

# Targeting the disadvantaged: can we learn from Latvian rural development experience?

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The conclusion of a recent study of Latvian rural support programs is that these support programs have often increased economic polarization rather than reduced it. The main reason for this result is the lack of sufficient targeting in program design and implementation. Within the new financial framework in 2007–13, there are opportunities to develop new modalities for and approaches to rural development that will enhance economic convergence and reduce income disparities in rural areas. This paper draws upon the experience of Latvia with support programs, including SAPARD and rural development measures in the SPD and RDP frameworks, and suggests means to limit the further polarization of economic status and welfare of rural inhabitants. The suggested modalities include both the territorially differentiated approach and differentiated support policy implementation for different social groups of entrepreneurs. The design and implementation strategies include increased participatory consultation with rural inhabitants and increased cooperation among different rural society groups so as to diminish the influence of any one group in the decision-making process.

**Key words:** rural development policy, polarization, territorially differentiated approach, monitoring, evaluation

## INTRODUCTION

The 2005 study of EU and National support programs in Latvia was perhaps the most comprehensive and detailed analysis of national and EU rural development support programs in the New Member States of the EU, and its purpose was not so much to applaud the successes as to seek lessons from recent experience that will make future programs more effective in targeting the disadvantaged areas and help to reduce income disparities within Latvia.

The objective of the study was to provide insights into the nature of financing constraints in rural areas in Latvia and to provide recommendations to the Government of Latvia for developing the new programming documents and national strategies for management of the allocated rural development funding in the new financial framework being developed by the EU for 2007–2013. The study sought to improve access to EU and national rural support programs in the future by identifying existing constraints and suggesting measures to implement programs so as to provide greater access to disadvantaged regions and persons and thereby reduce the development constraints in Latvian rural areas.

## METHODOLOGY AND DELIMITATIONS

A statistical analysis was conducted to examine the rural socio-economic situation and the implementation of

support programs in the period 2000–2005. The results of this research may not be very precise in a numerical sense, because data sources are not linked and the data processing methods and aims of data storing are created only for the needs of data processing managers; however, the data accuracy is sufficient to show the main tendencies in the implementation of programs and support projects.

In order to find out the opinion of rural society and the availability of support in the implemented development policy, a questionnaire was given to inhabitants in 36 parishes of 9 districts (4 parishes in each district) located in different RSS regions. The sample size in each parish was 20 inhabitants – landowners, rural entrepreneurs, including fishermen, and other inhabitants.

## RESULTS

### **Evaluation of rural development policy of Latvia**

By looking at all support programs and, where possible, disaggregating data according to the 26 districts of Latvia, it was possible to gain insight into the territorial distribution of various program benefits. The district level data is very revealing and indicates that support programs have often increased economic polarization rather than reduced it. Despite some data consistency problems, it was possible to identify different activities of entrepreneurs or certain regions in the usa-

