

# EU agriculture structural fund support results in Latvia

## Irina Pilvere

*Latvia University of Agriculture,  
Svetes Street 18, Jelgava,*

*LV-3001, Latvia*

*E-mail: Irina.Pilvere@llu.lv*

Since years 2004–2006 Latvia has access to support from four EU Structural Funds – European Regional Development Fund (ERDF), European Social Fund (ESF), European Agricultural Guidance and Guarantee Fund (EAGGF) and Financial Instrument for Fisheries Guidance (FIFG), which totals to 845,3 millions EUR, including support for agriculture and fisheries in the amount of 172,8 millions EUR or 20% of total support.

The acquisition of Structural Funds in Latvia proceeds successfully, because at the beginning of 2007 there have been approved projects which accounted for 96% of the total available Structural Fund financial support; for EAGGF it was 99% of available funding. For the Structural Funds, applicants have received already 32% of the total available EU funding, but within EAGGF project, the number was 71% and with FIFG projects 61%. The acquisition of the funds is most successful in two sectors – agriculture and fisheries, because within EAGGF and FIFG the allocated funds for years 2004 and 2005 have been acquired and the Structural Funds financed for 2006 were commenced to use. The implementation of the projects in agriculture for various measures is being finalized.

After evaluating whether or not the Structural Fund financing has improved the situation in agriculture, I must conclude that the general indicators of agriculture have improved. However, as to growth rates, they still lag behind the common indicators for national economics. Intensification of production also decreases the number of employed in agriculture, but at the same time the productivity increases. Nevertheless, the productivity indicators still are behind the similar indicators in the EU developed Member States, because in Latvia the dominant forces in the agricultural production are small farms / companies.

**Key words:** agriculture, EU impact, Latvia, Structural Funds

## INTRODUCTION

Since the middle of the last century, the aim of the European Community was to decrease the regional differences in the EU. The financial tool to reach the goal is Structural Funds which serve to strengthen economical and social alignment in the EU.

Until today, the different aspects of the implementation of Structural Funds in Latvia have not been explored widely; only a few authors did it. Research of structural funds was carried out only by the implementing agencies such as the Bank of Latvia and other commercial banks, as well as governmental institutions – Cabinet of Ministers, Ministries and Development Agencies responsible for the implementation.

J. Brizga (2005) points out that the acquisition of Structural Funds may put at risk in the long-term development of Latvia because the current experience in the acquisition of the funds in Latvia, in other new and old EU Member States has shown following groups of problems:

1. Negative impact on social capital: the meaning of long-term development is often used in planning documents, but rarely applied in life.

2. Weak participation of society, which promotes corruption possibilities. Participation is retarded because it takes time.
3. Weak institutional capacity (lack of planning skills, inertness) in ensuring an effective and democratic use of the funds.

D. Saktiņa and W. H. Meyers (2005) have analysed the effectiveness of pre-accession program and the first year experience in the implementation of the Structural Funds. They conclude: “Accepted projects in general are connected with development of main sectors in agriculture – grain and dairy, in processing – milk and meat product processing, in non-agricultural entrepreneurship – tourism industries. The volumes of the projects point to the large support program polarization in favour of certain territories, sectors and entrepreneurs, which ensures long-term development only to separate categories of entrepreneurs in certain state territories”.

A. Zvaigzne (2005) concludes that in the EU there is no special budget for tourism. Main financial sources of these project enforcement is Structural Funds and most important external success factors for rural tourism companies are state and govern-

ment policies and availability of financing. 75% of the surveyed rural tourism companies' managers (owners) say that they have used external financial sources in order to develop rural tourism products.

I. Pilvere and A. Rukmanis (2004) draw attention to the fact that currently Latvia has access only to the financing of four EU Structural Funds and it is a very broad scope of measures. Each measure and activity requires different and very specific conditions. It is necessary to get acquainted very carefully with the conditions for the measure in which the applicant has decided to submit an application. The main benefits from the acquisition of EU funds in order to obtain new and modern technologies are observed on the microeconomic level: additional income is generated because of decreased losses in all steps of production, and in addition the asset structure of a company is improved.

