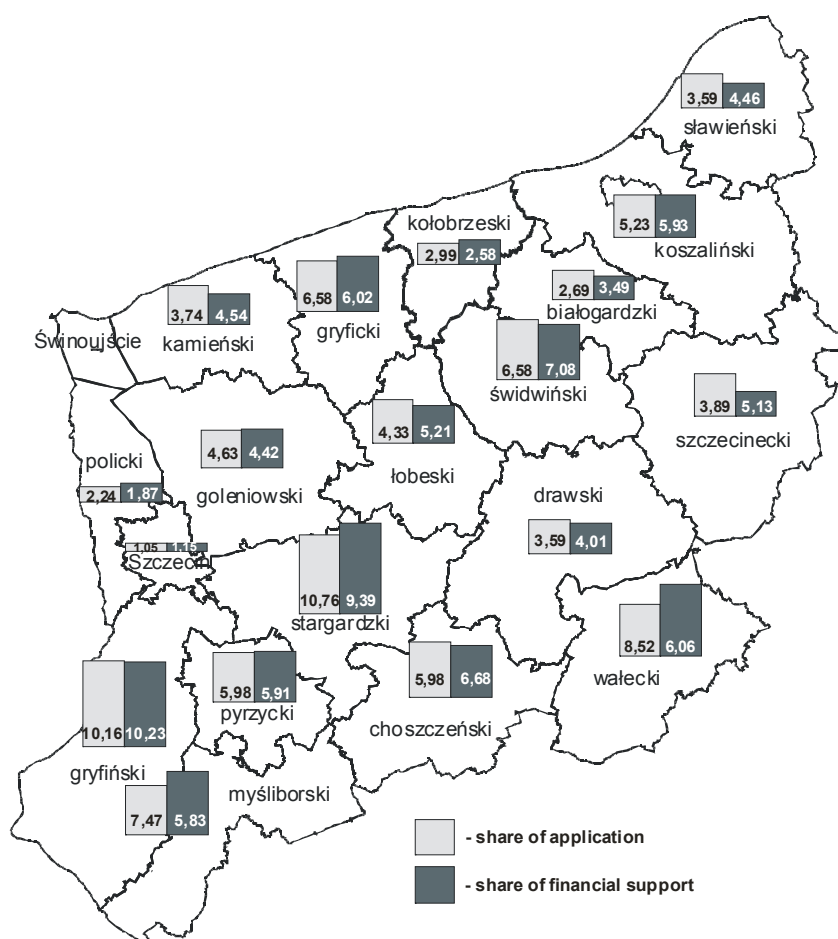


Figure 1. The percentage share of applications submitted and amounts applied for in particular districts

Source: Conducted research on data gathered from ARiMR 2006.

An analysis of the variation in the number of applications submitted under activity 1.1 across the Zachodniopomorskie Voivodeship shows that the largest number of applications was submitted in

districts with the largest number of agricultural holdings and in areas where farming prevails as the direction for development. The largest amount of funding was applied for in the districts of Szczecin and Białogard, and the lowest in the district of Wałcz. It is reassuring to know that the number of applications submitted in the underdeveloped areas was not significantly lower than that in the most developed ones. Much credit for this is due to both farmers and advisory bodies.

An analysis of the percentage share of particular districts in the total amount of funds applied for shows that the largest amount of funding was applied for in the districts of Gryfino, Stargard, Świdwin, while the lowest number of applications was recorded in the districts of Police, Kołobrzeg and Białogard (see Map 1).

As support under activity 1.1 accounts for up to 50% of the investment support received, the total value of investment needs to be doubled. This means that the value of investment in the Zachodniopomorskie Voivodeship under the Sectoral Operational Programme-Agriculture amounted to more than PLN 200 million in 2004-2006. Importantly, the amount of funds appropriated for investment was exhausted halfway through the period for which it had been planned. This, in turn, shows that the predictions that farmers would not be able to utilize the support provided by the EU have not come true.

Conclusion

The degree of utilisation of the funds provided under the Sectoral Operational Programme-Agriculture deserves to be rated as successful, in terms of both the number of applications submitted and the amount of funding received. It is worth noting that the investments under the programme also involve transfer of knowledge and modern technologies, and provide access to information.

Statistics show that the Zachodniopomorskie Voivodeship is not among the leading voivodeships as regards the number of applications submitted. Nonetheless, the average amount of funding applied for per application is 50% higher than the average for all of Poland. The largest number of applications was submitted in those areas of the voivodeship in question where farming prevails as the direction for development, while the smallest number was recorded in the coastal areas and in the urban areas of Szczecin.

The efficient application for and utilisation of EU funds are evidence that Polish agricultural holdings have the potential to develop. It should be expected that the agricultural sector will, in the near future (2007-2013), take advantage of its opportunities and become one of the most competitive agricultural sectors in the EU.

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THE IMPACT OF THE STRUCTURAL PENSION PROGRAMME ON THE EMPLOYMENT STRUCTURE IN THE POLISH AGRICULTURAL SECTOR

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Abstract

This paper aims to show how the employment structure of Poland's agricultural sector has changed and how structural pensions have affected the employment structure and the agrarian structure. This paper makes reference to the experience of those EU countries whose area and agrarian structure are similar to those of Poland. The introduction of structural pensions aimed at encouraging farmers of pre-pension age to discontinue their agricultural activity and giving up their farms, which would have a beneficial effect on the employment and agrarian structures.

Keywords: structural pensions, employment structure, rural areas development

Introduction

On the one hand, Polish agricultural economists have stressed, for many years, that Poland's employment structure is outdated and that employment in the agricultural sector remains very high. On the other hand, the agricultural sector is confronted with problems related to workforce imbalance (shortages or oversupply of workforce) and demographic imbalance in rural areas (Tomczak F., 2005).

The results of the 2002 National Census confirm an essential characteristic of the evolution of the labour factor, i.e. the decline in employment in the agricultural sector. Industrialization and the development of the service sector, as well as the resulting decline in employment in the agricultural sector, are common processes at some level of economic development. These processes are an essential prerequisite for agricultural progress, which is defined as reduction in the amount of human work needed to make a single unit of a product. The main criterion for determining whether or not a particular farm is a viable undertaking is its productivity. Thus it follows that changes to the employment structure are among the most significant effects of agricultural development, and changes to the population structure as well the pace of these changes are a measure of social and economic development.

The study aims to show how the employment structure of Poland's agricultural sector has changed and how structural pensions have affected the employment structure and the agrarian structure. In the study, a monograph and descriptive statistics were employed, based on secondary data provided by the Agency for the Restructuring and Modernisation of Agriculture, the Ministry of Agriculture and Rural Development, and the Central Statistical Office. The study covers the years 2004 – 2005 and makes reference to the experience of those EU countries whose area and agrarian structure are similar to those of Poland.

The Rural Areas Development Plan

One of the instruments for improving the agrarian structure and changing the employment structure in the agricultural sector is structural pensions, which are provided under the Rural Areas Development Plan (RADP) and based on the experience of other EU countries. The RADP is an operational document setting out the objectives, priorities and principles for supporting the sustainable development of rural areas. The document is concerned with the social, economic and environmental (ecological) aspects of development, and is consistent with other structural programmes, including in particular the Sectoral Operational Programme called The Restructuring and Modernisation of the Food Sector and the Development of Rural Areas, which implements the objectives of the rural areas development policy defined in the National Development Plan.

The RADP consists of nine measures: providing structural pensions, supporting agricultural activity in areas with adverse conditions for farming, supporting semi-subsistence farms, supporting agricultural-and-environmental projects, afforesting farmland, adapting farms to EU standards, supporting agricultural producer groups, providing technical assistance and supplementing direct subsidies. All these measures are paid for with funds from the EAGGF Guarantee Section and from domestic funds appropriated for this purpose in the Budget Act. The introduction of the RADP has resulted in Poland being covered by instruments provided under the 2nd pillar of the Common Agricultural Policy, the so-called accompanying measures.

Experience of selected EU countries

In France, the system of early retirement pensions for farmers was one of the basic instruments for improving the area structure of farms. It was implemented as early as in the 1960s in the form of farmers' pensions paid to farmers as an annual benefit once they discontinued their farming activity (sold or leased out their land). These benefits were paid independently of the so-called "regular" pensions (in the case of which a farmer was not required to give up his farm). In the late 1960s, structural pensions were separated from "regular" pensions and transformed into a system of pre-retirement benefits for farmers aged 60-65 and, in areas with adverse conditions for farming, aged 55-60.

The system was improved in 1972 by increasing benefit levels and introducing a requirement that in order to be entitled to the benefit, a farmer would have to give up his land for the purpose of enlarging the area of a neighbouring farm run by a farmer with a professional qualification in agriculture. Soon afterwards, French farmers were also allowed to give up land to establish new farms. The system of early retirement pensions for farmers enjoyed the greatest popularity in the 1970s, when approx. 700,000 farmers received benefits under the system and more than 13 million hectares of land was given up. However, the average retirement age for farmers fell by 2 years only. In most cases, land was transferred within the family, mostly from the father to his son.

At present, the right to an early retirement pension is granted to a farmer aged 55-60 who:

- had been carrying on a farming activity as the main source of income for the 15 years preceding the date of application for the benefit and was covered by farmers' social insurance;
- has given up a farm of an area exceeding a specific threshold value, including buildings and livestock.

The requirements regarding the land to be given up are as follows:

- The minimum area of the land to be given up must exceed 50 percent of SMI.
- The land to be given up must not be transferred to the farmer's spouse.
- The transfer of land must be made by way of lease, donation or lending. Only in exceptional cases, if the transferring farmer is in a difficult financial situation, the land may be transferred by way of sale on the basis of a court order.

A regulation introduced in 1995 allows a farm to be transferred to an assignee who is a member of the family of the farmer applying for an early retirement pension. This, however, applies only to farms with an area of at least 40 hectares.

The transfer of land to a young farmer starting a farming activity and eligible for DJA (a special subsidy programme for young farmers) is preferred.

The introduction of preferential conditions regarding the transfer of farming land to young farmers by farmers entitled to an early retirement pension (under the 1995 programme) produced positive results, which were confirmed also in 1996. Approximately 51.6 % of the land transferred under the programme was transferred to young people eligible for DJA, and 20.6% was used to enlarge the area of those farms where a farming activity had been run for at least 10 years. In addition, the early retirement pension programme for farmers appeared to have encouraged farmers to transfer their land mostly to their family members (74.68% of the land transferred). The number of farmers applying for early retirement pensions in 1995 and 1996 was 5.6 thousand annually.

In Germany, early retirement pensions enjoyed great popularity, even despite the fact that the applying farmer, in order to be entitled, was required to give up his entire farm to a qualified farmer who was not a member of the applying farmer's family (through a transfer of land ownership or a lease for at least ten years).

An early retirement pension was available to a farmer who was at least 55 years old or, in the case of disabled farmers, 53 years old, and who had paid insurance contributions to either a farmers' sickness fund or a farmers' old-age fund for at least 15 years, including continuously for the 5 years preceding the date of application for the benefit.

The following benefits were provided under the programme:

- a retirement pension payable in accordance with the rules of the farmers' retirement pension system,
- an annual bonus payment depending on the area of the land given up,
- a benefit equal to the amount of sickness and accident insurance contributions if the farmer had no other sources of income.

One farm was entitled to one retirement benefit. The transferring farmer was allowed to retain possession of a plot of land no larger than a quarter of the smallest size required by the Old-Age Insurance Act. The farmer was allowed to use the retained land only for subsistence farming (for the retired farmer and his family), which was additionally subject to limitations. The maximum allowed value of the goods produced was one-seventh of the amount set by the German Social Code. If the limit was exceeded, the farmer's entitlement to an early retirement pension was suspended.

An early retirement pension programme for farmers was also introduced in Spain, in 1982. The Spanish agricultural sector was, at the time, characterized by a large number of small-sized farms, and 60% of Spain's farmers were over 55 years old. The programme was subject to a few modifications and, initially, was not very popular with farmers. Nevertheless, the average area of a farm increased from 10 to 18 hectares in the years 1982-1993.

The main causes responsible for Spanish farmers' insignificant interest in the programme (according to Spanish agricultural organisations) included:

- a high age limit required for entitlement to an early retirement pension (60 years),
- a low level of the benefit provided,
- the fact that the programme was in effect only in some parts of the country (it was not until after 1990 that it was implemented in the most underdeveloped regions),
- restrictions on transferring land to family members (it was not until 1990 that farmers were permitted to transfer their farms to their lineal descendants, but this was permitted only if the land would be used by the descendant to enlarge the area of his own farm),
- the fact that the minimum size of a farm eligible for the programme was large (entitlement to an early retirement pension was available only to a farmer who transferred a farm with an annual income of at least ECU 4000, while two-thirds of Spain's total agricultural production was generated by farms with an annual income of less than ECU 3000).

As a result, the number of farmers receiving early retirement pensions in Spain never exceeded 1,000 annually.

An analysis of EU member states' experience of implementing and operating early retirement pension programme in the agricultural sector shows that such undertakings are not easy. A large number of factors (the specific character of a country's agricultural sector, the country's history, its hierarchy of objectives etc.) require each country interested in implementing such a programme to seek solutions to meet the individual needs of that country. Nonetheless, the directions taken by particular EU countries in their attempts to reorganise their agricultural retirement pension systems need to be consistent with the general principles laid down by the Council of Europe (Trawiński K., 2001).

Structural pensions in Poland

Reducing employment in the agricultural sector, increasing work efficiency and eliminating hidden unemployment in agriculture are some of the problems facing Poland's agricultural sector. These problems need to be resolved if an increase in the income of farming families is to be achieved. At the same time, giving up farming or taking additional jobs is extremely difficult given the high unemployment rate in Poland, and requires considerable long-term funding.

Poland's progress resulting from the country's economic growth is a source of change in the practice of farming and a source of development of the potential of farming work. This leads to the emergence of new types of jobs in the farming sector and new socioeconomic approaches to farming. These changes are

taking place throughout the country, leading to a significant transformation of rural microstructures (farms, families, villages), and are becoming the main driving force behind socioeconomic changes in the entire rural community (Tomczak F., 2005).

The introduction of structural pensions in Poland was aimed at encouraging farmers of pre-retirement age to discontinue their farming activity and giving up their farms in a manner that would contribute to improving the vitality of farms in general, and providing farmers with sufficient income once they discontinued their farming activity.

These measures were thus designed:

- to improve the structure of farms and increase their productivity levels;
- to provide income to those farmers of pre-retirement age who would discontinue their farming activity;
- to reduce the average age of people carrying on a business (to accelerate the process of generational change);
- to appropriate farmland for non-farming purposes if using it for farming purposes does not guarantee economically satisfying results.

The 2004-2006 Rural Areas Development Plan provides EUR 534 million in funding for structural pensions for approx. 52 thousand farmers, each receiving PLN 1560 on average.

The eligible farmer is one who:

1. is at least 55 years old and under retirement age (65 years for men, 60 years for women); an application for entitlement to a structural pension must be submitted no later than six months prior to reaching retirement age;
2. carried on a farming activity on a farm continuously for the 10 years directly preceding the date of application for a structural pension and was covered by retirement/disability insurance for at least 5 years in accordance with the regulations governing farmers' social insurance;
3. is entered on the register of producers that is held by the Agency for the Restructuring and Modernisation of Agriculture and is part of the national register of producers, on the register of farms and on the register of applications for payments;
4. was covered by retirement/disability insurance on the date of application for a structural pension;
5. is not in default on farmers' social insurance contributions;
6. has given up possession of a farm with a total area of arable land of at least 1 hectare;
7. has discontinued his farming activity.

The basic amount of a structural pension is equal to 210% of the amount of the minimum retirement pension (since 1 March 2005, the minimum retirement pension has been PLN 597.46).

This amount may be further increased by:

1. 60% of the amount of the minimum retirement pension, if the applicant is married and the farm given up under the structural pension programme was the only source of income for both spouses;
2. 50% of the amount of the minimum retirement pension, for giving up possession of a farm with at least 3 hectares of arable land, in the event of giving up ownership of arable land being part of the farm;
3. by 3% of the amount of the minimum retirement pension, for each hectare of arable land of a farm with a more than 3 hectares of arable land, if each such hectare of land was given up for the purpose of enlarging the area of another farm; such an increase is due for no more than 20 hectares of arable land, for each hectare above 3 hectares of the arable land given up;
4. by 3% of the amount of the minimum retirement pension, for each hectare of arable land of a farm with a more than 3 hectares of arable land, if each such hectare of land was transferred to a farmer under 40 years old; such an increase is due for no more than 40 hectares of arable land, for each hectare above 3 hectares of the arable land given up;

Entitlement to a structural pension is valid for a period of 10 years. Payment of a structural pension is made once a month, but only to one of the spouses.

In all of Poland, a total of more than 53 thousand applications for structural pensions were submitted and more than 46 thousand farms (82.5%) were given up. The largest number of applications was submitted in the Masovian Voivodeship, which is the result of both the agrarian structure of farms in that part of Poland, their numbers and the age structure of their owners. The smallest number of applications

was submitted in the Lubuskie Voivodeship, where the area structure of farms is among Poland's most favourable and therefore the number of farms is the smallest). It is worth noting that the smallest number of applications for structural pensions was submitted in the northern and western voivodeships, while the largest number of applications was received in the southern and eastern voivodeships. This reflects the agrarian structure of Poland (table. 1).

Table 1

The number of applications submitted for structural pensions and payments for the farmers

Voivodeship	Submitted applications	Spatial delimitation of applications	Given farms	Transferred payments (PLN)
Dolnośląskie	2 989	5,31	2 443	49 504 779,57
Kujawsko - pomorskie	4 339	7,71	3 452	75 336 100,22
Lubelskie	5 607	9,96	4 832	93 445 196,21
Lubuskie	581	1,03	473	10 083 929,09
Łódzkie	6 115	10,86	5 057	105 756 681,73
Małopolskie	2 513	4,46	2 089	37 925 448,42
Mazowieckie	9 935	17,65	8 062	164 542 285,32
Opolskie	1 624	2,88	1 367	27 883 261,77
Podkarpackie	2 696	4,79	2 339	42 606 165,41
Podlaskie	4 648	8,26	4 091	94 193 031,89
Pomorskie	1 660	2,95	1 344	29 623 956,21
Śląskie	1 587	2,82	1 311	23 743 501,24
Świętokrzyskie	3 565	6,33	2 897	55 271 220,55
Warmińsko – mazurskie	1 893	3,36	1 529	35 196 810,42
Wielkopolskie	5 144	9,14	4 099	89 442 803,57
Zachodniopomorskie	1 399	2,49	1 073	23 386 592,47
Razem Działanie	56 295	100,00	46 458	957 941 764,09

Source: Date from ARiMR – 02.10.2006.