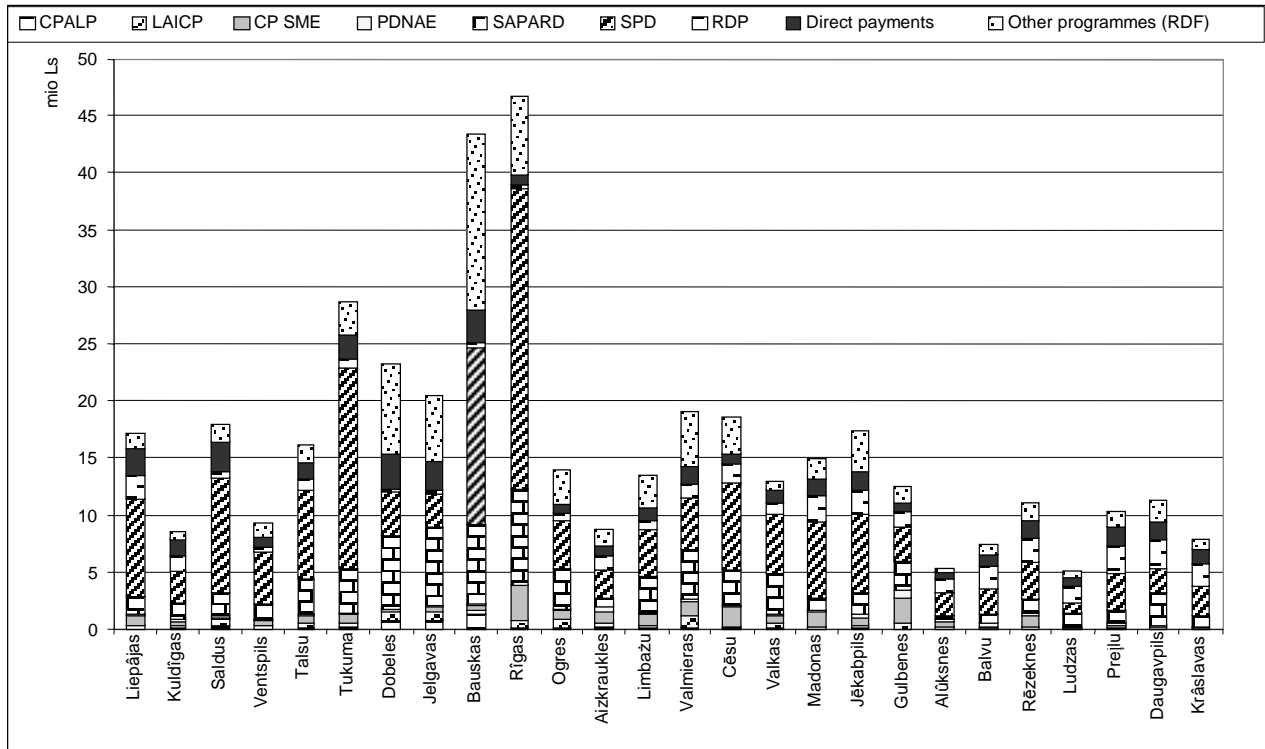


Fig. 1. Total amount of financing in districts perspective in terms of different programs, 2000–2005, thou LVL  
Data source: LMLB, RSS, RDF, 2000–2005

ge of the programs available in the country for the development of their businesses. The most active acquirers of support were in districts Rīga and Bauska (Fig. 1). By contrast, the lowest activity was in the eastern regions, especially in the borderland, and in the western part – in Kuldīga and Ventspils districts. Of course, while analyzing the activity in this programme on a district perspective, one has to take into consideration the population density, the level of economic development, and the size of the territory, especially when examining the activity in relation to area-payments.

Overall, it can be said that the largest gain from the state's rural and agricultural support policy, so far, has been to the entrepreneurs from the central part of the country and adjacent area. The reason is that not much emphasis was put on differentiation of support rates and activities, and in order to apply for support there are equivalent conditions for competitive as well as for less competitive entrepreneurs. Therefore, the limited amount of support is allocated first to the most active and most competitive entrepreneurs who probably would be able to ensure the development of their enterprises even without the support.

However, the analysis also indicated that when programs had some measure of territorial or differentiated targeting mechanisms, the skewness of the benefit distribution was often moderated. This contrast is best seen between the distribution of funding for the national Program for Development of Non agricultural Entrepreneurship (PDNEA), which was relatively well balanced in terms of territorial allocations, and the distri-

bution of the funding for Single Programming Document (SPD) rural development measures, which was highly skewed toward the more prosperous central regions of the country (Figs. 2 and 3). Also, comparison of the number of projects and funding shows much bigger differences in size of projects under SPD. Of course, there are other program differences that influence this outcome, but it does demonstrate that targeted implementation can be effective.

Another type of contrast was between SAPARD projects and SPD rural development projects for similar measures. Due in part to more flexible application requirements and lifting of size limits, the average SF 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 larger projects under the SPD measure resulted in far fewer projects (27) compared with SAPARD (85).