I. Pilvere (2004) concludes that in the effectiveness of acquisition in agriculture a substantial role will play the experience acquired during the pre-accession program SAPARD.

This article will analyse the results of implementation of agricultural Structural Funds and their impact on agriculture and rural development in Latvia from 2004 until 2006. Such analysis is necessary because while preparing for the new programming period (2007–2013) it is crucial to evaluate whether the utilization of Structural Funds has increased the main effectiveness indicators in agriculture.

Also, the objective of the article was to explore the experience in using the EU Structural Funds and their impact on the development of agriculture in Latvia.

To reach the objective, the following tasks were set:

1. To analyse Structural Funds in Latvia.
2. To evaluate the results of the Structural Funds' implementation in agriculture and rural development for years 2004–2006.
3. To evaluate the potential impact of Structural Funds on agriculture.

## METHODS AND CONDITIONS

We used the EU and Latvian legislative documents, statistical data, Rural Support Service (RSS) Information database, publications and special literature sources. The methods of overall analysis and synthesis as well as scientific deduction and induction were applied, but to forecast the impact the expert valuation method was used.

Table 1. EU Structural Fund financing in Latvia for years 2004–2006

No	Name of Structural Fund	Forecasted public financing (mill. EUR)			Structure %	Paid out to the Structural Fund applicants (EU financing) by 31.12.2006	
		EU	Latvia	Total		mill. EUR	% from forecasted financing
1.	ERDF	369.2	120.5	489.7	58	83.0	22
2.	ESF	138.7	44.1	182.8	22	36.7	26
3.	EAGGF	93.3	47.3	140.6	16	66.7	71
4.	FIFG	24.3	7.9	32.2	4	14.8	61
5.	Total	625.5	219.8	845.3	100	201.2	32
6.	EU and Latvian financing structure %	74	26	100	X	X	X

Source: SPD, 2003, IUMESLAL, 2007, and author's calculations.

## RESULTS AND DISCUSSION

### Structural funds in Latvia

Structural Funds in Latvia is a Single Programming Document (SPD) or Development Plan of Latvia (SPD, 2003). This document has defined four priorities, and each of the priorities comprises different support measures. The implementation of support measures, directly or indirectly, will influence rural development. Latvia receives financing from for the EU Structural Funds:

1. **ERDF.** The aim of ERDF is to provide support for regional difference alignment, taking part in the promotion of less favoured regions, in addition also to restructuring the industrial regions where the situation worsens.
2. **ESF.** The aim of ESF is to eliminate discrimination and inequality in the labor market, to provide support for human resources and promote information society.
3. **EAGGF.** The aim of EAGGF is to support the restructuring of agriculture and to promote rural development.
4. **FIFG.** The aim of FIFG is to ensure the structural measures for fisheries and water farms, also to ensure the place for these sectors in the processing industry and commerce.

Directly the measures of agricultural and rural development determine the SPD priority 4: "Rural development and fisheries promotion". The 4<sup>th</sup> priority measures are described in the SPD supplement, the Cabinet of Ministers legislative documents and other legal documents, which indicate two 2 sub-priorities:

- 4.1 sub-priority – Agricultural and rural development.
- 4.2 sub-priority – Long-term development of fisheries.

Thus, Table 1 shows that in total the available Structural Fund public financing for Latvia for the period 2004–2006 were 845,3 million EUR, of which 3/4 comprise the EU financing and 1/4 Latvian financing. More than 58% of the total Structural Fund financing is designed to ERDF activities, followed by ESF and financing for farmers, which is only 16% of the total Structural Funds.

However, in the beginning of 2007 only ~1/3 of Structural Funds public financing was financed from the total Structural Funds. The results are best in the agriculture and fisheries sectors which received 71% from the EU financing and 61% from forecasted financing received by the Structural Funds applicants. This means that the confirmed projects are being implemented and controlled.