As of 1 August 2006, the Agency for the Restructuring and Modernisation of Agriculture stopped accepting applications for entitlement to structural pensions. The applications submitted until that date have exhausted the limit of funding provided in the Rural Areas Development for this purpose for the years 2004-2006.

According to figures compiled by the Agency, the average area of a farm given up is 9.8 hectares and the total area of all the farms given up is more than 383.5 thousand hectares. The Agency has to date issued more than 46.4 thousand decisions to grant the right structural pensions, which means that farmers are already receiving this benefit.

Those farmers, who failed to submit an application for a structural pension before 1 August 2006 but are or will be entitled to it, will have to wait. The Rural Areas Development Plan for 2007-2013 also provides for structural pensions, but the rules regarding these benefits have been changed. Under the new rules, applications for structural pensions will be accepted throughout the period covered by the RADP. Approximately 11,000 farmers are estimated to take retirement under the structural pension programme annually during the period. The state budget appropriates EUR 817 million in funding for this purpose. In addition, the minimum area of a farm to be given up in return for entitlement to a structural pension is expected to be changed. The limit would be 3 hectares, but would not apply to the 4 voivodeships with a large number of small-sized farms, namely Małopolskie, Podkarpackie, Silesian (Śląskie) and Świętokrzyskie. In these provinces, the existing minimum area requirement of 1 hectare will be maintained.

Conclusions

As the experience of EU countries shows, structural pensions have played a significant part in changing the agrarian structure in those countries and, consequently, have also contributed to changing

the employment structure in the agricultural sector. But for the Polish farming sector, the problem is not only its inappropriate agrarian structure, but also low productivity, which is the result of excess and hidden employment in the sector. Moreover, the area structure of farms in particular regions of the country is highly varied, which leads to significant differences in the application of the programme between different parts of the country. The average area of a farm in the northwest of Poland is 16 hectares, while in the south the figure is less than 3 hectares. In the south and east of Poland, the programme aims, mostly, to improve the area structure of farms, while in northern Poland it is concerned with improving the age structure of farmers rather than the area structure of farms.

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RECIPIENTS OF CHILDCARE LEAVE BENEFITS: CASE STUDY OF LATVIA

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Abstract

The research is based on the case study related to topical problems accrued in Latvia labour market year by year, for instance, employment of pre-retirement age persons, disabled persons, as well as persons on the child care leave and their integration into labour market.

It was considering that there are very few or even no studies, at least publicly available, done on the situation of demographic leave benefits recipients in Latvia, especially scientifically referable ones. My research focuses namely on the group of persons on the child care leave.

The article includes characteristics of the historical development of the problem, theoretical aspects related to the reintegration into the labour market, and detailed analysis on types of child care leave benefits and their dynamics.

Key words: state social benefits, social insurance benefits, integration, and labour market.

Introduction

Summarising the materials available I came to the conclusion that the society has many stereotypes hindering integration into the labour market after the demographic leave, therefore the research focuses namely on the group of persons being on the child care leave. Especially in Latvia there are quite few studies exactly on this group of risk. In October 2006 one practical, yet a small study was carried out questioning the spectators of the TV show "Mothers' Club". The questionnaire encompassed 200 spectators of "Mothers' Club" from all around Latvia who shared their experience on the impact of pregnancy and child care leave on the future prospects of women in the labour market, and the factors restricting their professional development. The inquiry shows that the new mothers have difficulties with the reintegration into the labour market. According to the inquiry at least 65% of women have had difficulties and problems informing the employer on their pregnancy. Seldom only 10% of the inquired women have encountered such difficulties or intolerant attitude of the employer in state, municipal or large companies. More frequently such attitude was experienced by female employees at small and medium-sized companies (45%). The feelings frequently referred to in the questionnaire – alert and fear experienced by a mother to-be - are connected with the fact of information their employer, and it is caused by the situation when a female employee deliberately hides the fact on her pregnancy from the employer (approximately 25% have informed their employer on their pregnancy only in the 5-6 month of the gestation). 65% of inquired mothers recognized that they had returned or planned to return in the labour market when their child was between the age of 7 months and 1 year, thus not waiting while the child reached the age of 1.5 year, i.e., the end of the child care leave.

At least 35% of women having returned to the previous job, are dissatisfied with the new working terms and conditions, as:

- the salary has been reduced or it has not been increased alongside with the other employees;
- they are offered a part-time job - a little child being under the care of a female employee is mentioned as a reason hindering valuable labour productivity;
- work duties and responsibility has been reduced (long-term insularity from professional life and incompetence to meet the new working regulations are mentioned as the main reasons).

There are several researches that the Ministry of Welfare of the Republic of Latvia regularly orders, as well as the Sub commission on Gender Equality of the Human Rights and Public Affairs Commission works on these cases. At present the Ministry of Welfare in cooperation with the European Union has launched several projects on labour market research. I would like to emphasize one of these projects – "Specific Problems of Labour Market in Latvia and Its Regions" (DT 8), where discrimination in the

labour market is studied in a broader aspect. Also the hard integration into the labour market experienced by the group at risk of social exclusion might be considered as discrimination.

Hypothesis of the research: the number and amount of childcare benefits increase in Latvia.

The **aim** of the research is to study and analyse dynamics related to the amount of childcare benefits.

The following **objectives** are set to achieve the aim:

- to study historical aspects of the labour market (analyse the researches, projects i.e.);
- to assess the available legal enactments related to the leave of childcare;
- to analyse types of benefits, their amount and number of recipients in relation to the demographic leave.

There are data according to the State Social Insurance Agency. In this paper are used standards, which are published in Latvia.

In research are used graphical, monographic, analysis and syntheses methods.

Results and discussion

Historical aspects of labour market

Even ancient world has tried to solve problems related to the labour market. According to the first evidences of economic thought a source "Lessons of Herakleopolis Governor" found already in BC 22 comprises a survey on the increase of managerial work results in a centralised state. The author or authors of these lessons are unknown, yet the book on history of economic thought (Krilovs, 2003) considers them to be a high rank clergymen. Already at that time Ancient Egypt experienced problems related to the managerial work.

Considering more recent times, namely, ancient economic thought (BC 10–5), it has to be concluded that it was based on ancient Greek and ancient Roman economic thought. The economic thought of this society was sharper, more analytical and critical. The developed Greek society replaced the patriarchal slavery by a procedure, where the economic life was based on the work of slaves.

First norms of ethics appeared already in this society. Ancient philosopher Xenophon (BC 430–355) criticized gaps of Athenian democracy. He considered that a master had to care for slaves so that they would be willing to remain slaves also in the future. He compared labour division in small villages and large towns, and cities, and concluded that a rural craftsman did not earn his living. Such trader was not specialised, and therefore did not produce sufficiently good (qualitative) things; whereas a craftsman living in a large town needed only one specialisation to earn good living.

Ancient philosopher Xenophon expressed his ideas in the work "Oeconomicus" which in a translation from ancient Greek meant "art of household management", and from where a word "economics" was introduced.

Economics in the state of Rome was less developed than in the state of Athens, yet the science of law was more developed. Economic thought in the state of Rome was closely connected with solving of different economical issues in latifundia, rural farms. The economy of the state of Rome was the economic thought of the society of crisis. It was the time when the productivity of labour and land decreased with the simultaneous decrease of the labour moral of enslaved depressed producers. First evidences with a call to improve working conditions of slaves or to rent land to free-contract farmers appeared. For instance, Roman scientist Gaius Plinius Secundus (Pliny the Elder BC 23–79) had an encyclopaedic knowledge. His essays comprised all the sciences of that time. He wrote much on land and labour saying that fruits of labour were not the same as before, as fields were farmed by "legs in chains" and "stamped hands" (Krilovs L., 2003).

Considering more recent times, I would like to refer to the period of mercantilism and namely to Sir William Petty (1623–1687), an Irish born English economist, who wrote that labour was the father of wealth, while land was the mother of wealth. He was the founder of the labour theory of value. Since my research focuses directly on demographic leave in the labour market, then I would like to return once more to this economist, as Sir William Petty in his scientific activities focused not only to economics, but also demography and statistics. He was the first one who under the assignment of Cromwell's (1599–1658) government did demographic studies in Ireland and calculated national wealth of England (Pipers N., 2005).

In ancient Rome during the time of Augustus literature and art flourished, and generally it was very well developed, although there was a problem, which even Augustus was unable to solve. It was the moral of Roman society. Regardless the accepted strict laws prohibiting prostitution and faithlessness of a spouse (wife), when people were punished also for abstention from marriage and upbringing of children, carelessness of the majority of Romans towards the family, honour, conscience, and other principles of ethics and morality did not improve. Thus demographic problems started to gather more and more. As a result the share of ethnical Romans gradually started to decrease in the Roman Empire. These features became one of the factors of gradual weakening of ancient Rome that finally alongside with other economic and social factors led it to a complete collapse.

Integration into the labour market after the childcare leave

According to the State Employment Agency and the research carried out by the Institute of Philosophy and Sociology of Latvia University women are more active users of services and opportunities provided by the State Employment Agency to increase their competitiveness.

As opposed to 2001 the number of persons returning from the childcare leave in 2002 has increased by 336 people. On January 1, 2003 the State Employment Agency has registered 8030 persons falling under the mentioned category of which the majority is constituted by women.

Problems related to the integration into the labour market are the following:

- the mentioned group of unemployed is characterised by the lack of vocational education and 34.4% of the group have low level of education;
- insufficient opportunities to find appropriate childcare services, as well as services being ready to take care of elderly or disabled family members;
- insufficient possibilities to apply flexible work forms;
- low self-appraisal and lack of confidence on the possibility to integrate into the labour market;
- stereotype generated by the employers on women-mothers as having low labour productivity;
- employers have no motivation to allow the female employees to work a partial work-day and to do work at home;
- insufficient coverage of public transport in rural areas thus hindering arrival at the work place and use of services provided by preschool institutions.

The draft of Latvian National Development Plan elaborated in 2003 pays slight attention to the group of persons subjected to the risk of social exclusion from the labour market. For instance, Paragraph 185 recognizes that Latvia may identify several groups at risk of social exclusion, which currently or in the future can face problems with the integration into the labour market. In the case of Latvia the groups of risk are the following: unemployed at the age groups 15-24 (youth) and 55-64 (pre-retirement age), low skilled and low educated unemployed persons, persons with disabilities, long-term (more than 12 months) unemployed, parents after the child care leave, persons released from imprisonment, single parents, large families etc.. Paragraph 193 of the Plan stresses the anxiety of large risk of unemployment after the childcare leave. It is based on the necessity to improve previous qualification and skills, and stereotypes experienced by employers on a woman with a child as an employee with lower labour productivity. Employers have no motivation to offer a part-time job and work at home to a female employee. According to the research data women after the childcare leave are more active than other risk groups subjected to social exclusion in using services and active employment measures offered by the State Employment Agency. Women are better informed on opportunities provided by the central and local governments, and the possibilities related to their use. Insufficient coverage of public transport in rural areas, hindering arrival at a workplace and use of kindergartens, is another reason increasing risk of unemployment.

According to the data of Labour Force Survey in 2003 the average number of economically active population equalled to 69.2% of total population aged 15-64. As opposed to the previous year its number has increased by 0.4% of the respective age group. The employment level differs by regions of Latvia (Data on Labour Force Survey by the Central Statistical Bureau, 2004).

European Social Fund (ESF) provides financing for the development of human resources including promotion of employment, development of education and continuing education, and mitigation of social exclusion. Total financing from the ESF amounts to LVL 122.9 million, including state co-financing equalling to Ls 29.6 million.

Reduction of social exclusion is one of the ESF support policy fields (Policy Field 3) with the allocated financing of Ls 22 million (18% of total ESF financing) for the period between 2004 and 2006. Education and continuing training, including information and communication technologies (ICT) support for disabled persons is the largest measure for reducing social exclusion of groups endangered by the mentioned risk. The measure ensures the financing of Ls 7 million, which is 32% of total financing envisaged for reduction of social exclusion and 5.8% of total ESF financing available for the period 2004–2006. Development of professional rehabilitation programmes, including ICT support for disabled persons, is the second largest measure with the total financing of Ls 3.9 million (respectively 18% of total financing envisaged for reduction of social exclusion and 3.2% of total ESF financing available). Provision of subsidised employment (the third largest measure under this ESF priority) with the financing of Ls 3.3 million (15% and 2.7% of total financing envisaged for reduction of social exclusion and total ESF financing available respectively) is a significant measure for integration of socially excluded people into the labour market.

Female employees devote approximately twice more time for home works than male employees; the difference is more expressive in the families with children. This necessary yet unpaid contribution to the national economy has a significant impact on the provision of equal opportunities outside home; especially considering the lack of alternative child care forms and institutions, and generally the role of the two parents in the family. Therefore the integration of women into the labour market is hindered, since the employers very often are reluctant to employ women, especially those of reproductive age, women after the maternity and child care leave (National Employment Plan, 2004).

The share of women in the group of entrepreneurs is still low: only 1.5% of all working women are employers, while in the group of working men the figure equals to 4.8%. Although in Latvia the level of female employment is higher than the average EU level, and the number of women with higher education is also higher (1.6 times) compared to men, the salary received by female employees is lower in almost all sectors of national economy, and the number of women holding leading offices is still relatively small. Discontinuation in the service arisen due to the childcare also has a similar impact on the future amount of retirement allowance (National Employment Plan, 2004).

Latvia in cooperation with the European Commission Initiative applies EQUAL Initiative Programme measures to promote the integration of this risk group into the labour market. EQUAL Initiative Programme includes the following measures: vocational education, retraining and qualification upgrading, hired public works, measures to improve competitiveness of the unemployed, measures envisaged for certain groups of persons, for instance, youth, persons with disabilities, persons after the child care leave, persons of pre-retirement age, long-term unemployed persons, persons released from imprisonment, and other persons posed to risk of poverty and social exclusion. Measures for improving competitiveness include the assessment of adequacy for certain professions, informative and psychological support, provision of basic skills necessary in the labour market, seminars, consultations aimed at promotion of social mobility and perfection of knowledge on the labour market (EQUAL Programme for Latvia for the period of 2004–2006, elaborated in 2003).

Use of benefits in Latvia between 2003 and 2005

Researching functions of State Social Insurance Agency it was considered, that there are two benefit's groups: social insurance benefits and state social benefits. There are several benefits in group of social insurance benefits, but there are only two benefits what related to leave for childcare: maternity and paternity benefit. Other three benefits belong to state social benefits group. (Figure 1)

Maternity benefit can be claimed within 12 months from the first day of maternity leave. The following persons are entitled to receive maternity benefit:

- an employee;
- a self-employed person who has made social insurance contributions;
- spouse of the self-employed person who has voluntarily joined social insurance scheme (in accordance with the law "On State Social Insurance").

Maternity benefit is allocated and paid in the amount of 100% from the average contribution wage calculated from the six months income (for the self-employed – 12 months). Maternity and paternity benefits differ. Maternity benefit is paid for the whole maternity (prenatal and postnatal) leave. Paternity benefit is granted

for 10 calendar days (before 2 months of the child's age). Paternity benefit is allocated and paid in the amount of 80% from the average insurance contribution wage calculated from the six-month income. Average insurance contribution wage and benefit amount is calculated in accordance with the Cabinet Regulations No 270 "Average Insurance Contribution Wage Calculation Procedure and Procedure for Granting, Calculation and Payment of State Social Insurance Benefits" of July 28, 1998.

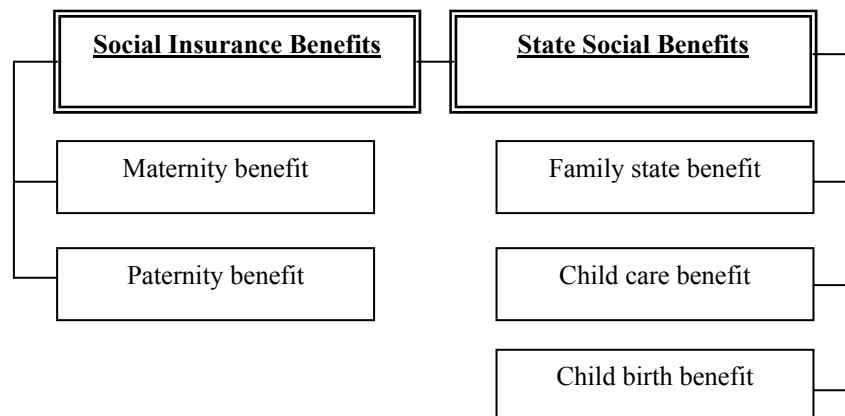


Figure 1. Classification of childcare leave connected benefits

Source: author's construction according to the State Social Insurance Agency

Childbirth benefit is allocated to one of the child's parents or guardians for the child to whom a personal ID number is granted, but not sooner than on the 8th day after the child has been born. Childbirth benefit can be claimed within 12 months from the day the child has been born or from the day of establishing guardianship (if the child has been taken in custody before 1 year of age). The amount of childbirth benefit is Ls 296 for each child born on October 1, 2004 and after in accordance with the Cabinet Regulations No 166 "Procedure for Granting and Disbursement of Childbirth Benefit" of March 8, 2005. For each child born on January 1, 2006 and after the applicant of the benefit receives additional Ls 100 for the birth of the first child, Ls 150 - for the birth of the second child and Ls 200 - for the birth of the third and the following children.

Childcare benefit for a child under one year is:

- in the amount of 70% from the average monthly insurance contribution wage but not less than Ls 56 per month and not more than Ls 392 per month, if the person is employed and is on parental leave, or is a self-employed person who is not having any income until his/her child is under one year of age;
- in the amount of 50% from the stated childcare benefit for the person who is on the parental leave or is not having any income as a self-employed person, if the benefit claimant is an employed person and is not on the parental leave;
- Ls 50 per month if a person is not employed (in accordance with the law "On State Social Insurance"), but Ls 30 per month allowance of childcare for a child care from one to two years of age both for employed and unemployed persons regardless the duration of their employment (in accordance with the Cabinet Regulations No 644 "Regulations on the Amount of Childcare Benefit and Supplements to the Childcare Benefit for the Birth of Twins or More Children Born During One Delivery, and Its Review, Allocation and Disbursement Procedure" of August 8, 2006).