The study also concluded that there could be a significant payoff to improved data and monitoring systems. Despite the detailed data assembled for the study, there also were significant data gaps and inconsistencies that limited the analysis and also made it much more difficult than it needed to be. There is no doubt that decision makers can make more informed decisions when provided with more timely and accurate data on the likely consequences of decisions.

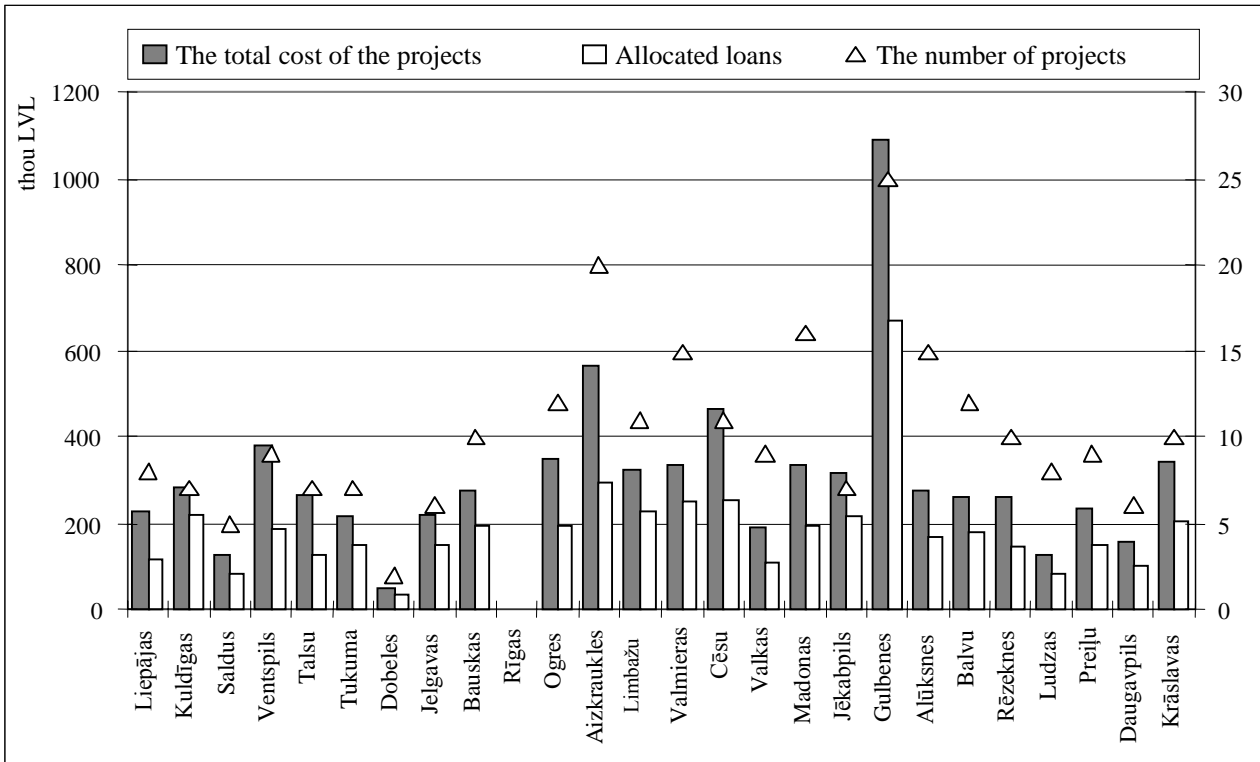


Fig. 2. The amount of PDNEA realized projects, granted loans and the number of realized projects, thou LVL  
Source: LMB, 2005