### Analysis of structural funds in agriculture

4.1. Sub-priority for agricultural and rural development according to SPD comprises seven main measures (SPD, 2003, EC, 2004):

- Investments in agricultural holdings.
- Setting-up of young farmers.
- Improvement of processing and marketing of agricultural products.
- Promotion of adaptation and development of rural areas.
- Forestry development.
- Leader + activities.
- Training.

Efficiency indicators for agricultural funds are presented in Table 2.

The EAGGF efficiency indicators proclaim that:

1. Half of the projects were submitted in 2004. This portrays a high activity of farmers in acquisition of Structural Funds, especially in the beginning of the program. This is because for the first time the application for Structural Funds was announced in April 30, 2004, but in the end of August and beginning of September part of the announced application submission process was stopped. It was partially resumed only in 2005 and 2006 (RSS data, 2007), because the government of Latvia decided to take up additional liabilities exceeding by 10% the available financial funding in various EAGGF and FIFG programs, in order to support high quality projects that lack financing and in order to award additional funding to the projects that have experienced increase in costs (Ministry of Finance, 2007).
2. 43% from total number of submitted projects were submitted for Forestry Development, but the total financing for this program was only 8%. 26% of the total number of projects was submitted for Investments in Agricultural Holdings, with the total financing 33%. 20% of the total number of projects were submitted for Promotion of Adaptation and Development of Rural Areas, with public financing of 36%,

but 1% of the total number of projects were submitted for Improvement of Processing and Marketing of Agricultural Products, while the requested financing was 18%.

3. At the beginning of 2007, 69% of all submitted projects were confirmed, although taking into account that 771 projects are in the evaluation stage, currently 88% of the total number of projects have been confirmed.

Most projects, taking into account those submitted and still not reviewed, are confirmed in measures for Investments in Agricultural Holdings, Forestry Development and Setting-up of Young Farmers (92%), Processing and Marketing of Agricultural Products (88%), Promotion of Adaptation and Development of Rural Areas (78% of the total submitted number of projects).

1. 81% of the confirmed projects have been implemented and the Structural Funds applicants have already received 77% of all contracted public financing.
2. Implementation of projects in various measures are at the final stage finalized: setting-up of Young Farmers and Investments in Agricultural Holdings (implemented 99% and 98%, respectively of all confirmed projects) and have been paid out 98% and 94% of the total public financing.
3. The project implementation level is lowest in measures for Forestry Development and Promotion of Adaptation and Development of Rural Areas, where respective 65% and 79% of the total number of confirmed projects have been implemented.
4. The average public financing for the submitted projects is 37 852 LVL and varies from 6 808 LVL in Forestry Development projects to 610 000 LVL for Improvement of Processing and Marketing of Agricultural Products. The average amount of investments in Agricultural Holdings is 48 156 LVL and for Promotion of Adaptation and Development of Rural Areas projects 68 245 LVL.

Table 2. EAGGF Descriptive Indicators on 1 March 2007

No	Measure	Submitted projects				Confirmed projects	Paid projects
		2004	2005	2006	Total		
1.	Total EAGGF, number of projects	1777	613	1195	3585	2472	2008
	Public financing mill. LVL	103.0	12.2	20.5	135.7	97.0	74.7
2.	Number of Investments in Agricultural Holdings projects	778	0	144	922	714	698
	Public financing mill. LVL	37.3	0	7.1	44.4	33.8	31.8
3.	Number of Setting-up of Young farmers projects	326	0	0	326	300	296
	Public financing mill. LVL	5.2	0	0	5.2	4.8	4.7
4.	Number of Improvement of Processing and Marketing of Agricultural Products projects	33	7	0	40	32	29
	Public financing mill. LVL	21.0	3.4	0	24.4	21.2	16.6
5.	Number of Promotion of Adaptation and Development of Rural Areas projects	490	60	168	718	414	327
	Public financing mill. LVL	37.	5.1	6.2	49.0	29.3	17.4
6.	Number of Forestry Development projects	150	544	863	1557	1 009	656
	Public financing mill. LVL	1.8	2.8	6.0	10.6	5.8	3.7
7.	Number of Leader + activities projects	0	1	19	20	1	0
	Public financing mill. LVL	0	0.5	0*	0.5	0.5	0
8.	Number of Training projects	0	1	1	2	2	2
	Public financing mill. LVL	0	0.4	1.2	1.6	1.6	0.5

\* Submitted projects within the framework of the national program.