If a childcare benefit is granted for twins or more children born during one delivery, a supplement is granted. The supplement amount is the following:

- Ls 50 per month for each next child to a person who cares for children under one year of age;
- Ls 30 per month for each next child to a person who cares for children from one to two years of age (in accordance with Article 7 of the law "On State Social Benefits" and Paragraph 7 of the Cabinet Regulations No 644 "Regulations on the Amount of Childcare Benefit and Supplements to the Childcare Benefit for the Birth of Twins or More Children Born During One Delivery, and Its Review, Allocation and Disbursement Procedure" of August 8, 2006).

Family state benefit is granted to one of the child's parents or his/her guardian, or the person who is actually bringing up the child and who is approved by the decision of the orphan court (the parish court) for the child who has been allocated a personal ID number.

The benefit is granted to the child him/herself after reaching the age of 18, if before that s/he has been under guardianship. Benefit is granted in accordance with Article 6 and Article 16 of the law "On State Social Benefits". The family state benefit amount depends on the total number of children in the family:

- for the first child – Ls 6 per month;
- for the second child – Ls 7.20 per month;
- for the third child – Ls 9.60 per month;
- for the fourth child and the following – Ls 10.80 per month.

From January 1, 2007 the amount is increased by Ls 2, i.e. Ls 8 for the first child.

Exactly these benefits are most directly connected with the childcare leave in Latvia, as they show both the number of benefits and their breakdown in financial terms. Between 2003 and 2005 the listed benefits have changed both numerically and pro forma (Table 1).

Table 1

Average amount of benefits related to the childcare leave between 2003 and 2005 (thousand Ls)

<i>Indicators</i>	<i>2003</i>		<i>2004</i>		<i>2005</i>		<i>Changes</i>
	<i>Ls</i>	<i>%</i>	<i>Ls</i>	<i>%</i>	<i>Ls</i>	<i>%</i>	<i>2005 vs 2003</i>
Maternity	4619.6	64.5	5748.2	60.7	6689.7	56.0	+44.8
Paternity	-*	-*	928.7	9.8	1007.7	8.5	-*
Birth	2215.3	31.0	2458.4	26.0	3541.1	29.6	+59.9
Child care	233.9	3.3	241.5	2.6	624.2	5.2	+166.9
Family state	84.3	1.2	84.4	0.9	84.7	0.7	+0.5
<i>The child care benefits - total</i>	<i>7153.1</i>	<i>100.0</i>	<i>9461.1</i>	<i>100.0</i>	<i>11947.4</i>	<i>100.0</i>	<i>+67.0</i>

* - payment of the benefit was started from 2004

Source: table made by the author according to the State Social Insurance Agency dates

The figures of Table 1 show that maternity benefit has the largest share of all benefits related to the childcare leave, and it is explained due to its relation to the prenatal leave and postnatal leave. The mentioned share is higher, as only an insured person has the rights to receive maternity benefit amounting to 100% of the average insurance contribution wage. Yet significantly that between 2003 and 2005 the share of the benefit has decreased from 64.5 % to 56.0 %.

The payment of paternity benefit was started from 2004, and according to the calculations the use of benefit has been optimal, as the expenditure on paternity benefits in 2005 has grown by 8.5% compared to 2004.

On average 28% of the expenditure on benefits are taken by the childbirth benefit. In 2004 the share of the benefit due to a low birth rate has decreased from 31% to 26% compared to 2003, but in 2005 the share has increased from 26% to 29.6% compared to 2004, as the amount of child birth benefit has been raised.

The amount of child care benefit has a positive tendency, since in 2005 it has increased from 2.6% to 5.2% compared to 2004.

The amount of family state benefit has a negative tendency, which is a bad indicator for the state, since it is a monthly benefit granted to a family, and the amount of benefit depends on the number of children in the family. In 2005 it has decreased from 1.2% to 0.7% compared to 2003.

The most directed kind with labour market is social insurance benefits, because the amount of maternity and paternity benefits depends on insurance premium sum. Latvia has many and different types of social insurance benefits, since all types of pensions, unemployment benefit, sickness benefit, funeral allowance and other benefits fall into the category of social insurance benefits. Namely these social insurance benefits comprise the total figure included into Table 2.

Table 2

**The number of recipients of social insurance benefit
related to the childcare leave in Latvia between 2003 and 2005**

<i>Type of benefit</i>	<i>2003</i>		<i>2004</i>		<i>2005</i>		<i>Changes 2005 vs 2004</i>
	<i>amount</i>	<i>%</i>	<i>amount</i>	<i>%</i>	<i>amount</i>	<i>%</i>	<i>%</i>
Maternity benefit	22142	0.3	23284	0.3	25669	0.3	+10.2
Paternity benefit	-*	-*	4521	0.1	5495	0.1	+21.5
Other benefits	7958125	99.7	7895062	99.6	7816072	99.6	-1.0
<i>Social insurance benefits - total</i>	7980267	100.0	7922867	100.0	7847236	100.0	-0.9

* - payment of the benefit was started from 2004

Source: table made by the author according to the State Social Insurance Agency dates

The analysis of types of social insurance benefits leads to the conclusion that the two benefits – maternity and paternity- are very different benefits. If maternity benefit is paid for the whole maternity leave, then paternity benefit is paid only for 10 calendar days. The statistical date of Table 2 may raise a question on paternity benefit in 2003. The payment of benefit was started only from 2004. The opportunity to use these 10 calendar days was provided also up to 2004, yet that was an unpaid leave. Since there were no data on paternity benefits, then the dynamics is calculated comparing the changes in 2005 versus 2004. Considering the changes there is a hope that demographic situation in the country has also improved, as in 2005 compared to 2004 the amount of maternity and paternity benefits has increased more than 10% and 21% respectively.

Also state social benefits are different in Latvia, as they include special state pension, state social benefit to custodians, and allowance to the state family benefit for a child with disabilities etc. Therefore namely these state social benefits comprise the total amount of Table 3.

Table 3

**The number of recipients of state social benefits
related to the childcare leave in Latvia between 2003 and 2005**

<i>Type of benefit</i>	<i>2003</i>		<i>2004</i>		<i>2005</i>		<i>Changes 2005 vs 2004</i>
	<i>amount</i>	<i>%</i>	<i>amount</i>	<i>%</i>	<i>amount</i>	<i>%</i>	<i>%</i>
Family state benefit	5368694	82.3	5008885	78.5	5234878	86.1	+4.5
Child care benefit	550982	8.4	461699	7.2	535200	8.8	+15.9
Child birth benefit	20958	0.3	21247	0.3	20659	0.3	-2.8
Other benefits	581655	8.9	891812	14.0	590293	4.8	-67.3
<i>State social benefits - total</i>	6522289	100.0	6383643	100.0	6082124	100.0	-4.7

Source: table made by the author according to the State Social Insurance Agency dates

The analysis of Table 3 on state social benefits show that, however, the amount of the majority of benefits has increased in 2005 compared to 2004, the amount of childbirth benefit has decreased by almost 3%. This can be explained firstly by the fact that the benefit can be claimed within 12 months after the child birth, and thus statistics account these expenditures later, and secondly due to several medical problems, the benefit can be claimed not earlier than on the 8th day after the childbirth. In 2005 the amount of childcare benefit has experienced the largest increase by almost 16% compared to 2004; state family benefit is the next with the increase of 4.5 %.

Conclusions

1. State Employment Agency is important meaning for the improvement of competitiveness, especially after leaves for childcare is to Employment Agency. The research indicates that women are more active to use services and opportunities of agency.
2. The analysis of state documents concludes that from 2003 they are revised and advanced. Till 2003 when two or less children were born in childbirth there was paid only one childbirth benefit.
3. The leave for childcare is involving five benefits: maternity, paternity, family state, childcare and childbirth benefit. The maternity and paternity benefit belongs to social insurance benefit group, but other three benefits – to state social benefits.
4. The amount of maternity and paternity benefits in 2005 compared to 2004 is increase average 10%-21%, but family state and child care benefits – respectively 4%-16%. Childbirth benefit in the same time is decrease almost per 3%, what is related with low birth rate in state.
5. The average amounts of benefits are increase from 2003 till 2005: maternity benefits – about 44.8%, child birth benefits – about 59.9%, child care benefits – about 166.9%, but family state family – only about 0.5%.
6. Almost 60% childbirth benefit increase is not promoting birth rate in state.

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INVESTMENTS IN HUMAN RESOURCES OF THE HOSPITALITY ENTERPRISES

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Abstract

Although the specialists of the hospitality industry service (catering and hotels) are trained at more than 40 vocational education establishments, the labour market feels urgent lack of qualified specialists. The hospitality industry employees' qualification basis is defined not only by customer increased demand for service quality, which is supported by purchasing ability of the inhabitants and the growth of the tourist number, but also there are requirements of the food industry legislation. Employers frequently need to retrain specialists who recently graduated from educational establishments – mostly in the questions related to the modern industry actualities: new technologies, products usage and quality requirement compliance.

In the current study 496 hospitality industry employees and employers were enquired with the aim to investigate the demand and ensuring of the qualified workforce, by defining investments in the vocational education establishments, catering enterprises.

The results of the research show that the major part of the hospitality industry employees (49%) don't have vocational education, although the numbers of students who graduate vocational education establishments are sufficient in order to ensure the industry needs. The investment of hospitality enterprises in the staff training is insufficient, and that needs financial support from the state.

Key words: human resources, hospitality enterprise, vocational education

Introduction

Tourism industry is one of the fastest growing sectors in Latvian economy. Catering and accommodation enterprises (hereinafter "hospitality enterprises") have very significant role in its supporting infrastructure of this sector. Fast development of the hospitality enterprises is strongly supported by the continuously growing demand, which is influenced by the following:

- *the changes in the consumption patterns of the population* – reduced expenses for food, but increased expenses for the hospitality services;
- *increased number of tourists*, which grew by 85% during the period from 2001 till 2005, giving 17% annual increase rate on average, it has reached 3.7 millions of travellers per year (CSB, 2006).

Activation of the demand promotes the annual economic growth of hospitality establishments. Those describe following parameters:

- *the specific weight of the sector's added value* in the structure of whole economy is not big in numbers (from 1.2% in year 2001 up to 1.7% in 2005), increasing by 42% on average during four years. However it is the highest index among other economy sectors (CSB, 2006).
- *the added value per employee* characterizes the development of hotels and restaurants. Its growth rate is the highest among other sectors – from Ls 2645 to Ls 4817 during the period from year 2001 till 2005, reaching the increase of 20.5 %, comparing to the average economy growth rate, which is only 7.8%. It is related to the large proportion of capital investments and expenses in the value of offered products and services (CSB, 2006).

The further growth of hospitality enterprises depends on effective input of the production factors. In the service sector, including activities and development in hospitality services, human resources are one of the most significant production factors. The skills, professional experience, individual operational ability of employees determine the extent of other production factors' use and following production of material values. Therefore the investments in facilitating the knowledge and skills of employees in the hospitality enterprises are required for better and more appropriate use of human resources.

Several authors have analysed and evaluated the determinant criteria and components of the human working ability – *social capital* (Pelše M., 2003) and *intellectual resources* (Adamoniene R., Andriuščenka J., 2006), indicating those as factors promoting economic progress, which helps in achieving the set aims. However, there is a lack of research on the possibilities of providing and motivating human resources for enabling the required employment efficiency.

The above-mentioned considerations set the aim for this study – to evaluate structure and influence of investments in human resources on the labour market of hospitality industry.

The following tasks result from the aim:

- ✓ to analyse and evaluate the demand and provision with human resources in the hospitality enterprises;
- ✓ to ascertain the scope and structure of investments in human resources;
- ✓ to determine the factors, which promote the most effective and appropriate use of human resources;
- ✓ to work out suggestions for improvement of quantitative and qualitative provision with human resources.

Materials and methods

The evaluation of the operational capacity of employees' in hospitality enterprises is based on the survey data from the European Social fund project "Evaluation of necessity for investments in human resources in the hospitality sector in Latvia regions". The analysis of the survey data is completed after dividing the staff in several groups – managers of the hospitality enterprises and employees regarding social and demographic indices, development of professional career, qualifications and the possibilities for its raise. A total of 316 employees and 180 managers from all regions of Latvia participated in the survey. The survey of the hospitality sector staff was performed in October-November, 2006.

The data from the Department of Statistics and Analysis of the Ministry of Education and Research about the number of vocational education establishments and their graduates, from the State Employment Agency about the employment in the hospitality enterprises, indicative results in the sector, etc. are used in the current study as well. The following methods are used in the current study: descriptive and comparative statistics, method of analysis and synthesis, grouping and comparison of the data, and logical construction method.

Results and discussion

Demand of human resources in hospitality enterprise

The economic growth of the hospitality enterprises is closely related to quantitative and qualitative provision with human resources, because the increase of the specific weight of human resources in the structure of the total capital of enterprise is the most significant index. The *quantitative* demand for human resources is determined by the specific character of the sector – human factor (immediate service) is important in the hospitality enterprises, as well as high rate of manual work, for example, in the work of cook, waiter or maid. Increased demand for hospitality services requires higher numbers of employees.

In the year 2005 the hospitality sector employed 2.7% of inhabitants of Latvia able to work. There were 2628 enterprises, out of which almost half were located in Riga. During the period from 2001 till 2005 the number of employees was increased from 22 thousand to 28 thousand. The dynamics of the number of employees in the hospitality enterprises is presented in Table 1.

The data in Table 1 show that the number of hospitality enterprises and their employees is continuously growing – annual growth of number of hospitality enterprises is 8.9% on average, but annual growth of human resources is 6.3% (or about 1500-1800 employees a year). In the years 2003 and 2004 annual growth rate of the number of enterprises exceeded the growth rate of employees; however in 2005 the number of human resources was growing faster, that indicates the trend towards bigger influence of human resources on the sector.

The *qualitative* demand for human resources is defined by the employees' working ability which depends on their skills obtained during general and professional education, and the professional experience acquired during previous career, as well as the use of the potential working ability of employees, while meeting the demands of customers at the hospitality enterprises (Diderihs, 2000).

Table 1

The dynamics of the number of the hospitality enterprises and their employees

Year	Number of hotels and restaurants	Average annual growth rate of number of hospitality enterprises, %	Number of employees, thous. people	Average annual rate of number of employees, %
2001	1876	-	22	-
2002	1975	5.3	24	9.1
2003	2188	10.8	25	4.2
2004	2518	15.0	26	4.0
2005	2628	4.4	28	7.7
<i>Average</i>		8.9		6.3

Source: CSB data and authors' calculations

Investments in human resources of hospitality enterprises

The major investors in the providing the qualities of human resources of hospitality enterprises are:

- state (municipalities), financing vocational education establishments;
- hospitality enterprises, financing the attraction of new employees, training and improvement of professional skills of their employees, as well as taking measures for keeping the employees.

State investments in human resources of hospitality enterprises

State investments mainly are found in the providing professional qualifications at the vocational education establishments. The term “*qualification*” is interpreted as the level of professionalism, training or recognition of somebody to be suitable for the performance of certain tasks (Svešvārdū ..., 2004). The professional education establishments offer almost 40 accredited study programs for training of hospitality professionals at the various education levels – starting from the basic vocational education, which provides the 1st qualification level up to the highest professional education, which gives the 5th qualification level and a possibility to manage the hospitality enterprise.

According to the data of Ministry of Education and Research in Latvia in 2006 there were 84 state-supervised basic and secondary vocational education establishments, which offer professional programs in various sectors, providing education for the 1st, 2nd, and 3rd qualification levels, 56% or 47 of which offer the study programs in hospitality (see Table 2).

Table 2

Number of basic and secondary vocational education establishments

<i>Regions</i>	<i>State</i>	<i>Municipal</i>	<i>Private</i>	<i>Total</i>
Rīga	12	1	7	20
Vidzeme	11	-	3	14
Kurzeme	8	-	-	8
Zemgale	7	2	-	9
Latgale	9	-	2	11
Total	47	3	12	62
% of total	76	5	19	

Source: authors' calculations based on the data of Professional Education Centre and CSB

According to the Table 2 there are 62 basic and secondary vocational education establishments providing training at various levels for professionals in hospitality sector, the major part of which (47 or 76%) are state financed. The number of vocational education establishments indicates that the education in the hospitality sector is easily available and it is evenly distributed across the regions. The average number of

the graduates obtaining the qualification in hospitality during 2001-2005 is used for the evaluation of the finances return at the basic and secondary vocational education state-financed establishments (see Table 3).

Table 3

Number of specialists in the hospitality industry

<i>Regions</i>	<i>Average number of graduates, 2001-2005</i>	<i>Number of hospitality enterprises</i>	<i>Graduates per hospitality enterprise</i>
Rīga	508	3060	0.17
Vidzeme	158	478	0.33
Kurzeme	215	606	0.35
Zemgale	236	428	0.55
Latgale	198	433	0.46
Total	1315	5005	0.26

Source: authors' calculations based on the data of IZM, PVD, CSB and authors' survey

Table 3 shows that the biggest number of graduates are trained in Riga region, although if compare the number of graduates with the number of hospitality enterprises in the same region (3060 or 61 %), it becomes obvious that it is the lowest proportion. The acquisition of vocational education in the regions does not give important input in providing hospitality enterprises in Riga region with human resources because about 50-65% of the basic and secondary vocational training is performed as the work placements, mainly completed in the enterprises of the specific region. It would be helpful to give additional financial support to the students of the regional vocational establishments for their work placements in the hospitality enterprises in Riga region. The biggest number of hospitality professionals is trained in Zemgale and Latgale regions, where the ratio between graduates and hospitality enterprises is 0.55 and 0.46, approximately twice exceeding the average number in Latvia.

The state financed basic and secondary vocational establishments give 1315 graduates on average per year, providing around 75% of the needed number (see Table 1). The missing number of qualified professionals is supplied by the municipal and private education establishments. In Latvia there are 3 higher education establishments located in various regions and providing the 1st and 2nd level higher professional education, out of which two are state financed. During the years from 2001 to 2005 on average the annual number of graduates from the higher education establishments was 99 hospitality enterprise managers, however in 2006 the number of graduates reached 156.