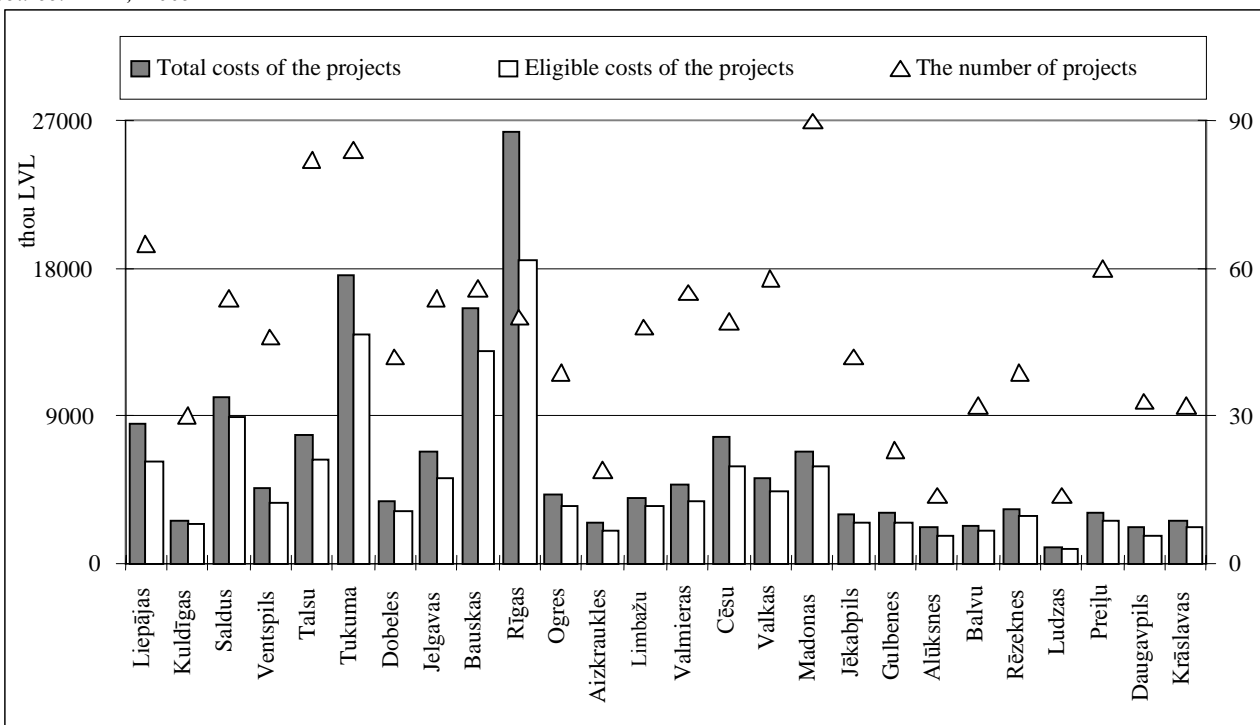


Fig. 3. Total number of projects accepted by the SPD for the development of rural areas, total expenses of the projects, and the respective expenses according to the regions, thou LVL  
Source: RSS, 2005

The analysis of answers provided by support beneficiaries and surveyed respondents shows that support policy for attracting investments was directed towards a limited group of rural entrepreneurs. The analysis also indicates that it would be possible to influence their opinions and increase economic activity by providing

certain support measures and especially information about the long-term plans for future support policy.

The key findings of the study were:

- the priorities of the Latvian rural development policy are well developed, and balanced rural development advancement is defined as the goal of policy implementation;

➤ however, the implementation of the policies did not always follow these priorities and led to increased polarization in the rural areas and increasing capital concentration in central areas of Latvia, while the growth of poverty and lack of capital in the majority of peripheral rural areas continued;

➤ the result was that the previously stated policy goals aiming at sustainable rural development were not realized;

➤ therefore, we made a number of recommendations to adjust the policies so that the policy effects would still be to enhance efficiency, but also be more equitable so as to make development more widely shared and better assisting more backward regions.

The assessment of the programs together with the survey of rural inhabitants provided a basis for recommendations in four main areas: greater targeting of rural development programs, increased consultation and training services, enhanced participatory processes, and a comprehensive data base development and evaluation.