Source: RSS data, 2007.

Table 3. Main descriptive indicators of agriculture and national economy

No	Indicators	Years			Increment rate %
		2003	2004	2005	
1.	Agricultural added value (AV) in current prices (mill. LVL)	133.7	158.8	204.7	153
2.	GDP added value in current prices in national economy (mill. LVL)	5 639.5	6 563.4	7 873.2	140
3.	Share of Agricultural added value in total GDP (%)	2.4	2.4	2.6	108
4.	Monthly average gross wage in national economy (LVL)	192	211	246	128
5.	Monthly average gross wage in agriculture (LVL)	120	144	178	148
6.	Average wage in agriculture employed as % from average of national economy	63	68	72	114
7.	Employed in agriculture (thousands of employees)	104.4	97.0	87.8	84
8.	Share of people employed in agriculture (%)	10.4	9.5	8.5	82
9.	Added value on 1 employed in agriculture (LVL)	1 281	1 637	2 331	182
10.	Paid out annual Structural Funds financing (mill. LVL)	0	10.2	46.8	459
11.	Total support amount for agricultural and rural development (mill. LVL)	59.8	110.5	222.4	372

\* Chain increase.

Source: Ministry of Agriculture 2004, 2005, 2006 and author's calculations.

### Impact of structural funds on the development of agriculture

The main descriptive indicators of agricultural development are summarized in Table 3 which shows that in the period 2003–2005 the main agricultural descriptive indicators have significantly improved and in separate cases increase steadier than respective indicators of national economy. The added value weight in national economy has increased by 0.2%. The rise in the gross wage in agriculture has exceeded by 20% the rise of national economy. However, it should be noted that the wage in agriculture is still substantially lower than the average in the national economy.

Despite the decreasing number of people employed in agriculture, the productivity per one employed has increased 1.8 times in the last three years. This indicator in 2005 exceeded 3.3 times the weight of added value of agriculture in the national economy.

Was the growth of the descriptive indicators of agriculture an effect influenced by the Structural Funds? It can be assumed that yes, however, definitely, it is not the main cause for these changes, because financing from Structural Funds was paid out first only in the end of 2004 and was only 10.2 mill. LVL, which is 6% of added value in agriculture and its impact is expected after 3–5 years. Moreover, the total amount of support for Latvia after its accession to the EU has grown much steadier and more

significantly in comparison to the Structural Funds financing, and its fraction in the amount of support for year 2005 was only 21%.

The impact of Structural Funds on agriculture in Latvia can be illustrated by the number of new equipment (machinery) purchases, which are presented in Figure.

During the last four years in Latvia 2203 new tractors and 266 new combines have been registered, which is just 4% of the total number of tractors and combines registered in 2005 (Central Statistical Bureau, 2005). Due to the implementation of Structural Funds projects in 2005, the number of newly purchased tractors doubled and the number of newly purchased combines increased 1.4 times. In 2006, the number of new tractors and combines sharply declined because the financing of the Structural Funds had been depleted already in 2004. This means that without support payments the purchases of new machinery are minimal and in 2006 there were purchased by 16% less tractors and by 1/3 less combines than in 2003 when the SAPARD projects were implemented.