The number and availability of the professional education establishments and the number of graduates indicate that there should be sufficient number of professionals in the hospitality sector.

Investments of hospitality enterprises in human resources

The respondents (hospitality managers) evaluating the quantitative provision with human resources, expressed the opinion, that in 37% of enterprises lack of employees is observed. The biggest number of unavailable employees is in Vidzeme region – 54%, in Riga region – 43% and Zemgale region – 40%. In the hospitality enterprises in Latgale and Kurzeme regions the situation of provision with human resources is less dramatic – 29% and 28% respectively. Comparing the number of graduates of the professional education establishments and provision with human resources in separate regions conclusion can be drawn that professional education establishments in Zemgale and Vidzeme region train significant number of hospitality professionals, therefore there should be another reason for lack of employees in the region.

In order to provide the required human resources, the management of hospitality enterprises has to invest in the search of employees, in the primary training, retraining, and improvement of working conditions. 69% of the hospitality enterprise managers search for the employees through their acquaintances, which is confirmed by respondents (employees) of the survey, stating that they found the job in this way. The same number of managers search for the employees through the State Employment Agency, especially in Riga region, 63% - put an advertisement in the newspaper. Search for the needed employees in the educational establishments training hospitality professionals was mentioned as the last opportunity (37%), however

the employees' survey proves that the co-operation between hospitality enterprise and professional education establishment can be considered successful, because 36% of graduates found their place in enterprise, where they performed their work placement. On the other hand 19% of graduates found their place of employment in the hospitality enterprise right after the graduation from the professional school. Only 11% of the graduates faced the problem finding their work place in the sector.

What kinds of employees are searched by the hospitality enterprises? The main criteria for the selection of employees are as follows: professional skills (78%), previous experience and competences (59%), the professional qualification diploma (53%) as well. However the criteria named by managers should be considered as the desired ones, because 59% of the employees acknowledged that they work in the hospitality establishment by coincidence, just after replying to the offer. To the certain extent that corresponds to the data about the specific weight of employees with experience and qualification in the sector (see Table 4) – it is only 49%. 16% of the employees of the hospitality enterprises work in the sector less than one year and 80% of those do not have either professional qualification or experience.

Table 4

Experience and qualification of employees in hospitality enterprises (respondents, %)

<i>Years in a branch</i>	<i>Employees</i>	<i>Vocational education</i>	<i>Employees</i>		
			<i>Qualified</i>	<i>Unqualified</i>	<i>Total</i>
<i>The first year</i>	16	10	20	80	100
1-4	43	42	56	44	100
5-10	23	28	48	52	100
11-15	10	6	42	58	100
<i>More than 15</i>	8	14	78	22	100
<i>Total</i>	100	100	49	51	100

Source: The results of survey of the authors

43% of the employees in hospitality have little experience (1 to 4 years) and it is the most qualified group of employees with 42% having professional education. Small part (8%) of employees apply their professional education for long-term (more than 15 years), and 78% of those have professional education. The data in Table 4 show that 59% of employees in the hospitality enterprises are employed for short-term (up to 4 years) and one can consider that professional education of 38% of graduates “lasts” less than 4 years, which is very small part of average 40 years long work-life. The demographic data of the survey show that the major part (51%) of the employees at the hospitality enterprises is of age 21-30. That partly gives the explanation for the short-term employment in hospitality enterprises – often those are students who work in hotels and restaurants, but they are studying in other field. It is proved by the data from Table 4, where among the short-term employees only 20% have the qualification in hospitality sector. 14% in its turn are younger than 20. A similar situation was found in the USA, where 25% of employees in hospitality sector were younger than 20 and 10 % in France (Meriot S.A., 2000).

The requirements for employees in the catering enterprises are set by the Regulations of the Cabinet of Ministers No. 409, which foresees professional training in vocational study program according to the performed duties. Although 49 % of employees in catering establishments are qualified and 24% of respondents indicate that they combine work with studies, which could provide the appropriate quality of human resources in catering establishments only after 3-4 years. The professional education of the managers at the hospitality enterprises is much less appropriate than the employees' education. The managers have less motivation for acquiring the professional education, because their growth and possibility to get managers' position at the hospitality enterprise depends more on their work experience and personal qualities than the education. Only 25% of hospitality enterprises' managers have the professional education. The critical situation in the management of catering establishments can appear on January 1, 2007 because then the requirement of the 13th paragraph of the Regulations No. 409 of the Cabinet of Ministers, demanding at least the 1st or 2nd level higher professional education in the field of Food Science for managers of catering enterprises will come into force. Today only 5% of managers have corresponding education.

In order to meet the needs of the enterprise for the certain qualification of human resources – professional education measures should be carried out, reaching the quality of the employees needed at the enterprise

nowadays and in the future. 59% of employees support the need for the retraining, and 85% of those think that it should be financed by the enterprise. The actual possibilities for retraining are poor, because the importance of employees' growth and human resources is underestimated at the enterprises. Analysing the answers of respondents regarding the recompense and the education, conclusion can be drawn that there is no correlation between salary and the length of service, as well as between salary and the professional education. It is proved by managers as well, stating that the employees' qualification and professional education is the least significant criterion (16%) in the hierarchy of determining salary, the main factors are the total turnover of the enterprise (57%) and the quality of the employees' performance (42%). In words 95% of managers have expressed their support to the increase of the potential of human capital – 45% of them are ready to earmark the vacation, 33% could financially support training of their employees outside the enterprise and 35% could cover at least half of the study fees. However, the "goodwill" expressed by managers towards the personnel training cannot be considered as a real input, because now at the 77% of the enterprises involved in retraining on average Ls 20 per employee are allocated annually. Employers cannot afford bigger investments in human resources. Among them 87% of managers would wish to have retraining outside the enterprise, because the training at the enterprise is problematic and inconvenient. The hospitality enterprise managers are not ready to be the educators and mentors. They do not know what to do when they face the employees without previous experience in the sector, how those should be trained and supervised (Chesser J.W., 2005). 36% of the managers named the personnel management to be a problem. Managers pointed out that they are not able to solve the problem alone – 43% of managers consider that the state should support employers, who pay for retraining of their employees. A similar proposal was made by NVA as well, thus promoting the adjustment of education to the needs of labour market.

Net salary at the hospitality enterprises generally (77%) does not exceed Ls 200. The statistical data show that in 2005 in the sector of hotels and restaurants, there was the lowest salary – Ls 110 while the average salary in Latvia was Ls 176 (CSB, 2006). In the situation when there is increased competition the hospitality enterprises seek the ways to reduce their expenses. Enterprises tend to offer the salary as low as possible, expecting high work efficiency disregarding the facts that high efficiency is impossible without increase of knowledge and skills of human resources. Cutting expenses based only on reducing the salaries of employees leads to the current situation – lack of qualified personnel, high labour turnover. Low salaries and physically and mentally hard work, force employees to look for another – a better paid and easier job. It is proved by NVA data as well – in the 2nd quarter of 2006 there were 1603 cooks registered as unemployed, being a group of unemployed right after unskilled workers, shop-assistants and cleaners, whose professional education does not require as big investments as cooks' education. In the current conditions the relation between employer and employee has more significant influence on the lack of human resources quality than the gaps in the professional education system (Janova K., 2006).

Managers of the hospitality enterprises agree that the increase in work efficiency, which can be achieved with the higher quality human resources, could be reached only by the uniform state planning of the professional education. Only 3% of the managers rely on the market regulation in the human resources issues. Similar tasks are set in the Latvian National Development Plan (2007-2013) where one of the main tasks is training and retraining at the enterprises and employer professional organizations (NAP, 2006). The expert of education and employment in the human resources development group in the NAP S.Vevere points out, that the supply with highly qualified employees is not a problem only of the enterprises. 36% of hospitality enterprises' managers think that there is a need for more close cooperation among the state, education establishments and enterprises. Although in Latvia there is a triangular cooperation board of professional education, which includes representatives from the state institutions, trade-union and employers, the experts of professional education and employers consider that there is no social dialog (Dimants A., 2006; Gastromāns, 2004). In case of cooperation the study programs, knowledge and skills offered by education establishments should be adapted to the needs of the sector, the return of the investments in professional education would increase. The employers should more actively take part in the training of the hospitality professionals, thus promoting the quality of the human resources in the sector and decreasing the need for investments in employees training and retraining.

Conclusions, suggestions

1. The annual increase in the number of the hospitality enterprises, the services and the increased demand for the high quality products and services, requires additional human resources – 1500 to 1800 employees per year.

2. In the rapidly growing hospitality sector there is a situation when at the same time there is unsatisfied demand for employees (about 37% of hospitality enterprises have a shortage of employees) and unsatisfied supply (employees work in the sector 1-4 years on average), the reason could be the different understanding of the optimum size of salary by employers and employees.
3. The quality of human resources at the hospitality enterprises is insufficient, which can seriously endanger fast development of the hospitality enterprises, especially the quality of the services. Only 49% of employees and 25% of managers have a professional education. The professional qualification in the catering enterprises is required by legislation – there are 53% of employees and 5% of managers who satisfy the requirements. At the same time the regional vocational schools train sufficient number of qualified specialists, except Riga region, where the number of the vocational establishments and graduates is insufficient.
4. The investment of hospitality enterprises in the increase of human resources quality is not adequate (on average 20 Ls per employee annually), therefore there is a need for the financial support from the state to employers who invest in training of their employees.
5. The state investments in professional education should be reallocated in favour of the employers who are involved and carry out qualitative practical training of the hospitality students.
6. In order to promote the capacity of human resources at the hospitality enterprises, the closer cooperation among the state institutions, professional education establishments and employers through their professional organizations should be involved in the development of the education quality, defining the overall knowledge and skills, required in the labour market, thus the return of the investments in professional education would increase.

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VADĪŠANAS STILS LATVIJAS MAZO UN VIDĒJO UZŅĒMUMU DARBINIEKU SKATĪJUMĀ

LEADERSHIP STYLE IN VIEW OF EMPLOYEES OF LATVIA SMALL AND MIDDLE-SIZED ENTERPRISES

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Abstract

The paper expounds the results of the research about attitude of employees about leadership style used by their managers and satisfaction by this.

Leadership style is important factor which defines effectiveness of employees for reaching and realizing goals of organization. Depending on situation manager usually use together several leadership styles in his daily actions. Selection of effective leadership style depends of several factors. One of the most important of them is environmental factor including regional location and historical heritage of it. It affects attitude and perception of employees about the leadership style of their managers.

Respondents of current study – employees of small and middle-sized enterprises – subdivide their managers used actions and working behavior in three groups. Relatively it makes three new types of leadership style – “manager-lord”, “manager-host” and “manager-overseer”.

In view of respondents the most preferable leadership styles for managers are “democratic” and “manager-host”.

If the preferable leadership style conforms to leadership style de facto - respondents were much more satisfied with their managers’ actions in enterprises and its influence on performance quality of employees.

Key words: leadership style, satisfaction of employees, “manager-lord”, “manager-host”, “manager-overseer”

Ievads

Introduction

Amerikas Savienoto Valstu militāro spēku vadībzinību pētnieki vadīšanas stilu definējuši kā vadītāja darbību raksturojošu metožu, manieru un paņēmienu kopums, ko viņš izmanto, lai sasniegtu mērķus, veiktu uzdevumus un motivētu cilvēkus. (U.S. Army Handbook, 1973.) XX gadsimta piecdesmitajos gados menedžmenta teorētiķi no Ohaio Valsts universitātes un Mičiganas universitātes publicēja pētījumus, lai noskaidrotu, vai vadītājam ir nepieciešams būt vairāk orientētam uz mērķiem, uzdevumiem, vai arī uz savstarpējām attiecībām, cilvēkiem. Pētījumu gaitā tika noskaidrots, ka nav viena vienīgā labākā vadīšanas stila, vadītājiem savs vadīšanas jāpakārto stils konkrētai situācijai (Johannsen M., 2005.). Tomēr darbinieki ir tie, kas pirmie ar savu darbību un attieksmi var reaģēt uz veiksmīgi vai neveiksmīgi izvēlētu vadīšanas stilu. Vai kā savās publikācijās pamato Dr. hab oec., prof. A. Līdumnieks, vadītājs ar savu darba stilu, ar tā īstenošanas kultūru var radīt kolektīvā lietišķu, ieinteresētu vai arī vienaldzīgu, bezatbildīgu attieksmi pret darbu. Cilvēkresursu pētniece Linda Gratone uzsver, ka mūsdienu uzņēmējdarbībā cilvēki ir svarīgākais resurss organizācijas efektīvas darbības nodrošināšanā (Gratone L., 2004.). Tāpēc rodas pieņēmums, ka vadīšanas stils primāri jāizvēlas balstoties uz uzņēmuma cilvēkresursu specifiku. Līdz šim ar vadībzinībām saistītās publikācijās nereti tiek pausta atziņa, ka organizācijas mērķiem ir jābūt saskaņotiem ar darbinieku mērķiem, un tomēr maza vērtība pievērsta tam, ka arī šo mērķu sasniegšanai izmantotajām metodēm un paņēmieniem, tajā skaitā vadītāja profesionālajai darbībai un vadīšanas stilam, būtu jābūt darbiniekiem pieņemamām un atbalstāmām. Daudz tiek runāts par to, kādam vadītājam būtu jābūt, balstoties uz

teorētiskiem atzinumiem, bet vienlaikus ir reti sastopami pētījumi attiecībā uz darbinieku viedokli par to, kāda vadītāja pakļautībā viņi vislabprātāk un efektīvāk darbotos. Un šajā kontekstā nevar neņemt vērā apkārtējās vides faktoru, tajā skaitā reģionālo izvietojumu un to raksturojošo vēsturisko mantojumu. Tas ietekmē darbinieku attieksmi un uztveri attiecībā pret vadītāja darba stilu. Vēsturiskā aspektā Latvijā ilgstoši pastāvējusi situācija, kad darbinieku vadītāji bijuši saistīti ar piespiedu vai iebiedēšanas varas lietošanu – sākot ar vācu feodālismu (muižkungi, vagari) līdz pat daļēji padomju varas laikiem. Tas bija viens no faktoriem, kas noteica iepriekš 2004. gadā veikta pētījuma (V. Kūlupas maģistra darba ietvaros, „Vadībzinību atainojums latviešu tautas dziesmās, sakāmvārdos un parunās”, LLU SZF) rezultātus. Tika konstatēts, ka 30% aptaujāto respondentu atzīst, ka vārds „vadītājs” viņiem izraisa negatīvas asociācijas, 53% – neitrālas, bet tikai 17% aptaujāto attiecīgais vārds rada pozitīvas asociācijas. Turklāt 51% gadījumu šīs asociācijas netika balstītas uz respondenta personīgo pieredzi saskarsmē ar savu darba vadītāju, bet gan uz reģionā vēsturiski veidojošos attieksmi. Tāpēc 2006. gada pavasarī tika veikts jauns pētījums par darbinieku attieksmi pret vadītāja vadīšanas stilu.

Hipotēze: vadīšanas stilam ir ietekme uz darbinieka attieksmi pret vadītāja darbību uzņēmumā.

Mērķis: izpētīt Latvijas mazo un vidējo uzņēmumu darbinieku attieksmi pret vadīšanas stilu un izvērtēt tā ietekmi uzņēmumā.

Izvirzītā mērķa sasniegšanu nodrošina tam pakārtoti uzdevumi:

- noskaidrot, vai darbinieku uztverē pastāv noteikta tipoloģija attiecībā uz vadītāja vadīšanas stilu;
- noskaidrot, vai pastāv sakarība starp darbinieku apmierinātību ar vadītāja darbību uzņēmumā un viņuprāt vēlamā vadīšanas stila esamību vadītāja profesionālajā darbībā.

Metodes:

Aptaujas metode; iegūto datu apstrādei – matemātiskā statistika, aprakstošā statistika, faktoru analīze.

Elektroniskā pasta vidē pēc nejaušības principa izvēlētiem Latvijas mazo un vidējo uzņēmumu darbiniekiem tika izsūtīta datorizēta aptaujas anketa. Beigās tika saņemtas 127 darbinieku aizpildītas un datu apstrādei derīgas anketas no aptuveni 30 uzņēmumiem.

Respondentu raksturojums:

- dzimums: vīrieši 52%, sievietes 48 procenti;
- vecumā no 21 gada līdz 57 gadiem;
- izglītība: vidējā vai vidējā profesionālā – 46%, augstākā – 52%, cita – 2 procenti.

Pētījuma objekts – Latvijas mazo (tajā skaitā mikrouzņēmumu) un vidējo uzņēmumu darbinieki.

Rezultāti un diskusija

Results and discussion

2004. gada pētījumā respondentu sniegtās atbildes izvirzīja 20 visbiežāk izplatītās viņu vadītāju darbību raksturojošas iezīmes. Daļa no tām nebija sastopamas nevienā no izplatītākajām vadībzinību vadīšanas stilu tipoloģijām. Ņemot vērā, ka attiecīgās iezīmes ir atšķirīgas un pat radikāli pretrunīgas pat viena un tā paša uzņēmuma darbinieku vērtējumā, tika izdarīts pieņēmums, ka darbinieku uztverē pastāv tipoloģija attiecībā uz vadītāja darbību. Attiecīgā pieņēmuma pareizības pierādījums tika izvirzīts kā viens no galvenajiem uzdevumiem, veicot jaunu pētījumu.

Respondenti 5 punktu sistēmā tika lūgti novērtēt, cik lielā mērā attiecīgie 20 apgalvojumi atbilst viņa vadītāja profesionālajai darbībai, kur 5 punkti – „pilnībā atbilst”; 4 – „lielā mērā atbilst”; 3 – „gan atbilst, gan neatbilst”; 2 – „vāji atbilst”; 1 – „pilnībā neatbilst”. Izmantojot faktoru analīzes metodi (SPSS programmatūras vidē), kas ļauj atrast faktoros, kuri atrodas vairāku mainīgo lielumu saistības pamatā, un cik liels ir faktora īpatsvars katrā pazīmē, tika konstatēts, ka respondenti iedalā vadītājam piedēvētās darbības un uzvedību trijās grupās, nosacīti savā attieksmē veidojot trīs vadīšanas stila tipus (sk. 1. tabulu). Pētījuma autore, balsīdamās uz faktu, ka reģionālam izvietojumam un vēsturiski mantotai pieredzei ir ietekme uz attiecīgajā reģionā dzīvojošo uztveri un attieksmi, iegūtās trīs faktoru grupu apzīmējumiem izvēlējusies šādus nosaukumus: faktors 1 – „vadītājs – kungs”, faktors 2 – „vadītājs – saimnieks”, faktors 3 – „vadītājs – vagars” (attieci saīsināti V-K, V-S, V-V), kas vislabāk izsaka ikvienas grupas būtību.