While all of Latvia falls within the Objective 1 criteria of the Structural Funds, the Government of Latvia would prefer to provide greater access for investment resources to those regions (and entrepreneurs) within Latvia that are lagging behind in development just as the EU has targeted Objective 1 resources to regions in the EU that are lagging behind. There are two potential payoffs to such targeting. First, investment additionality may be higher since better off investors may well invest even without the SF resources. Second, such targeting could speed up economic convergence within Latvia.

Though the opportunity is past for SAPARD and SF allocations, there are opportunities within the Convergence objective of the new Cohesion Policy for the period 2007–2013 to improve implementation instruments and achieve greater equity and even greater efficiency in the use of investment funds.

### **Rural development programs in the new financial framework 2007–2013**

The European Commission and member states are simultaneously developing community guidelines and national guidelines for designing and managing rural development for priority (axis) in the new financial framework 2007–2013. Although the process is not complete, it is clear that there will be increased decentralization of program design and management as well as increased monitoring and evaluation requirements. Both of these tendencies lend themselves to increased targeting and differentiated approaches for rural development programs as recommended in the recent Latvian study.

An intensive reform of agricultural and rural support policy has taken place since the Salzburg Conference in 2003. Rural development will play a more significant role in the future implementation of support policy. In the summer of 2004, during the Casares Conference in

Spain, a declaration was adopted on the future implementation policy. The new rural policy addresses the most essential principles of policy implementation, stating that agriculture is only a part of the rural economy and rural development and that the EC should develop a more comprehensive approach to rural development that would serve the majority of rural inhabitants to satisfy their economic needs and protect and increase the value of rural environment instead of merely focusing on agriculture development. To administer support policy and make the management easier, one financial fund, the **European Fund for Rural Development (EAFRD)**, has been approved. It comprises all financing from the EAGGF for rural support programs. The objectives of the European rural development policy indicate that the co-financed support should promote:

a) increase of competitiveness in agriculture and forestry, based on support provided for sector restructuring;

b) improvement of rural environment, based on support provided for land management;

c) improvement of the quality of life and the development of rural entrepreneurship.

To achieve all the above, the EC will have a strategic plan providing certain guidelines and priorities for rural development in line with the requirements in different EU territories, setting indicators and developing a typology for rural territories that would meet the requirements there. A strategic plan for support policy implementation will assist member states in developing a local state / regional national development strategy clearly stating how rural development funds will receive funding from other EU funds (including CAP and Structural Cohesion Funds). In the national strategy, the member states should indicate financial support differences according to the typology of rural territories and priorities set by the Commission. In policy making for targeting priority axis – improvement of the quality of life and the development of entrepreneurship – member states are encouraged to apply the LEADER + approach that is appropriate for the development of local support programs in particular areas.

Policy reforms in rural development in the EU can bring positive rural policy changes also in Latvia, because they promote national development and a comprehensive rural development strategy as a basis for the implementation of support policy. The complex of different measures / activities jointly developed by the EC and member states is versatile and adoptable to different countries and the development of different rural areas. However, policy problems can be caused by the implementation of differential support policies in terms of conditions / activities / social groups of entrepreneurs. Despite the already developed methodologies of designing differential support policies in Latvia, they have not yet been applied or further developed.

Outcomes of the EU rural development policy reforms and conditions for the states to receive co-financing, results of the study on current rural and agricultural development policy in Latvia, and the evidence of polarization in certain rural areas and social groups of entrepreneurs are the reasons to revise and reform national policy. Changes in the planning, management and administration of support would facilitate both the implementation of rural support programs and the follow-up in the changes of eliminating shortages or bottlenecks in the distribution of funding. Also, the new regulation on rural development involves activities that can be based on the experience acquired from implementation activities in 2004–2006, and there are possibilities to choose more targeted measures for addressing Latvian rural problems.

### **Greater targeting of rural development programs**

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 is 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 and the polarization it creates should be enhanced by Government policy. Rural development policy should give priority to development of areas that have less advantage.