### CONCLUSIONS

The availability of Structural Funds financing in Latvia after accession to the EU offers a significant opportunity to develop

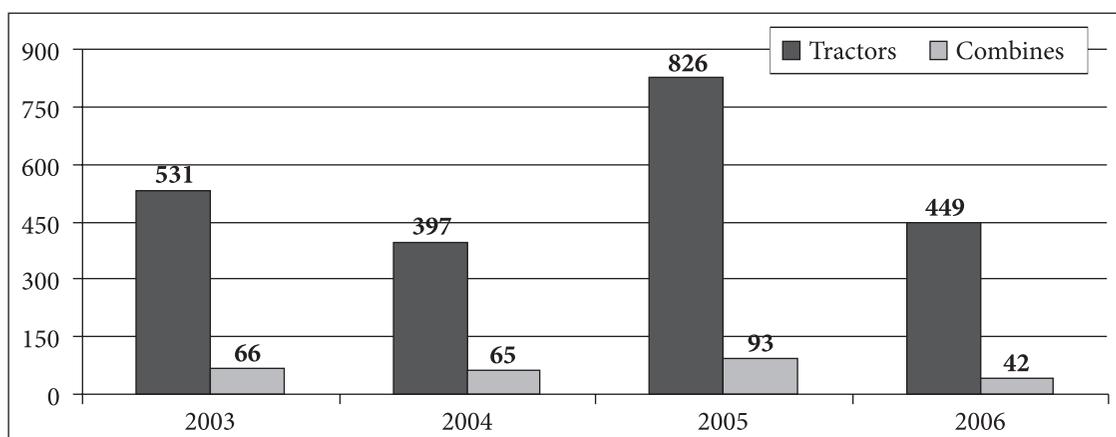


Figure. The purchases of new tractors and combines in Latvia in 2003–2006 Source: Liepiņš I., 2006.

economy and to solve social problems. Only 32% of all Structural Funds of the EU financing has been paid out in the beginning of 2007, therefore it is too early to evaluate its impact on the national economy. However, in agriculture the acquisition of the Structural Funds 2.4 times exceeds the average level in Latvia, and thus it is possible to come to some conclusions and assumptions:

1. Successful acquisition of the EAGGF Structural Funds is based on the farmers' experience, which was obtained during implementation of the pre-accession program SAPARD and national subsidies. Therefore, in the most popular measures Investments in Agricultural Holdings and Setting-up of Young farmers applications were prepared very quickly and submitted for confirmation already in the first months of the program, and also these projects were very rapidly implemented, during 2004–2006 farmers have received 36.5 mill. LVL public financing, which comprises 49% of the total paid out public financing from the Structural Funds.
2. EAGGF financing comprises only 16%, but together with FIFG financing it makes 1/5 part of the Structural Funds financing allocated for Latvia.
3. The largest number of submitted projects deals with Forestry Development, however, taking into account the specifics of this measure, there is the smallest average size of the projects and thus the total submitted public financing from the Structural Funds is insignificant.
4. The project financing is largest in Improvement of Processing and Marketing of Agricultural Products; therefore, also the total financial capacity of confirmed 32 projects comprises 22% of the total confirmed projects' financing.
5. In the period from 2003 to 2005, positive changes were observed in the indicators describing agricultural efficiency and development. Some indicators, for instance, added value in agriculture and the average monthly wage for employed in agriculture increased more rapidly than the average respective indicators of the national economy in Latvia.
6. Nevertheless the wage in agriculture is still by 28% lower than on average in the national economy, and labour productivity is significantly lagging behind the level reached by other EU Member States.
7. Financing from the Structural Funds plays a significant role in the technological modernization in agriculture and thus also in increasing labour productivity and the quality of production, nevertheless the new agriculture machinery acquisition pace is not sufficient.
8. Improvement of separate agricultural indicators within the analysed period has been promoted by the increase of available support for agriculture in Latvia after accession to the EU, taken into account also financing from the Structural Funds.
9. The government of Latvia and the state institutions responsible for the implementation of the Structural Funds in the next programming period have to take into consideration the experience gained in the period 2004–2006.

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Irina Pilvere

## ES STRUKTŪRINIŲ FONDŲ PARAMOS ĮTAKA LATVIJOS ŽEMĖS ŪKIUI

### *Santrauka*

2004–2006 m. iš 4 ES struktūrinių fondų – Europos regioninės plėtros fondo (ERDF), Europos socialinio fondo (ESF), Europos žemės ūkio orientavimo ir garantijų fondo (EAGGF) ir Žuvininkystės orientavimo finansinio instrumento (FIFG) Latvijai skirta 845,3 mln. eurų, įskaitant 172,8 mln. eurų (20% visos paramos) žemės ūkiui ir žuvininkystei.