53% respondentu identificēja savu vadītāju kā „vadītājs – saimnieks”, 35% – „vadītājs – kungs”, 12% – „vadītājs – vagars”.

Izveidojušās trīs grupas būtu pārāgri nodefinēt par pilnvērtīgu un patstāvīgu „tipoloģiju”. Tā būtu jāpapildina un jāievieš atsevišķas korekcijas ietvertu elementu formulējumos.

1. tabula
Table 1

Vadīšanas stila tipoloģija balstīta uz darbinieku uztveri
 Typology of leadership style based on perception of employees

„Vadītājs – kungs” „Manager – lord”	„Vadītājs – saimnieks” „Manager – host”	„Vadītājs – vagars” „Manager – overseer”
Atsevišķas, no padotajiem nošķirtas darba un sadzīves telpas. Padotie baidās, no saskarsmes izvairās. Rūpes tikai par savu labklājību. Tikai ņem, labprāt neko nedotu. Plānošanu, organizēšanu un kontroli veic vietnieki, pašam nav izpratnes par to, kas notiek uzņēmumā. Motivācijai izmanto sodu sistēmu. Ar padotajiem kopā nestrādā. Primārie ir materiālie resursi un darba rezultāts.	Pats plāno, organizē, kontrolē. Ar padotajiem ir kopīgas sadzīves koplietošanas telpas. Rūpējas un atbild par saviem padotajiem. Gan ņem, gan dod. Pārzina, prot padoto darbu, vajadzības gadījumā pats var aizstāt padotos. Brīva komunikācija ar padotajiem. Primārie ir cilvēkresursi un darba process. Motivācijai izmanto gan atalgojumu, gan sodu sistēmu. Aizrauj ar savu personību un profesionālismu.	Pārvalda padoto darbu specifiku, bet pats nekad šo darbu neveic. Primārā ir plāna izpilde. Kāpdams pa karjeras kāpnēm, nelabprāt atceras vai pat noliedz savu „izcelsmi”, atstumj bijušos kolēģus.

Avots: *Autores V. Kūlupas pētījums.*

Source: *Research done by the author Vizma Kūlupa.*

Kaut gan var saskatīt daļēju līdzību „vadītājs – saimnieks” tipam ar demokrātisko vadīšanas stilu (pēc K. Leviņa) un, savukārt, „vadītājs – kungs” tipam ar autoritāro, tomēr tās nav vienādas. Virkne no minētajām darbībām un rīcībām nav atrodamas vadībzinībās izplatītajās vadīšanas stila tipoloģijās. Bet ņemot vērā, ka attiecīgā reģiona respondenti ir uzsvēruši šo iezīmju esamību vadītāju darbībā, tad tās nedrīkst ignorēt. Turklāt raksta turpmākās sadaļās atainots, cik atšķirīga ir respondentu apmierinātība ar vadītāja darbību uzņēmumā un ietekmi uz darbinieka darba kvalitāti atkarībā no pielietotā vadīšanas stila.

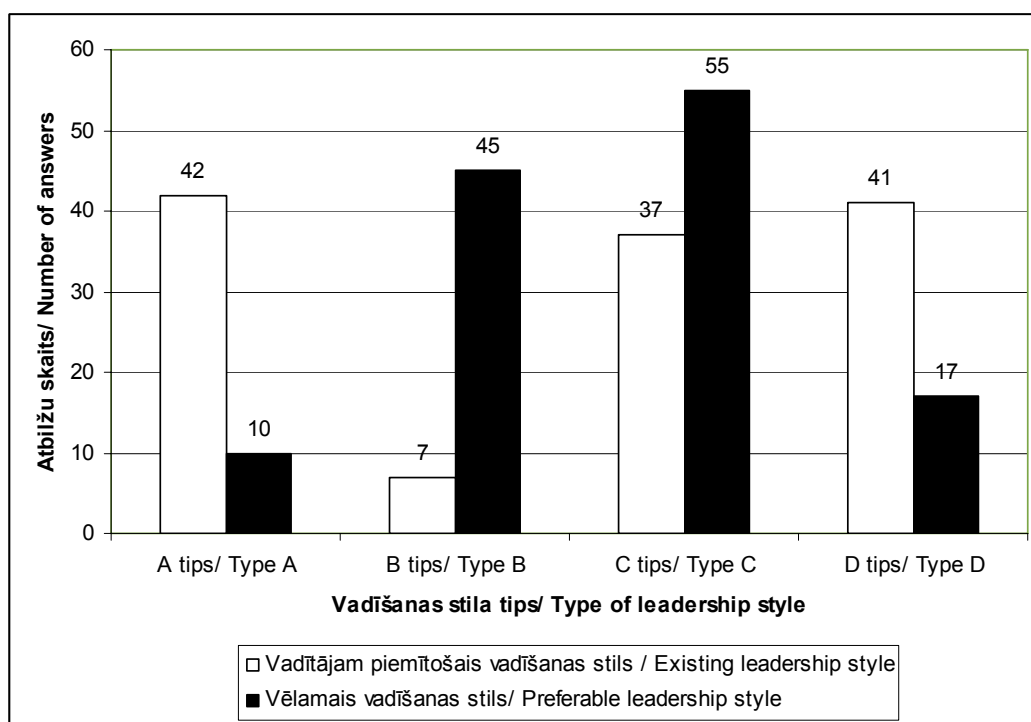
Līdztekus tam respondentiem tika lūgts minēt piecas vēlamas un piecas nevēlamas īpašības, kuras viņiem kā darbiniekiem būtu svarīgi, lai vadītājam piemistu vai gluži pretēji – nepiemistu. Kā vēlamas visbiežāk tika minētas šādas iezīmes (skaitlis iekavās norāda, cik procenti respondentu no kopēja skaita minējuši attiecīgo iezīmi): godīgs (26%), sabiedrīks (16%) labsirdīgs (15%), savaldīgs (15%), pretimnākošs (14%), pārliecinošs (14%), strādīgs (13%), līdzsvarots (13%), iejūtīgs (13%), pārliecināts (12%), devīgs (12%), enerģisks (11%), atvērts (10%), zinīgs (10%). Savukārt kā nevēlamas: nepatiess (24%), ļauns (17%), skops (16%), savtīgs (16%), augstprātīgs (15%), nepieejams (14%), agresīvs (14%), atriebīgs (14%), nepārliecinošs (13%), vienpersonisks (13%), divkosīgs (12%), slinks (12%), nekompetents/nezinošs (11%), nerunīgs (11%), valdonīgs (10%). Acīmredzot arī šīs īpašības būtu paturamas prātā izvēloties pielietot kādu konkrētu vai veidojot pašam savu vadīšanas stilu, kas būtu pieņemams un motivējošs arī darbinieku uztverē.

Vadītāja vadīšanas stils darbinieku uztverē

Uzsākot respondentu anketēšanu, nebija iespējams prognozēt, vai, apkopojot darbinieku sniegtās atbildes par viņu vadītāju darbību raksturojošām iezīmēm, veidosies kāda jauna vadīšanas stila tipoloģija. Turklāt pat pozitīva iznākuma gadījumā, tā būtu jāsalīdzina ar kādu no vadībzinībās esošajām tipoloģijām. Autore izvēlējās vienu no izplatītākajām, uz K. Leviņa teorijas balstīto, kuru raksturo šādi vadīšanas stili – autoritārais, liberālais, demokrātiskais un jaukts jeb situatīvs.

Respondentiem tika piedāvāti četru vadīšanas stila apraksti (neminot to nosaukumus), lai izvēlētos, kāds no tiem visprecīzāk raksturo viņu vadītāju. A tips – autoritārais, B – liberālais, C – demokrātiskais un D tips – visu trīs iepriekš minēto tipu sajaukums. 1. attēlā redzams, ka respondentu atbildes attiecībā

uz vadītājam piemītošo vadīšanas stilu gandrīz vai vienmērīgi sadalās starp autoritāro (33%), demokrātisko (29%) un jauktu (32%) vadīšanas stilu, kaut gan procentuālā izteiksmē neliels pārsvars pār abiem atlikušajiem ir autoritārajam stilam. Tikai 6% respondentu sava vadītāja vadīšanas stilu varēja raksturot kā liberālu. Vienlaikus atgriežoties pie teorijas, tad kā visoptimālākais risinājums vadīšanas stilu izvēlē ir atbilstoši situācijai kombinēt autoritāro, liberālo un demokrātisko, attiecīgi tieši šim piedāvātajam D tipam (A, B un C sajaukumam) bija jābūt visbiežāk minētajam atbilžu variantam respondentu atbildēs. Iespējams tas, ka tikai 6% procenti no respondentiem varēja raksturot savu vadītāja darba stilu kā liberālu, ir signāls, ka vadītāji, izmantodami arī tā saukto situatīvo pieeju, praktiski neveic tādas darbības, kas varētu raksturot liberālo vadīšanas stilu, un tāpēc arī likumsakarīgs kļūst fakts, kāpēc vairums respondentu nevarēja minēt variantu D kā dominējošo. Tātad, kaut arī pēc teorijas ir atzīts, ka vadītājam situatīvi ir jāvariē ar dažādiem vadīšanas stiliem, pēc darbinieku uzskatiem, tomēr kāds stils netiek izmantots, vai arī kāds ir pārāk dominants, lai teiktu, ka vadītājs pielieto visu vadīšanas stilu sajaukumu.



1. attēls. **Vadītājam piemītošais un vēlamais vadīšanas stils mazo un vidējo uzņēmumu darbinieku skatījumā, Latvija, 2006. gads**

Figure 1. Existing and preferable leadership style of manager in view of employees of small and middle-sized enterprises, Latvia, year 2006

Avots: *Autores V. Kūlupas pētījuma rezultāti.*
Source: *Results of research done by the author Vizma Kūlupa.*

Lai noskaidrotu, vai darbinieki uztverē viņu vadītāja vadīšanas stilam ir ietekme uz darbinieka darba kvalitāti, anketā tika iekļauts attiecīgs jautājums. Vadīšanas stila ietekme uz darbinieku darba kvalitāti respondentu skatījumā 31% gadījumu ir vairāk pozitīva nekā negatīva, 24% – gan pozitīva, gan negatīva, 20% – vairāk negatīva nekā pozitīva, 17% – pozitīva, 9% negatīva.

Kopumā 29% respondentu uzskata, ka viņu vadītāja izvēlētajam vadīšanas stilam ir vairāk negatīva nekā pozitīva vai negatīva ietekme uz darbinieka darba kvalitāti. Būtībā tas nozīmē, ka gandrīz vai katrs trešais no aptaujātajiem darbiniekiem uztvert savu vadītāju kā traucēkli savā darbā, kā šķērslī un demotivatoru labai darba izpildei. Turklāt diezgan liels ir arī neitrāli noskaņoto respondentu skaits – 24 procenti. Kaut arī pozitīvi un vairāk pozitīvi noskaņoto skaits ir lielāks par pretēji domājošiem, tomēr tas nesasniedz pat 50% robežu. Protams, būtu nekorekti pārnest attiecīgos datus uz situāciju Latvijā kopumā, ņemot vērā pētījuma nelielo respondentu skaitu – un tomēr tas ir iemesls veikt turpmākus pētījumus, lai to noskaidrotu. Jo gadījumā, ja šāda situācija pastāv arī Latvijā kopumā, tad tā ir nopietna problēma, kurai

jāmeklē risinājums. Pirmkārt, noskaidrojot – vai patiešām vadītāju darba stilam ir negatīva ietekme uz darbinieku patieso darba kvalitāti, vai arī tas ir tikai pašu darbinieku uztverē radīts stereotips bez reāla pamatojuma. Pirmajā gadījumā tas ir sarežģīts darbs vadītājiem, kā ar savu reālo darbību mainīt un uzlabot darbinieku attieksmi, otrajā gadījumā risinājums ir vēl komplicētāks, jo jāmaina sabiedrības domas, stereotipi.

Ja aplūko respondentu atbildes (sk. 2. tabulu) atkarībā no vadītājam piemērotā vadīšanas stila (gan K. Levina modeļa, gan autores jaunizveidotās tipoloģijas), tad visoptimistiskākā situācija ir tajos gadījumos, kur respondenti sava vadītāja vadīšanas stilu identificējuši kā demokrātisku (C tips) – 89% no attiecīgajiem respondentiem vērtējot vadītāja vadīšanas stila ietekmi uz darbinieka darba kvalitāti kā pozitīvu vai vairāk pozitīvu nekā negatīvu. Otrajā vietā atstājot D tipu, kur atbildes “pozitīva” un “vairāk pozitīva nekā negatīva” veido 47%, un tam seko B tips (liberālais) ar 43 procentiem.

2. tabula
 Table 2

**Vadīšanas stila ietekme uz darbinieka darba kvalitāti
 mazo un vidējo uzņēmumu darbinieku vērtējumā, Latvija, 2006.gads**
 Leadership's styles influence on work quality of
 employees of small and middle-sized enterprises, Latvia, year 2006

Atbilžu variants/ Variant of answers	Atbilžu skaits A tipam,% /Type A,%	Atbilžu skaits B tipam,% / Type B, %	Atbilžu skaits C tipam,% / Type C, %	Atbilžu skaits D tipam,% / Type D, %	Skaitis V-S tips, % /Type V-S, %	Skaitis V-K tips, % /Type V-K,%	Skaitis V-V tips, % /Type V-K,%
Pozitīva/ Positive	2	29	27	20	28	2	7
Vairāk pozitīva, nekā negatīva/ More positive than negative	10	14	62	27	51	9	7
Gan pozitīva, gan negatīva/ Both positive and negative	24	43	8	37	16	29	53
Vairāk negatīva, nekā pozitīva/ More negative, than positive	45	14	3	10	3	44	13
Negatīva/ Negative	19	0	0	7	1	16	20
Kopējais atbilžu skaits/ Total number of answers, %	100	100	100	100	100	100	100

Avots: *Autores V. Kūlupas pētījuma rezultāti.*
 Source: *Results of research done by the author Vizma Kūlupa.*

Turpretim tikai 12% no tiem respondentiem, kuru vadītāji, izmantojot A tipa (autoritāro) vadīšanas stilu, varēja sniegt šāda veida atbildes, pretstatā tiem 64%, kuri uzskatīja, ka viņu vadītāja izmantotajam autoritārajam vadīšanas stilam ir negatīva vai vairāk negatīva nekā pozitīva ietekme uz viņu darbu. Šeit atklājas radikāli pretēji rādītāji – A tipa pakļautībā strādājošo izjūt visvairāk negatīvu ietekmi uz savu darba kvalitāti, C tipa pakļautībā – visvairāk pozitīvu. Tas nav pretrunā arī ar vadīšanas teoriju, īpaši ar motivācijas teorijām – ka cilvēki jūtas motivētāki darbojoties nevis vadītāja autoritārajā, bet gan demokrātiskajā vadībā. Arī jaunizveidotajā vadīšanas stila tipoloģijā ir pretējs atbilžu sadalījums starp atsevišķiem vadītāju tipiem. Ja “vadītāja – saimnieka” vadībā strādājošie respondenti 79% gadījumu varēja atbildēt, ka vadītāja profesionālās darbības ietekme uz viņu darba kvalitāti ir “pozitīva” vai “vairāk pozitīva nekā negatīva”, tad “vadītāja – kunga” pakļautībā esošie 60% gadījumu izvēlējušies atbildes “negatīva” vai “vairāk negatīva nekā pozitīva”.

Veicot aptauju, nedrīkst aizmirst subjektīvo faktoru, ka respondents jautājumus, kas skar personīgi viņu, var uztvert sakāpinātāk, un savās atbildēs būt maksimālāks un kategoriskāks. Tāpēc tika uzdots kontroljau-

tājums par darbinieku apmierinātību ar vadītāja profesionālo darbību uzņēmumā kopumā. Kaut arī atbildēs bija saskatāmas līdzīgas tendences ar iepriekšējo jautājumu, tomēr vērojams pozitīvo atbilžu pieaugums un negatīvo samazināšanās (sk. 3. tabulu).

3. tabula
Table 3

Mazo un vidējo uzņēmumu darbinieku apmierinātība ar vadītāja profesionālo darbību, Latvija, 2006. gads
Satisfaction of employees of small and middle-sized enterprises with professional activity of manager, Latvia, year 2006

Atbilžu variants/ Variant of answers	Atbilžu skaits A tipam, %/Type A,%	Atbilžu skaits B tipam, %/Type B,%	Atbilžu skaits C tipam, %/Type C,%	Atbilžu skaits D tipam, %/Type D,%	Skaits V-S tips, %/Type V-S,%	Skaits V-K tips, %/Type V-K,%	Skaits V-V tips, %/Type V-K,%	Kopējais /Total
Jā, pilnībā/ Yes, absolutely	10	0	27	24	25	9	20	19
Vairāk jā nekā nē/ More yes than no	14	29	54	29	48	9	27	31
Gan jā, gan nē/ Both yes and no	38	43	14	37	24	40	40	31
Vairāk nē nekā jā/ No than yes	24	14	5	7	3	29	7	13
Nē, pilnībā/ No absolutely	14	14	0	2	0	13	7	6
Kopējais atbilžu skaits/ Total number of answers	100	100	100	100	100	100	100	100

Avots: *Autores V. Kūlupas pētījuma rezultāti.*
Source: *Results of research done by the author Vizma Kūlupa.*

Pozitīvās atbildes šajā gadījumā kopā veido jau 50%, savukārt negatīvās – 19%, kas ir par 10% mazāk, kā uz iepriekšējo jautājumu. Tātad vadītāja darbība uzņēmumā kopumā tiek vērtēta pozitīvāk, nekā vadītāja darbības ietekme uz indivīdu un tā darba kvalitāti atsevišķi. To varētu izskaidrot ar iepriekš minēto subjektīvo faktoru, bet vienlaikus iespējams: tas ir signāls, ka darbinieki izjūt to, ka vadītājs ir vairāk orientēts nevis uz personālu, cilvēkresursiem, bet gan uz organizācijas mērķiem un uzdevumiem.