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. We recommend 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 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.

In order to design differentiated implementation measures, more detailed studies of selected regions or districts should be undertaken to determine what means of targeting would be most effective in stimulating development and reducing poverty in different areas.

Two main questions need to be addressed. One is the criteria for targeting, which should include territorial and / or socio-economic groups' designations as well as others that may be desired, for example, to address sector adjustment in response to CAP reform. The second issue is the means of targeting. These could

include territorial allocations to prevent all resources from being captured by the most competitive and active regions, but other means could also be considered to offset disadvantages of the peripheral areas. This implies a kind of "affirmative action" for disadvantaged regions or social groups of entrepreneurs.

It is possible that there is a trade-off between equity and efficiency in terms of such program design and distribution ideas, 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 help to speed up economic convergence within Latvia.

In cases where there is a real trade-off between equity and efficiency in the allocation of program funds, the Government needs to establish criteria by which to judge such trade-offs and make project allocation decisions. For example, the development of economic clusters that benefit from spatial concentration of complementary firms may be given priority. However, in the past, many such allocations to more advantaged areas occurred just as a result of a first-come-first-served process rather than any deliberate allocation criteria.

### **Enhanced participatory processes**

In a democratic society, program implementation and allocation decisions are inevitably influenced by the interest groups representing the recipients and potential recipients. Too often in the past only the largest and most active farm organization was influencing program design and allocation decisions of the government. Therefore, one way to improve the access of rural inhabitants to program resources is to increase their opportunities to participate in such democratic processes and thereby broaden the base of public participation.

Measures like LEADER + and Training under the SPD rural development measures can be used more effectively in support of this goal. If rural leaders and rural communities are empowered to represent their interests, there is less likelihood that program design and allocation decisions would be made without taking their concerns into account.

Another mechanism is the type of opinion survey conducted in the Latvian study, which can be designed to improve feedback from recipients to those who design and implement programs. In response to a survey question on what is the greatest need in addition to investment support, survey respondents listed the top four items as

- access to prepaid advisory service,
- prepaid development of a business plan,
- information on legislation and market opportunities, and
- infrastructure improvement.

Next to those in the ranking was interest in prepaid training. Even the lower earning groups were heavily in favour of these types of aid.

These responses suggest that those areas and entrepreneurs that had low participation in past programs may increase their effective participation if there is greater access to training and consultation that prepares them to be more active and successful in their applications.

While the recommendations on targeting focus on the supply side of support programs, this recommendation deals more with the demand side. That is, an increase in training and consultation for rural entrepreneurs can increase their participation as well as their success rates in various rural development programs. Consider that more than 50 percent of respondents said they have not and did not plan to take out a bank loan, and many of these felt it was "not feasible" to do so. Increased training and consultation would not increase anyone's collateral but would increase their opportunity to use what they have more effectively. Resources in national and EU co-financed programs can be targeted for more training and consultation, especially in disadvantaged areas.

#### **Comprehensive data base development and evaluation**

As already mentioned, the new community guidelines on rural development are sure to include increased monitoring and evaluation requirements. In part, this is necessary as the decentralization of program design and management increases. But it is necessary in any case.

The data problems that arose in the process of the Latvian study indicated a great need for improved data gathering and processing for the purposes of monitoring and evaluation of the programs. Currently, various data bases related to rural development are compiled in different institutions, and the data bases are built in a way to satisfy the individual needs and the priorities of each institution. As a result, it is currently difficult to provide an overall analysis of the situation and reach logical conclusions about the effectiveness of the support policy, the efficiency of support activities and the development and validity of recommendations. A coordinated and comprehensive monitoring system with consistent means and measures would go far in terms of providing a stronger information base for policy and programming decisions.

Irrespective of which institution is responsible for managing the implementation of rural policy, it is necessary for data processors and information gathering institutions to agree on general principles and the means of gathering and storing relatively comparable information. In order to achieve the defined goals stated in the law, concepts, and different documents related to the rural and agricultural development, the collected information, the analysis and the outcome of consultations should serve as a basis for planning support ac-

tivities and for effective management and efficient use of various available financing opportunities.