Struktūrinių fondų parama Latvijoje naudojama sėkmingai. 2007 m. pradžioje buvo patvirtinti projektai, kurie apima 96% visos galimos struktūrinių fondų paramos; tuo tarpu parama iš EAGGF sudarė 99% galimo finansavimo. Iš struktūrinių fondų pareiškėjai jau gavo 32% viso galimo ES finansavimo, tačiau EAGGF projektai finansuoti 71%, FIFG projektai – 61%. Sėkmingiausiai lėšos naudojamos dviejuose sektoriuose – žemės ūkio ir žuvininkystės, kadangi buvo gautos EAGGF ir FIFG 2004 ir 2005 metams skirtos lėšos, taip pat pradėtos naudoti 2006 m. struktūrinių fondų lėšos. Baigiama įgyvendinti įvairių priemonių projektus žemės ūkyje.

Įvertinus, ar struktūrinių fondų finansavimas pagerino padėtį žemės ūkyje, galima teigti, kad bendrieji žemės ūkio rodikliai pagerėjo. Tačiau augimo tempai vis dar atsilieka nuo bendrųjų šalies ekonominių rodiklių. Gamybos intensyvėjimas mažina užimtųjų žemės ūkyje skaičių, bet didina produktyvumą. Nepaisant to, produktyvumo rodikliai Latvijoje vis dar atsilieka nuo išsivysčiusių ES šalių narių tų pačių rodiklių. Priežastis – Latvijos žemės ūkio gamyboje vyrauja maži ūkiai / įmonės.

**Raktažodžiai:** ES, Latvija, poveikis, struktūriniai fondai, žemės ūkis

Ирина Пильвере

## ВЛИЯНИЕ ПОМОЩИ СТРУКТУРНЫХ ФОНДОВ ЕС НА СЕЛЬСКОХОЗЯЙСТВЕННОЕ ПРОИЗВОДСТВО ЛАТВИИ

### *Резюме*

В 2004–2006 гг. из структурных фондов ЕС – Европейского фонда регионального развития (ERDF), Европейского социального фонда (ESF), Европейского фонда по ориентации сельского хозяйства и гарантий (EAGGF) и Финансового инструмента по ориентации рыбоводства (FIFG) Латвии было выделено 845,3 млн. евро, в том числе 172,8 млн. евро (20% всей помощи) для сельского хозяйства и рыбоводства.

Освоение структурных фондов в Латвии происходит успешно. На начало 2007 г. были утверждены проекты, которые охватывают 96% всей возможной помощи структурных фондов, а помощь из EAGGF составила 99% возможного финансирования. Из структурных фондов заявители уже получили 32% всего возможного финансирования, однако проекты EAGGF профинансированы на 71%, FIFG – на 61%. Наиболее успешно освоение средств происходит в двух секторах – в сельском хозяйстве и рыбоводстве, так как предназначенные средства были получены из EAGGF и FIFG на 2004 и 2005 гг., а также начато освоение средств структурных фондов на 2006 г. Осуществление различных проектов в сельском хозяйстве подходит к концу.

На вопрос о том, улучшило ли ситуацию в сельском хозяйстве финансирование из структурных фондов, можно ответить, что общие сельскохозяйственные показатели повысились. Однако темпы роста все еще отстают от общих экономических показателей страны. Интенсификация производства сокращает численность занятых в сельском хозяйстве лиц, при этом повышая производительность труда. Несмотря на это, показатели продуктивности все еще отстают от аналогичных показателей развитых стран-членов ЕС, поскольку в сельском хозяйстве Латвии доминируют маленькие хозяйства и предприятия.

**Ключевые слова:** ЕС, Латвия, влияние, сельское хозяйство, структурные фонды