Līdzīgi kā iepriekšējā jautājumā visvairāk apmierināti ar sava vadītāja darbību uzņēmumā ir tie respondenti, kuri identificējuši sava vadītāja vadīšanas stilu kā demokrātisku (C tips – 81%), „vadītājs – saimnieks” – 73% un jaukta (D) tipa – 53 procenti. Interesanti šķiet rādītāji attiecībā uz vadītāja tipu „vadītājs – vagars” – ja šā vadīšanas stila ietekme uz indivīda darba kvalitāti tika vērtēta vairāk kā negatīva – 33% pret 14%, tad attiecībā uz uzņēmuma darbību kopumā ir pretēji. 47% no respondentiem ir „pilnībā” vai „vairāk jā nekā nē” apmierināti ar attiecīgā vadītāja tipa darbību uzņēmumā kopumā, un tikai 14% bija pilnībā vai daļēji neapmierināti. Attiecīgais tips varētu būt viens no izteiktākajiem, kas ir virzīts uz organizācijas mērķu sasniegšanu, nevis uz cilvēkresursiem. Šāda veida vadītāji var mērķtiecīgi un panākt uzņēmuma attīstību, bet nespēj nodrošināt ilgtermiņa attīstību un stabilitāti, ja atskatāmies uz ievadā minētās L.Gratones teorijas par cilvēkresursiem kā svarīgāko elementu uzņēmuma ilgspējīgas attīstības nodrošināšanā.

Atgriežoties pie izvirzītā uzdevuma noskaidrot, vai pastāv sakarība starp darbinieku apmierinātību ar vadītāja darbību uzņēmumā un viņuprāt vēlamā vadīšanas stila esamību vadītāja profesionālajā darbībā

diemžēl, ņemot vērā ierobežoto datu apjomu un veidolu, nebija iespējams noteikt korelācijas koeficientu, kas raksturotu, cik cieša ir šī sakarība. Tomēr, pat bez tā, attiecīgā pētījuma robežās var identificēt sekojošas sakarības iezīmes. 56 gadījumos no 127 respondentu vēlamais vadīšanas stils sakrīt ar viņuprāt vadītājam faktiski piemītošo – 72% no šiem 56 gadījumiem – darbinieki pauda viedokli, ka ir „jā pilnībā” vai „vairāk jā, nekā nē” apmierināti. Turpretim atlikušajos 71 gadījumā, kuros vēlamais vadīšanas stils nesakrīt ar faktisko – tikai 9% pauda savu apmierinātību ar vadītāja darbību uzņēmumā, pretēji tiem 59 procentiem, kas atbildēja „nē pilnībā” vai „vairāk nē, nekā jā”, 32% izvēlējās neitrālu atbildi „gan jā, gan nē”. Līdzīgi situācija veidojās attiecībā uz vadīšanas stila ietekmi uz respondenta darba kvalitāti, gadījumos, kad faktiskais un vēlamais vadīšanas stils sakrīt, respondenti biežāk varēja atbildēt, ka vadītāja izvēlētajam darba stilam ir pozitīva ietekme uz viņu darba kvalitāti.

Secinājumi Conclusions

- Ja faktiskais vadīšanas stils sakrīt ar darbinieka uztverē vēlamo, darbinieks ir vairāk apmierināts ar vadītāja darbību uzņēmumā kopumā un jūt pozitīvāku ietekmi uz sava darba kvalitāti.
- Respondenti vadītāju profesionālajā darbībā saskata līdz šim vadībzinībās izplatīto vadīšanas stilu aprakstos neiekļautas pazīmes, nosacīti savā attieksmē veidojot trīs jaunu vadīšanas stilu tipus – „vadītājs – saimnieks”, „vadītājs – kungs”, „vadītājs – vagars”.
- Darbinieku uztverē visvēlamākie vadīšanas stili no K. Levina un jaunizveidotās tipoloģijām ir „demokrātiskais” un „vadītājs – saimnieks”

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AGRI-PRODUCER GROUP AS A FIRM – PLANNING, ORGANISATION AND FINANCING OF OPERATIONS

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Abstract

Complexity of phenomena of group operations arises interest of scientists, who are constantly seeking the answer to a question which teams are the most productive, what are the attributes of a good team leader and how should a team be organised to act effectively. An outlook on farmer group as a form of organised activity on the basis of the *Act on agri-producer groups and their unions* dated 15 September 2000 may prove insufficient under conditions of market competition. This outlook should be further developed to involve the needs of a group as a market subject of a firm/enterprise type (manufacturer/service provider) which has the analogous needs and chances. A group as a producer team operating in agriculture reveals features of an enterprise, which must be considered while planning its activity, starting from preparation of an office, engaging employees, gathering the property, writing the statute, electing the leader and planning finances. A group has many attributes characteristic of a firm.

While seeking analogies between a group and a firm (enterprise) the article will present a theoretical analysis of selected tasks realized by producer groups, such as: organisation of its office, members' assemblies, distribution of tasks, staff employment, creating the statute and authority in the group, election of group leader, planning and financing the group operations.

Nowadays efficient operation requires planning and strategy. It is not enough to form agri-producer groups, they should be also skilfully managed. Operations modelled on private businesses which are competitive towards producer groups seems reasonable and possible to apply in practice. Farmers who plan to co-operate should realise that the group itself is not a sign of a market success. Only common involvement of its members would produce results. In producer group, like in every business it is necessary to predict, plan and work.

Keywords: agri-producer group as a firm, elements of firm operation, name, statute and financing of group

Introduction

Formation of producer groups has been promoted in Poland for several years. Undoubtedly they bring profit to the farmers, but the integration process as such is quite complicated and requires not only farmer convincement to its economic outcomes but also overcoming the unwillingness to give up activities pursued single handed in favour of group operations (as reported among others by: Halicka E. and Rejman K. 2000, Krzyżanowska K. 2006, Pondel H. and Słodowa-Hełpa M. 2002, Szulc R., 2006, Prus P. 2006).

Apart from activities carried out according to the Law on Agri-producer Groups and their unions of 15 September 2000, a group like an enterprise, requires organisation and planning considering its statute and overall objectives. A group should be skilfully steered in order to avoid e.g. unnecessary member-leader or member-member conflicts which would lead to worse efficiency. The key issue in a group success is the cooperation conditioned by a common goal and proper share of responsibilities. The group leader plays a special role because he leads the group to the assumed goal in cooperation with the group members (the leader is most often elected from among the group members/producers). The look at a farmer group only as at an organized form of activity according to the *Act on agri-producer groups...* may prove insufficient in conditions of market competition. The outlook should be enlarged to comprise the rules observed in their operations by competitors (manufacturers or service providing firms). Aiming at

full market oriented economy one should not forget the new, interesting properties of enterprises, such as brand name or *goodwill*¹, which in recent years have belonged to the most expensive and important assets of companies in the US, which may also become producer groups. On the other hand, considering the rules of companies' intellectual property protection in the European Union, attention should be paid to the name of the firm (group) as the element protecting against dishonest competition.

The essence of producer group (producer group versus other economic entities)

The term "agri-producer group" has been in use in Poland according to the Law on Agri-producer Groups and their unions of 15 September 2000 and amendment to other acts (JOL 2000, No. 88, item.983 with later amendments). The term "producer group" does not denote any actual legal form but refers to an organisation, whose main objective is marketing products manufactured on members' farms. The rules governing producer group operations allow to pay out all surpluses proportionately to the degree in which the group services are utilised but not to the invested capital. Therefore, agri-producer groups distinguish themselves among the other kinds of economic organisations by their organisational structure and form. The groups are formed by agri-producers in order to conduct economic activities. Such group operates on the market among other economic entities, therefore it is the subject to the same economic rules, competes for sale markets with various commercial enterprises, both Polish and foreign. Like other economic entities, an agri-producer group needs:

- well-educated, involved and creative managing staff,
- correct planning and control of attained goals (realised tasks),
- detailed market analysis,
- proper funding.

Agri-producer groups differ from other commercial enterprises in many aspects. The group is a private enterprise, a property of individual producers, who have joined it and steer its operations (determine the objectives, vote, conclude member contracts or agreements inside the group).

On the other hand, a firm in its primary meaning is a business name and on the other – an element of an enterprise of a definite economic value. A firm is protected by regulations of the civil law, regulation about company intellectual property protection, regulations on fighting market competition, etc. In market economy none entity (including an agri-producer group) can act anonymously, therefore a well designed identification system becomes fixed in the social awareness (p.11 Klapczyńska M. 2004). Brands of organisations (agri-producer groups) constitute non-material goods which significantly contribute to firm's success by creating and establishing its image. One may venture an opinion that a producer group is a specific *reserve of non-material values*, originating from the co-existence and cooperation of its members (apart from property the members bring also their knowledge and experience).

Aim and method of studies

While seeking analogies between a group and a firm (enterprise) the article will present a theoretical analysis of selected tasks realized by producer groups, such as: organisation of its office, members' assemblies, distribution of tasks, staff employment, creating the statute and authority in the group, election of group leader, planning and financing the group operations.

The issue of agri-producer groups' organization as enterprises has not been addressed so far by other authors, therefore no references are available. The described analogy is a different approach to the problem.

The assumed goals mentioned above will be realised using author's own observations made while studying producer groups in the Malopolskie province [2006] and the opinions of National Cooperative Council based on the project "Promotion of agri-producer group formation", basing on Polish and European Union practice. The applied method is based on observation and qualitative and theoretical in character, i.e. no cause-and-result analysis of economic results was used. The article suggested organizational problems which producer groups may face and which may provide a starting point for further research aiming at economic-and statistical analyses.

¹ *Goodwill* – "the value of a business to a purchaser" according to the Law on accountancy denotes „a difference between the purchasing price of a unit or its organized part and lower honest value of taken over net assets “.

For the benefit of the article the terms *firm* and *producer group* have been used synonymously, on the basis of Civil Code and *Act on agri-producer groups and their unions* of 15 September 2000.

A producer group meets the requirement to be a firm, since according to the Civil Code “firm as a name can be used only by enterprises defined in article 43 of the Civil Code as “*entrepreneur is a physical or legal person and organisational unit carrying on economic or professional activity in his own name*” and according to the above mentioned *Act...* of 15 September 2000 a group must carry out its activities as “*an entrepreneur who has a legal personality*”.

It is not enough to create agri-producer groups, they should be also skilfully managed. Activities modelled after private-competitive entities seem reasonable for producer groups and possible to apply in practice. Farmers who plan to co-operate should realise that the group itself is not a signboard and a guaranty of a market success. Only joint involvement of its members would produce results. In producer group, like in every other business it is necessary to predict, plan and work.

Realisation of day-to-day producer tasks Office and property of the group

Many groups do not attach proper importance to having their proper offices and a signboard with the firm’s name, whereas a firm which does not have its office, signboard or telephone number in the phonebook is not perceived as a serious or reliable. Therefore proper headquarters, information board, widely advertised telephone and fax number and e-mail address are crucial. Group advertisement is also important, as well as information leaflets presenting the group commercial offer and business cards provided for the groups’ representatives. It is neither a complicated nor expensive procedure but it improves a general and our potential business partners’ opinion about the firm. Producer groups may seek either cheap or even free office facilities in their immediate surroundings, i.e. in the municipality office or cooperative, or even in an apartment of a group member. Studies conducted in the Grodzisko municipality reveal that the members were using common cold storage facilities, whereas fruit growers associated in a producer group at Łososina Dolna used a common storage facility located at the Michalczowa village.

There is a similar problem with the group property, which must answer the needs of the realised tasks. There are few groups which have their own property, however its possession is crucial for efficient operation on the market. This is true particularly for the groups which must prepare their products for marketing, like e.g. potato producers. There is no need to construct new facilities, since these may be rented. There are quite numerous abandoned facilities, for example in cooperatives, which could be easily adapted for the group’s needs and furnished with necessary equipment.

Group employees

The producer group management is among others responsible for planning and realisation of activities and settling external accounts. Its is of key importance for the group that the management should develop a system of constant monitoring and control of the activities, including financial operations.

Observance of the following rules may contribute to an efficient management:

- regular meetings of the managing staff on fixed days of the month or week at fixed hour and always in the same place;
- topics for discussion prepared well in advance;
- ongoing dissemination of information among the group members about current and planned activities and necessary funding;
- a person in control of day-to day group activities should always participate in the meetings (unless this is one of the managing staff);
- minutes of all meetings should be prepared and conclusions and recommendations should be passed to respective persons or organs for realisation.

The producer group management authorizes one of the members to steer the day-to-day activities of the group. Any group member who is prepared to fulfil this function may do it, or an external manager may be employed. Such person may sign a full time or part time contract. A group may also choose

another solution often observed in west European countries, i.e. entrust the function of their commercial representative to a firm of experts.

Apart from the manager another important position in the office is an administrative officer, i.e. a secretary, accountant or just office employee. Such person may work full or part time. Their responsibilities should comprise:

- business correspondence
- organisation of managing board meetings and general assemblies, preparation of the necessary documentation and information materials for the meetings;
- taking minutes of the meetings, dissemination of the information and conclusions among the group members,
- keeping cash, preparation and gathering of all financial documents.

Apart from the above mentioned positions which greatly improve the group efficiency, also other persons may be employed according to needs and financial possibilities of the group.

In their initial period of operation producer groups usually do not employ staff but at this time proper organisation of accounting and legal support to the group are of crucial importance.

Internal regulation within a producer group

Activities in a group base on common decision making. It is a natural phenomenon in a democracy that individuals – group members have different opinions about the same subject. Despite these differences an efficient and effective decisions undertaken according to the majority's will but with respect to a minority is necessary. To make it possible it is crucial that all group members develop and accept explicitly defined procedures of each decision taking. Rules of Procedure accepted by the general assembly and signed by all members should contain all precisely formulated rules of group functioning and internal cooperation. The document is not registered but constitutes an internal set of rules governing the group operations and refers to all spheres of its activity.

The basic regulations which should be accepted by each producer group comprise agreements/contracts for members, procedures of general assembly and other statutory organs, as well as rules governing the election of group leaders.

Moreover, depending on the activities conducted by a group, also other set of rules should be passed, such as: rules of joint utilisation of machinery and equipment, investment financing or rules of preparing and marking products for storing in the group common storage facilities.

Authority in a group

The most desired form of leadership in a democratically managed group is so called shared leadership where each group member feels responsible for the group and the effects of its operations and at the moment of realisation of the appointed task becomes the group leader in this particular area. The more group members share the leadership function, the better they are motivated and more ready for coherent activities while their jointly taken decision are sounder.

In a producer group its management plays the main role in organisation of its work and securing its activities. True leaders should be elected to the group management because this body steers the day-to-day group activities, represents it outside and takes all most important decisions not reserved for the other bodies.

The management must take all crucial decisions after consultation with all group members. Full support of the group members is extremely important, as well as their involvement in the group work, according to the rule of shared leadership.

The role of a leader

The leader is a person who was entrusted with the care of leadership functions in the group. A good leader is a person able to analyze a situation properly and suggest the right way to the goal, as well as distribute the responsibilities in such a way that the achievement is credited to all group members.

The leader may fulfil many functions in a group: coordinate its activities, be its ideologist, set its objectives and policy, represent the group outside, be its arbiter and mediator, control the inter-group relations, grant awards or impose penalties. The basic factors determining the kind of leader a group needs and his/her necessary skills include: the kind of group and situation requirements.

If the atmosphere in the group is strained - a mediator is necessary, if attainment of the set goal is the most important, the group needs a person who will know the way to do it, if a group is breaking up, a leader able to bring the members together is necessary. The Author's studies (2006) show that in the opinion of farmers from the Malopolska region, who are producer group members, the desirable features which a leader should have include: loyalty towards group members, firmness, responsibility and competence. On the other hand the most important selection criteria comprised initiative and skills.

The success of group activities to a great extent depends on entrusting of leadership to a proper person but creative involvement of all group members is equally important. The skills necessary for group members and their leaders may be acquired though proper trainings in organisation and management.

Planning activities of the group

Each producer group which prepares to undertake operations or initiating actual activities should plan them properly. Optimism and belief in success which are usually a characteristic of entities undertaking economic activities, are very important and even indispensable but insufficient to achieve the assumed final objectives. Achieving a success on the market requires adjustment of the methods of work, organisation and management to market economy requirements. Group members must decide 1. what they want to do, 2, how they want to do it, 3. what they have at their disposal, 4. what they lack. They must also determine precisely all material financial and human resources essential for realisation of objectives set.

Planning, especially of finances is not a strong point of the majority of groups, but it is important because by planning farmers can:

- make sure that the final effect would satisfy them,
- assist the management in day-to-day administration
- help to set the directions for further development of their group.

Having a plan also facilitates representing the group outside by e.g. its commercial partners, credit providers, etc. While developing a plan one must remember that it should be real, concrete, complete, flexible and adjusted to current possibilities. Preparing a plan the group must remember that they will realise it in the first place for their own benefit and it should help them in efficient operations. The plan may be developed by the members themselves or by external experts.

Funding agri-producer groups

Funding the group at the beginning of its activities must be in compliance with the statutory regulations accepted by members-producers (if a cooperative is formed) and in compliance with the provisions of agreement (if a limited liability company agreement is signed).

The members founders bring in capital. These funds may comprise:

- Members' registration fees

In a cooperative members pay non-refundable registration fees. New members may be expected to pay higher registration fees, because of the advantages of joining the organisation already in existence. Fixing a new value of registration fee requires amendment to the statute. It allows to recompense the members for their former efforts, risk and invested funds.

- Members shares

Members' shares in a cooperative and shares in limited liability company, although contributed according to different rules, provide a source of funding for the group in the initial period of its activities. In both cases the members-founders or partners (ltd company) determine the number, amount and, in case of ltd company, also the form in which shares should be contributed.