#### **CONCLUSIONS**

We have used the experience of Latvia with support programs, including SAPARD and rural development measures in the SPD and RDP frameworks, to derive lessons from those programs and suggest means to limit further polarization of economic status and welfare of rural inhabitants. The suggested modalities include both the territorially differentiated approach and differentiated support policy implementation for different social groups of entrepreneurs. The design and implementation strategies include increased participatory consultation with rural inhabitants and increased cooperation among different rural society groups so as to diminish the influence of any one group in the decision-making process. Both of these suggested directions imply significant increases in monitoring and evaluation, which is consistent with new community and national guidelines being developed by the Commission in consultation with member states for the new programming period 2007–2013.

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#### **EKONOMINĒ ŪKIŅU POLIARIZĀCIJA: LATVIJOS KAIMO PLĒTROS PATIRTIES PAMOKOS**

##### **S a n t r a u k a**

Nesenai nagrinētos Latvijas kaimo rēmimo programos parādē, kad jos greičiau didino nei mažino ūkių ekonomine poliariacija. Pagrindine tokio rezultato priezastis – nepakankamas kryptingumas rengiant ir realizuojant šias programas. Naujos finansines struktūros 2007–2013 m. įgalins realizuoti naujas kaimo plėtros programas, kurios padēs ekonominei konvergencijai ir sumažins pajamų skirtumus kaimo vietovėse. Šiame darbe nagrinėjama Latvijos įvairių kaimo palaikymo programų patirtis, apimant SAPARD programą, taip pat kaimo plėtros priemonės pagal SPD ir RDP programas, rekomenduojami būdai, kaip mažinti tolesnę kaimo gyventojų poliariaciją, atsižvelgiant į jų ekonominių statusą ir materialinę gerovę. Siūlomi modeliai apima tiek teritorinį diferencijuotą požiūrį, tiek verslininkų įvairių socialinių grupių palaikymo politikos realizavimą. Programų konstravimo ir realizavimo strategijos aprėpia intensyvesnį svarstymų su kaimo gyventojais procesą ir glaudesnį kaimo bendruomenių įvairių grupių bendradarbiavimą, siekiant sumažinti bet kurios vienos grupės įtaką sprendimų priėmimo procese.

**Raktažodžiai:** kaimo plėtros politika, poliariacija, teritorinis diferencijuotas požiūris, monitoringas, evoliucija

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### ЭКОНОМИЧЕСКАЯ ПОЛЯРИЗАЦИЯ ХОЗЯЙСТВ: УРОКИ ЛАТВИЙСКОГО ОПЫТА РАЗВИТИЯ СЕЛА

#### Резюме

Недавнее исследование латвийских программ поддержки села показало, что эти программы скорее усилили экономическую поляризацию, чем ослабили ее. Основная причина такого результата заключается в недостаточной направленности в конструировании и осуществлении этих программ. Новые финансовые структуры позволят в 2007–2013 гг. реализовать новые программы развития села, которые будут способствовать экономической конвергенции и сократят неравенство в доходах сельских хозяйств. В данной работе рассмотрены осуществляемые в Латвии

программы поддержки села, включая программу SAPARD и меры по развитию села в рамках программ SPD и RDP; предлагаются способы, которые позволят предотвратить на селе дальнейшую поляризацию сельских жителей по экономическому статусу и материальному благосостоянию. Предложенные модели включают в себя как территориально дифференцированный подход, так и дифференцированное осуществление политики поддержки различных социальных групп предпринимателей. Стратегия конструирования и реализации программ предусматривают более интенсивный консультативный процесс с сельскими жителями и тесное взаимодействие различных групп сельского общества, чтобы в процессе принятия решений избежать доминирования какой-либо одной группы.

**Ключевые слова:** политика развития села, поляризация, территориально дифференцированный подход, мониторинг, эволюция