The amount of founding capital in case of limited liability company has been defined in the Code of Commercial Companies (CCC) and cannot be lower than 50 000 zloties, while the value of the share

contributed by a member accessing to a cooperative is determined by the members themselves. Member shares are refundable if a member leaves the cooperative in compliance with rules determined in the statute and cooperative law. Person leaving a company sells his/her shares. These funds should be also refunded at the moment when membership in the group terminates. In the case of group liquidation it may be necessary to refund the shares at a value lower than the initially contributed, especially when there is a deficiency in funds.

– **Loans from group members**

A loan granted by a producer group member to the group should be returned after the agreed period of time and may be repaid together with the interest due.

A group should be perceived as prolonged economic activity. The group members should derive profits from their membership proportionately to their turnover or the extent to which they use the services, but not through financial investments.

If in a later period members declare that the degree of group utilisation is greater or smaller than the initially declared, the financing may be adequately matched on an annual basis (i.e. for the earlier period of time). However, the most important commitment of a producer group member is declaring a product of specified quality. This is usually mentioned among the terms of membership agreement.

– **Funding from other sources**

Producer groups should be primarily financed by their members. Producers are more willing to support their own group when it is financed from their own funds. However, the group may also incur a credit in a bank to finance part of its capital investments or working capital. The amount of credit, which a group incurs should not exceed the value of members' own funds.

Each bank individually establishes the terms of credits. Banks usually require the following documents:

- Business plan
- Collateral in case the credit could not be repaid
- Precisely determined declared amount of own funds (or the product amount).

Banks require credit repayment with the interest due at the date stated in the credit agreement. Assistance programmes are launched in order to stimulate the development of new economic enterprises by producer groups. First it is necessary to gather information on the programmes which offer such assistance and then learn the eligibility criteria to decide whether the group may apply for funding.

The problems of financing the initial group operations should be discussed in detail with its members-founders, to make clear their responsibilities even before the group starts its activities. It should be emphasized that members' investments should be proportional both to the extent in which they utilise the services provided by the group and its facilities and equipment.

– **Financing of ongoing activities**

At the moment when producer group starts its activities the number of possibilities of financing its operation grows. The group should agree to accept new members, particularly in case when the delivery contracts exceed the available amounts of products, declared by its members.

Accepting new members will increase the income from registration fees, shareholders' capital and potential loans². The group may require higher financial outlays from new members (on the basis of passed resolutions) than from the members-founders because of increase in capital investments since the moment of group formation. The former members may be expected to increase the degree of their financing if new investments are undertaken.

– **Annual fees**

Producer groups should be financed mainly by their members, by initial capital (registration fees and shares), loans or retained surplus (reserves). The group operational costs provide a basis to calculate membership fees (margin). Operational fee from the turnover is computed from the price for products sold on behalf of the group members, or as a cost per tonne (or similar measure). Operational fees are usually determined annually and included in the membership agreements or their amendments. These are initial fees, which may be adjusted to actual costs by the end of the year. Operational fee is calculated so as to allow covering the costs of activities conducted during the whole year, including costs of transport, telephones, staff and management salaries, storage costs, interest rate payment, etc. It is important that

² Over a longer time period it is better to admit new members manufacturing the desired products or encourage the hitherto existing members to change their production strategy

the amount of fees is based on detailed forecast (including the reserves allocated for unrecoverable liabilities) and considering *force majeure*.

If a producer group decides to increase its capital reserves, they should be allocated to its members according to their sale by the group in individual years, after making all payments for funds and other aims, as stated by the internal regulations.

If the operational fee was established on a too low level, additional payments may be imposed by the group on its members, proportionately to their sales. However, a much better situation may happen when by the end of the year cash is returned to the producer group members instead of requiring additional payments.

Summing up and conclusions

Legal regulations of producer group formation are guidelines for establishing and financing of agri-producer groups. The future of producer groups involves not only their potential members' willingness to cooperate but above all teamwork and good organisation.

The Author's own observations show that a producer group not only fulfils legal requirements for an enterprise but also needs "a business approach", therefore in the first place it must:

1. Organize and skilfully use its common property (storage facilities, utility buildings, offices, etc.) using opportunities to rent them or lease.
2. Form work teams composed of various job positions (leader, management board, secretariat, producers and auxiliary employees) adjusted to the number of group members.
3. Develop its own internal group regulations, plan of meetings, as well as long- and short-term operational strategy.
4. Prepare the group financing system on the basis of available sources of own and external capital.

It is important to realize that founding a group is not enough, since it should be treated like a firm, therefore it will be necessary to design a signboard, find facilities, staff, elect a leader and provide the sources of finance. Producer groups currently operating on the market face the problems discussed in the article, which may determine their success. Practical guidelines may be helpful to improve the efficiency of group activities, on condition that the members constantly follow the changes and implement them in their everyday activity.

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THE FORMS, SCOPE AND EFFECTS OF THE FINANCIAL SUPPORT OF INVESTMENTS IN THE POLISH AGRICULTURE IN 1990 – 2004

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Abstract

The aim of the paper is to examine the scope, forms, and effects of the main financial support schemes that were provided to the Polish agriculture in the period 1990-2004.

The studies of performance and effects of two main support program for the Polish farmers showed that the scale of intervention in Poland during the transition was very high. The cost of intervention especially of the system of preferential credits was amounted at 2,000,000 Euro in 1994-2004. The influence of support on the micro-level (farm level) was positive, but at macro-level seemed rather disputable.

Key words: preferential credits. SAPARD, agricultural policy

Introduction

During the last 17 years, the Polish agriculture tried to deal with three great challenges. The first challenge was connected with introduction the market economy in 1990, the second appeared in the mid of 90ties with the real perspectives of joining the European Union, the third, of universal and permanent character, is the process of globalization. Every mentioned challenge had its own dimensions and problems to sort out so every one needed different approach of agricultural policy.

To help the Polish agriculture to response to the challenges successfully, the different measures of support were introduced, mainly of economic character. They were of internal or foreign origin, carried by state or private agents. They act simultaneously. It is necessary to mention that the first two challenges were treated as priorities. The third one, although noticed, remains still rather in the phase of academic discussion.

The aim of the paper is to examine the scope, forms, and effects of the main financial support schemes that were provided to the Polish agriculture in the period 1990-2004, since the beginning of the transformation to market economy up to joining the EU.

The main task of the analysis is to show the scale of that intervention and its results. The comparison of effects of two different forms of financial support with cost gives the basis to the evaluation of efficiency of that kind support. The conclusions help in better understanding and recognition the possibilities and shortages of the different forms of financial support. The conclusions could be helpful by designing and implementing new instruments of agricultural policy.

Materials and methods

In analysis some sources of data and information are used. The Agency for Restructuring and Modernization of Agriculture and The Central Statistical Office of Poland are the main sources of data. The descriptive method with elements of comparative one is the main method. It is supported by statistical method of analysis.

The analysis starts with characteristic the situation of the Polish agriculture at the beginning of the transition. It is followed by the description of the some main schemes of financial support the farms introduced to help them: (i) to overcome the disadvantage of the transformation (ii) to accelerate broad restructuring of agriculture, (iii) to adjust to requirements of operation on common market of the EU. In the third part, the effects and costs of the schemes are under discussion. In conclusions the evaluation of efficiency of the financial support is carried out.

The characteristics of the Polish agriculture and its role in economy at the beginning of 90ties

In the planned economy the role of agriculture in the Polish economy was important (Table 1) Its share in GDP was more than 10%, its share in employment was much greater - more than 25% of workers were employed in agriculture. About 40% population lived in rural areas and was connected with agriculture with many various kinds of links. The main indicators about the share in GDP, employment were some times higher in comparison with the indicators in countries - members of European Union. It signals the size of the distance between the Polish economy and the economy of the EU members.

Table 1

The place of agriculture in the Polish economy at the beginning of transition

Specifications	1989	1993
Population in rural areas (% of total)	38.4	38.2
Persons employed in agriculture and hunting (%)	26.4	25.7
GDP in agriculture (%)	11.8	6.4
Agricultural land area ('000 ha)	18 727	18 642
Of which private farms	14 274	14 602
Share of agriculture, hunting, forestry in total investment outlays (current prices) (%)	14.1	6.8
Share of live animals, animal and vegetable products in export (%)	4.1	3.4

Source: GUS, Statistical Yearbook of the Republic of Poland 1991, 1994.

Table 2

Trends and the major economic and production results in the Polish agriculture in the 1989 and 1993 (only private farms)

Specifications	1989	1993
Private farms exceeding 1 ha of agricultural land	2,143,000	2,149,000
Private farms by area groups (%)	100	100
1.01 – 4.99	52.8	53.2
5.00 – 9.99	29.8	29.6
10.00 – 14.99	11.3	11.2
15 ha and more	6.1	6.0
Average total farm area (ha)	7.2	7.1
Tractors per 100 ha of agricultural land (units)	6.9	7.2
Consumption of artificial fertilizers in terms of pure ingredients per 1 ha of agricultural land (kg)	168	61
Protein feed sales per large head (dt)	3.0	1.9
Yields of basic cereals per ha (dt)	32.7	27.0
Production of milk per cow (l)	3 156	3 024
Price relations ("price gap") of sold agricultural products to goods and services purchased by private farms (1990=100)	125.6	84.0
Agricultural income (1989=100)	100	43

Source: GUS, Statistical Yearbook of the Republic of Poland 1990, 1991, 1994

Data about the situation in agriculture (Table 2) show, how far the Polish agriculture was behind the agriculture well developed European countries at the beginning of the transition. The special attention ought to be paid to changes in incomes and levels of inputs of current means of production. They illustrate the first effects of market rules for agriculture. The specific feature of the Polish agriculture in communistic period was the presence and the domination of private sector. It was a positive aspect of the Polish agriculture. But the private farms were generally small and bad technically equipped. During the planned economy

they had problems with buying working capital and fixed capital because of characteristic for communistic countries permanent shortage of goods, which is analyzed in famous works of Kornai (Kornai 1980, 1982). As a consequence, farms' productivity was small (Table 2) comparing with the results of farms in well-developed market economies in Europe. What is more, it decreased at the beginning of transition.

These data indicate dimensions and the scale of problems connected with restructuring of agriculture, which the Polish economy faced at the beginning of transformation into market economy.

The system of financial support the modernization and restructuring of farms

Although, the large private sector existed in the Polish agriculture during the communistic period the adjustment of that sector to market economy was very difficult. It was due to structure of the farms as well as to changes in whole agrifood sector and microenvironment. After the some years of market economy it was clear, that the decrease in incomes and in investments and lack of changes in farm structure were urgent problems, especially in the context of planned accession to the European Union formally expressed in Athens 8 April 1994 by official application for membership in the UE. The modest attempts to solve the problem, which were undertaken during some first years of new economy, were replaced in 1994 by quite well organised and complex system of support the restructuring and modernisation of the agriculture. The credit was chosen as a main tool of intervention. It is worth to mention that other post communistic countries used this instrument in their agricultural policy too (Chrastinova 1999, Silar and Doucha 1999, Ulrich, 1999).

The structure of the preferential credit system

The system of the preferential credit has involved the special state agency, commercial and cooperative banks, Advisory Centres for Agriculture and regulations about relations between the three elements and the terms of granting and repayment of credits and other measures.

The state agency - The Agency for Restructuring and Modernisation of Agriculture (ARMA) was established in the end of 1993 as the leading element of credit support system. It is responsible for the management of that support¹. The list of official aims of Agency at the beginning of its operating was not long, but it included the aims, that were relevant to the most important and strategic problems of the Polish agriculture, like investments in agriculture and food industry, providing services to agriculture, improvement the agrarian structure, creating new non-farming jobs in rural areas, development of rural infrastructure. In the following years the scope of aims were widened.

The Agency executes its tasks in this area through:

- subsidies to interest on credits granted by banks;
- financing or co-financing particular projects;
- bank guarantees and collateral security for bank credits and loans.

The Agency activity is mainly financed by state budget. The interest on bank deposits, credits, foreign financial support and others are additional sources but of decreasing importance.

Banks are the other important element of that system. The banks that are interested in allowing preferential credits make contracts for it with the ARMA. The contracts concern procedures, rules of control, and limits of subsidies for their disposal. It is worth to highlight, that banks allow credits on their own risk and from their own resources. In 1995, 28 commercial banks and nearly 600 cooperative banks cooperated with agency, in 2004 - 17 commercial ones plus cooperatives banks. The cooperative banks play the main role in granting credits. Their share in farmers' debt due to preferential credits was in 2004 at 63% (Bilansowe 2005). The number of involved banks (especially of cooperative ones) suggests that the farmers have rather easy access to the information about possibilities to get preferential credits and that the transaction costs connected with the distance to the bank are not high.

The Advisory Centres for Agriculture evaluate the investment project that farmers want to finance with preferential credits. Moreover, the Centres' control the realisation of the larger investment projects.

¹ The credit support system will has operated till April 2004

The targets, scope and main rules of the functioning of the system are introduced and changed by acts of Parliament, the terms of credit support are ruled by the Ordinances of Council of Ministers and Regulations of The President of the ARMA. They describe kinds of investment credit lines and the terms of the support for farmers or the other economic agents.

The form and scope of credit support

The preferential credits are granted in the framework of so called lines of credits. The lines differ mainly by purpose and the level of subsidies. Number of these investment credits lines was changed very often, from 4 ones at the beginning to 46 ones in the end of 1997. In 2004, credits from 13 investment credit lines were available. Many credit lines of rather small importance (branch and regional) were shut in 1998 (for example during three years of working of regional credit lines in the frame of 27 of these lines only 1007 credits were allowed). The three most important and popular lines (basic investment credits, credits for land purchase, and credits to young farmers) have worked since 1995 continuously.

The preferential character of the credits relies on subsidies to interest rate, grace period for repayment, low farmers' own contribution in financing of the investment, and quite long maturity. Detailed information about preferences that are used in the main credit lines, are presented in Table 3.

Table 3

The terms of preferential credits offered to farmers in the frame of the main credit lines

The credit line	Interest rate paid by farmers ¹	Grace period for repayment (years)	Farmer's contribution in the financing of the investment (%)	Maturity (years)
Basic investment credits	1/2 of bank interest rate min 3%	2	20-30	8
Credits for land purchasing	1/4 of central bank discount rate min 1.2%	2	20-30	15
Credits to young farmers	1/4 of central bank discount rate min. 1.2%	2	20-30	15
Branch credits	0.75x1.3 central bank discount rate min 2%	2	20-30	8-15

¹ the minimal levels of interest rates were introduced in 2001 as result of reduction the central bank rates

Source: Own comparison based on Ordering of Council of Ministers and The Regulation of The President of the ARMA

As data show the terms of preferential credits are very advantageous for farmers in comparison with market terms. The difference was especially high in some first years of functioning of the system when the nominal market interest rates were very high, about 20-30% and banks because of risk were not interested in granting credits with long period of repayment.

In the literature concerning subsidised credits, the problem of fungibility is signalled (Kulawik1999, Von Pischke 2001). Kulawik responses to fungibility that rely on the spending money for financing other target, than farmer declared. Von Pischke indicates the more subtle form of the fungibility. It takes place when farmer substitutes the own financial means by preferential credits he can take. The prevention against the first kind of fungibility is much more simply than against the second one. In the Polish credit system farmers have to substantiate the expenditures. Additionally, the aforementioned visits of officers of Advisors Centres act against this problem. What is more, farmers who used credits in the improper way have to pay subsidies back. The problem of fungibility described by Von Pischke is not solved, on the contrary, banks grant credits more eager to clients whose financial situation is good.

Delays in repayment or defaults are the other problems signalled by many authors (Yanbykh 2001, Von Pischke 2001, and Van Empel 2001). To avoid it, regulation concerned repayment credit in time has

been introduced. It says that farmers, who delay with repayment, lose the right to preferential interest rate. That remedy is very effective. As data show, the farmers are very reliable debtors. The share of irregular claims in the debts of individual farmers in cooperative banks was in 2003 at 3% level in the next year decreased to 2% (Summary Evaluation 2004, 2005).

The support of adjustment to requirements of operation on common market of the EU

The credit support system was generally aimed for restructuring and modernisation of farms. But the expected accession to UE required adjustment to requirements connected with operation on common market of the EU. That problem concerned the agriculture of many countries, which aspired to join the EU. To help them, at the end of 90ties *The Special Accession Programme for Agriculture and Rural Development (SAPARD)* was established by European Commission. It was aimed to 10 countries – candidates to EU.

In Poland officially that program started in October of 2000 when European Commission ratified prepared by Ministry of Agriculture *The Operational Program SAPARD*. Its realization begun two years later. The ARMA performed the role of SAPARD agency – paying end-implementing agency. The support was financed by UE and state budget.

The SAPARD involved 7 measures. One of them – Measure 2 - Investments in Agricultural Holdings – was aimed directly to farmers. It should have supported the modernization of farms and helped them to adjust the production conditions to requirements of *acquis communautaire*. That measure involved 3 schemes:

Scheme 2.1. – restructuring of milk production

Scheme 2.2. – modernization of farm that specialize in animal production (cattle, pigs, sheep, poultry)

Scheme 2.3. – development of production diversification in farms.

The support was given in the form of subsidy to investment costs. The maximum rate of aid was 50% of eligible costs. The grant could not exceed 170 000 PLN². The farmers got subsidy after realization the investment.

The farmers could be the beneficiaries of aid under some conditions concerning the age (less than 55 years) and professional qualifications (level of education or experience in farming). The formal requirement about the different kind of documents of planned investment were very strict and the way of evaluation of applications was long and complicated in opinion of farmers (Kania 2003)

The effects and costs of the schemes

The evaluation of the effects of the both support systems is not easy because of their vast range dimensions: economic, social and political and many economic agents involving in that system. The estimation and the evaluation of the total effects in different fields are out of the scope of this analysis³. The investigation focuses on their results for restructuring of agriculture so the scale of support, its influence on agricultural indicators and the cost of running the system must be taken under consideration.

During the period 1994-2004 more than 300 thousands of preferential credits were granted. Taking into consideration the fact that one farm could take some investment preferential credits and assuming that average farm using the preferential investment credits took 1.4 preferential credits⁴, it can be estimated that about 20-25% market oriented farms were beneficiaries of preferential credits system. The total value of preferential credits was quite high – about EUR 5,000,000,000. The total value of investment financed by preferential credits was higher about EUR 7,000,000,000 as farmers had to participate in financing the investment. Petrick indicate one more important feature of credit support. His findings suggest that the Polish farmers make their investment decisions conditional on the availability of subsidised credits (Petrick 2004).

The results of SAPARD in comparison with the effects of credit system were modest, taking into consideration the number of farms that took part in that program. Of course it was due to the period of operating and other aims and scope of that program. Only about 13700 farms got the support. It is about

² about 40 000 EURO

³ The analysis of different results of preferential credit system in Poland is carried in (Danilowska 2005), in Central and Eastern Europe in (Swinnen and Gow 1997).

⁴ on the base of author's investigation (Danilowska 2005)

1,5% market oriented farms. The value of investments supported by the program can be estimated at EUR 400,000,000. It is important, that farmers, who realised the investments, prepared their farms to carry activity according to requirements of EU. Additionally, the experiences of farmers in applying for offered support can be treated as the non-countable advantage of the SAPARD.

Table 4

The effects and costs of farm investment support

Specifications	The credit support system	SAPARD (Measure 2)
The number of accepted applications	301,397	13,742
Value of credits or subsidies '000 zł	20,788,090 ¹	636,540
Value of investment '000 zł	31,936,086 ^{1,2}	~1,300,000
Cost of intervention in 1994-2004 ³ '000 zł	7,827,602 ¹	636,540

¹ prices in 2004=100

² in 1994-2003, the share of credits value in the value of planned investments was about 65%

³ without the cost of management by ARMA

Source: Annual Reports on Activity of the ARMA 1995-2005, Informacja o realizacji programu SAPARD wg stanu na dzień 30.11.2006, System Informacji Zarządczej ARiMR, www.arimr.gov.pl

The running the support programs requires the every year budget expenditures. They depend on the scale, scope and terms of support. The cost of support consists of amount subsidies and the cost of management. The analysis of the sum of every year expenditures connected to the programs shows that the cost is rather high. The relation of the cost of subsidies to the interest rates of investment credits to value of granted credits in the period 1994-2004 is estimated at 38%. Because of long period of repayment, the subsidies will be paid many years after end of the system⁵ and charge of the state budget. It is very difficulty to estimate the cost in the future because it is linked to the central bank interest rate, which changes very often. From that perspective, the single payment like it was used in SAPARD can be more profitable solution.

During the 15 years of market economy the role of agriculture in economy changed noticeably. In 2004, the share of agriculture in GDP decreased nearly 3 times to 4,5%, in the employment went down about 40%, in investment outlays decreased about 6 times. But those processes were generally results of transformation in non-agricultural sectors the economy, which developed quickly, especially in the mid of nineties.

Table 5

The major economic and production results in the Polish agriculture in 2004(only private farms)

Specifications	2004	2004 1989=100	2004 1993=100
Private farms exceeding 1 ha of agricultural land	1,852,000	86.4	86.2
Farms structure by area of agricultural land (%)			
1.01 – 4.99	58.2	110.2	109.4
5.00 – 9.99	21.8	73.15	73.6
10.00 – 14.99	9.6	85.0	85.7
15 ha and more	10.4	170.5	173.3
Average total farm area (ha)	8.4	137.7	140.0
Tractors per 100 ha of agricultural land (units)	9.1	126.4	126.4
Consumption of artificial fertilizers in terms of pure ingredients per 1 ha of agricultural land (kg)	91.9	54.7	150.7
Yields of basic cereals per ha (dt)	35.5	108.6	131.5
Production of milk per cow (l)	3984	126.2	131.7
Price relations ("price gap") of sold agricultural products to goods and services purchased by private farms		32.5	78.2

Source: GUS, Statistical Yearbook of the Republic of Poland 1990, 1991, 1994, 2005 and own calculation on these data

⁵ About 20 years

The changes inside of the agricultural sector took place, too. Of course, they were an effect of many factors, not only the two programs. The undertaken investments influenced the agricultural land structure, resources of capital and technology of production. After 11 years of running credit support system in agriculture the changes in number of farms and in area structure appeared. The decrease in the number of farms is positive features, but changes in farms' structure were far from expected. The share of the smallest farm increased, while these of middle size decreased noticeably. The high increase in the share of the biggest farms is positive sign. The 10.4 % of number of farms in Poland means about 200 thousand of large farms. These farms have a big production capacity.

The productivity of the agricultural activity in 2004 was much better compare with 1993 and better than in 1989. The yields of basic cereal per ha increased about 8.6 % measure up to 1989 and 31.5% up to 1993, the production of milk per cow rose even more – 26.2% and 31.7% respectively. However, it is very difficult to estimate the role of the two examined forms of support in these phenomena.

Conclusion

The studies of performance and effects of two main support program for the Polish farmers showed that the scale of credit intervention in Poland during the transition was very high. Its influence on the micro-level (farm level) was positive, but at macro-level seemed rather disputable. Because of it the whole sector was nearly cut off from important the market mechanism of allocation of resources. Moreover, its scale indicates big dependency of farmers on political parties, which influence the current economic policy.

The comparison of the two financial support programmes, which differed of the way and form of subsidies, suggests that the single payment is more advantageous for state budget, especially when there is the high inflation rate in economy because of the costs. What solution farmers prefer is an open question.

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THE INFLUENCE OF HUMAN RESOURCES ON COMPETITIVENESS AND DEVELOPMENT OF SMALL AND MEDIUM SIZED ENTERPRISES IN THE GLOBALISATION PROCESS

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Abstract

Despite globalization processes and domination of transnational corporations, small and medium sized enterprises are still perceived as an important element of national economy. The problems SMEs face have been the subject of theoretical considerations and practical studies. New concepts are sought to better learn the specific character of this sector. Theory concerns a wide area of company operations: from theory of entrepreneurship through theories of enterprise survival, growth or fall.

Key words: Globalisation, small and medium enterprises, human resources

Introduction

The paper aims to present the role of human resources in developing competitiveness and growth of small and medium sized enterprises with particular regard to internationalized enterprises. New functions of global managers, rules for their selection and factors affecting the results, development and future of enterprises were presented. Attention was focused also on the barriers to SMEs growth resulting from globalization, internationalization and integration processes

Discussion

1. Classification of SME growth factors associated with human resources

The factors` directly affecting the efficiency of human resources influence on the enterprise development may be classified as follows:

- staff competences – understood as skills, experience and predispositions. Statistical data on investments in enterprise development best show how much they are appreciated, particularly in the EU, United States and Japan, where investment outlays on nonmaterial resources (personnel development) increased during the 10 year period by 20-35% at actual decrease in investment outlays on material firm resources;
- staff stability – is an important measure of staff policy and labour resource management. It is affected not only by the compensation level but also by the below mentioned stability motivators :
 - potential for professional development
 - atmosphere at work – personal culture;
 - management style;
 - ways of labour resource management
- adjusting the resources to real and current needs of the enterprise:
 - a justified number of competent employees in accordance with their professional structure is an asset in developing the value of an enterprise (Sajkiewicz A., 1999).

Economic pressure which enterprises face should make them save each resource necessary for the activities they pursue, and especially these of great importance in the structure of values of all resources, e.g. technological

or organizational. Easier availability of a human factor and focusing on it exclusively restructuring decisions necessarily limit it to controversial quantitative changes. One should not expect any perceptible advantages or gaining a competitive predomination by an enterprise, due only to lowering labor costs. These constitute only one of many factors determining competitive supremacy.

The increase in enterprise competitiveness is affected primarily by an improvement in its productivity, which has a wider meaning than labor efficiency. The productivity should be analyzed in the aspect of the whole company's productivity considering relationship between labor resources and the other resources.

While aiming at making the human capital their permanent competitive supremacy, the enterprises have distinguished the following cultural aspects affecting the efficiency of human resources at small and medium sized enterprises, which also influence their competitiveness:

- attitude towards work and achievements – opinions on welfare which are dominant in the society will affect the number, type and character of individuals aiming at working their ways up and their sensitivity to material stimuli;
- patterns of decision making process – different depending on the use of objective analyses;
- attitude towards authority;
- the ways of expressing dissatisfaction;
- attachment to family and
- social structure.

The company's management should perform the crucial tasks while conducting negotiations. However, the efficiency of their activities should be associated with a necessary reorientation of competences, where cultural reorientation is of key importance, including a necessity of learning the patterns and behaviours matching global market economy.

2. The role of manager in an international small and medium-sized enterprise

In presently developing small and medium sized enterprises a manager who is the head of a company fulfils many functions. According to Ferguson these comprise e.g.:

- global planner – involving formulating international or global strategies or strategic plans. In practice it comes to governing the teams which realize the tasks;
- global motivator – where the crucial task is to ensure proper motivation for all participants of international operations;
- global operator, i.e. manager of company's operations in various countries and on different markets and ensuring proper level of coordination and timing of activities;
- global coordinator which involves proper determining and timing of various tasks implementation in different places in the world;
- global communicator, where the crucial task is communicating specified messages and provoking definite responses in different groups of these messages' recipients all over the world;
- international negotiator, capable of conducting efficient international negotiations.

A leader is increasingly expected to show guidance, involving capability to realize the potential in other people and directing the knowledge and skills of the group towards formerly set goals. It is possible to direct the group's attention to means leading to fulfillment of their needs, which are coherent with known objectives. The efficient realization of both group's and company's objectives, which increase the company's competitiveness, greatly depends on the group leader (Lambert T., 2000).

Management of human resources is a process aiming to ensure competent employees for an enterprise and creating proper conditions for achieving high labor efficiency. Contemporary approach to human resource management assumes the following:

1. the resources should be treated as valuable capital of the organisation and its creating and these are the main sources of the company's competitiveness;
2. human resource management should be the standard area of enterprise management and should be regarded not only on an organizational level but also in the strategic aspect.

In the economic practice labor resources still do not occupy the right position in the majority of Polish enterprises, despite a common declaration of an important place of human resources in firms operation as

a crucial creator of its value. However, there are enterprises which treat their human resources seriously, which results mainly from their current development stage of market competition.

In foreign literature there is a common opinion that social assets are more important for profit generation than material assets, because they prevalently determine the use of other resources for market goals. Small enterprises, particularly service providers, whose fixed assets consist of office equipment, generate their profits through nonmaterial assets, i.e. their employees, intellectual property, clients and firm image (Ostaszewicz P., Panfil M., 1999).

No personnel management patterns have been formed so far in Polish enterprises which would correspond to contemporary conditions of market economy. There are still divergences between the theory and operational methodology in the area so important for the firms. The divergences should be associated with the dynamic changes observed in the modern world but also with a lack of personnel management adjustment to market economy standards and a lack of understanding of contemporary personnel department role in enterprises. Imperfections in human resources management were especially confirmed for the group of enterprises operating exclusively on the domestic market and planning the expansion of their area of influence but only on the same market.

A different attitude towards personnel management was observed in enterprises which based their activities on foreign capital, maintained business contacts with foreign companies or undertook activities aiming at entering foreign markets. The first group of enterprises was called “enterprises on the way to market economy” and the other “market economy enterprises” (Błaszczuk W., 1999). Table 1 shows characteristics of personnel management referring to the above mentioned division of enterprises.

Table 1

Characteristics of market economy enterprises and enterprises on the way to market economy in view of personnel management

Characteristics		
Analyzed area	Market economy enterprises	Enterprises on the way to market economy
Selection of employees	Diversified strategies of employee selection connected with a programme of long-term staffing policy	Kind of activities undertaken to acquire employees forced by current situation, not based on diagnosis of staff potential or long-term programme
Employee development	Long-term employee development programmes, development activities focused on all employee groups	Objectives for employee development seen through current needs, development activities focused on a single employee group
Employee motivation	Predominance of material motivation instruments, most frequently combined with employee assessment	Diversified instruments of motivation, most frequently unconnected with systematic employee assessments
Employee evaluations	Treated as a management tool and systematically and consequently used	Do not constitute an important element of staff management, used occasionally, usually disconnected with compensation programme and planning their professional careers

Source: own elaboration on the basis of : Błaszczuk W., 1999

As may be seen from the Table 1 in the enterprises on the way to market economy, the notion of human resources management denotes administrative activities, whereas in market economy enterprises efficient personnel management aims at improving their market competitiveness. The strength of companies' competitiveness is not formed only in result of market pressure, but also due to internal mobilization of employees to act for their company.

3. Potential barriers to SMEs growth resulting from globalization, internationalization and integration processes

Conditions of SMEs operation are dynamic, which means that also barriers to their growth are dynamic and change in time. Processes occurring in modern world create new barriers. Formation of uniform European Market radically changed the conditions of SMEs operation. Free flow of production inputs caused European companies to start functioning in the international environment. Small and medium-sized enterprises have no influence on the ongoing processes. They are only participants in those processes, unlike large international companies and corporations which create them (Fig. 1).

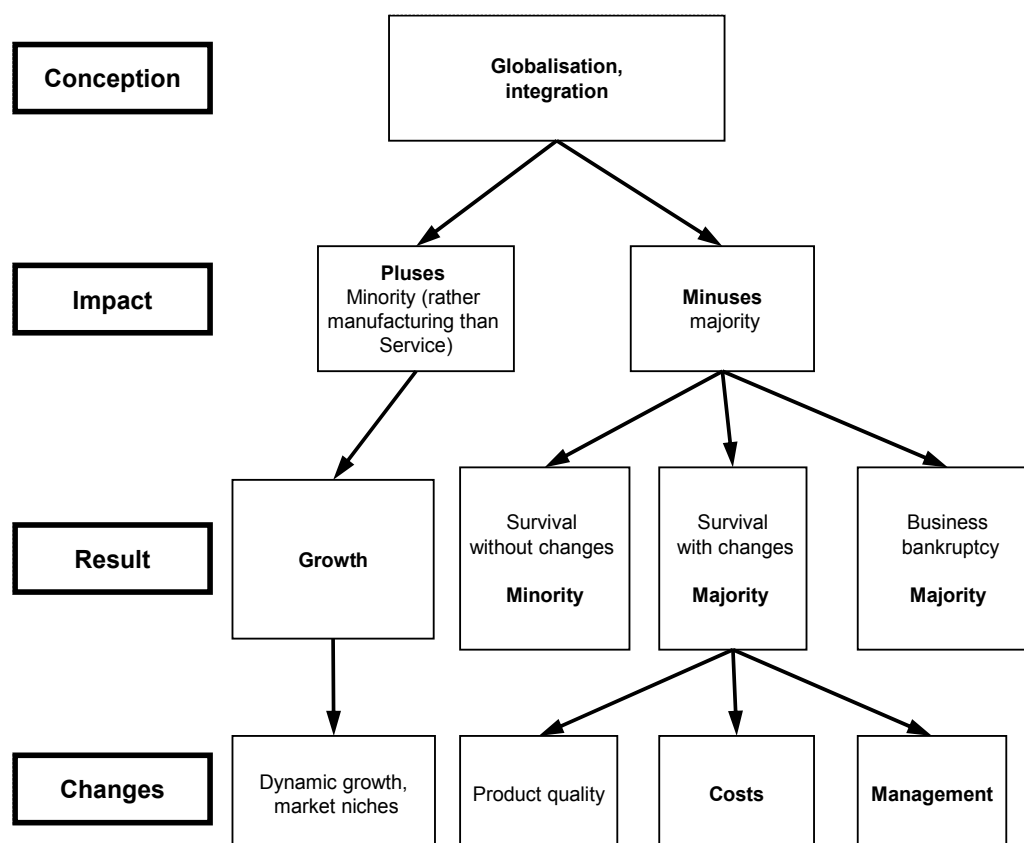


Figure 1. Effect of globalization and integration on small and medium sized enterprises

Source: Globalization and Small and Medium Enterprises, OECD, Paris, 1997

L.C. Leonidou described barriers to internalization as structural, operational and other limitations which prevent a company from starting, developing and pursuing international activities. Therefore we may classify these barriers as follows:

- Internal – national
- Internal foreign
- External domestic
- External foreign (Bławata F., 2004).

Internal national barriers - result from inside the enterprise and refer to the national environment. These include in the first place: lack of professional staff in export marketing or foreign government regulations, negative perception of risk involved in sale abroad or managerial pressure on development of operations on domestic markets, particularly in case of large domestic markets.

Internal foreign barriers – primarily result from limited marketing capabilities of a small enterprise and are perceivable on foreign markets. In case of some SMEs entering international markets is impossible, e.g. because of required product modifications in order to meet foreign standards.

External national barriers – result from the national SMEs environment but are totally beyond their control. Problems with a lack of suitable support from the government, crucial for breaking down barriers to internalization are often pointed out at this place.

External foreign barriers – are problems from the exterior of an enterprise but perceptible on international markets, e.g. restrictions comprising currency exchange rates of tariff limitations.

On the other hand, K. Miesenbock divided the barriers for SME internalization into four groups:

- export barriers caused by external reasons (customs formalities, trade barriers, standards and norms, high exports costs, fluctuation of currency rates),
- barriers due to a lack of sufficient resources (lack of manufacturing capacities, lack of information, lack of proper staff or lack of financial means),
- barriers associated with marketing (difficulties in estimating sales volume, difficulties with necessary product adjustment, or problems with the intermediary),
- barriers connected with the attitude of owner – manager (insufficient knowledge, lack of experience, too high risk).

Conclusion

Poland's accession into the EU requires fast adjustment of Polish economy to the economies of other EU member states in all aspects of its functioning. The whole adjustment process refers also to SME sector and its chances to achieve competitive position on a common market largely depend on its ability to break down the barriers to development. One should remember that in the EU member states, SME sector actually participated in establishment of the common market, whereas for Polish small and medium-sized enterprise European Common Market was an accomplished fact and they had to find their place on it.

Modern strategy of enterprise management, operations and cooperation between multi-cultural companies, progressing globalization and new roles and tasks increased the influence of human potential on the firm's success.

The article has pointed out that these relationships may be observed especially in the management of small and medium-sized enterprises. In global SMEs the directorial functions have changed into typically managerial activities, which raised the degree of soundness of decision and solutions. The assets of human resources in creating SME competitiveness comprise:

- attitude towards educational tasks
- attitudes towards work and firm
- involvement, work efficiency
- identifying the employees with their enterprise
- positive attitude towards the hierarchy of values accepted in the enterprise.

Nowadays an enterprise which understands that in the process of progressing globalization a strategy of strengthening competitiveness is implemented mainly through human capital, has far better chances not only on survival on the domestic market, but also on the European Union market or even on a world market.

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