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NON-AGRICULTURAL ENTREPRENEURSHIP IN RURAL AREAS OF LATVIA

POZAROLNICZA PRZEDSIĘBIORCZOŚĆ NA OBSZARACH WIEJSKICH ŁOTWY

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Streszczenie. W swojej historii Łotwa rozwijała się jako państwo rolnicze. Obserwowano małą aktywność gospodarczą mieszkańców obszarów wiejskich, brak wykwalifikowanej siły roboczej, regionalne zróżnicowanie przedsiębiorczości i zatrudnienia pomiędzy miastem a wsią, blisko trzykrotnie niższy poziom dochodów na wsi niż w mieście, a także odpływ siły roboczej. Z tych powodów wielką szansą na rozwój obszarów wiejskich od 2000 roku była możliwość skorzystania ze środków Unii Europejskiej. Aby przedstawić dostępność instrumentów UE wpływających na rozwój rolnictwa i obszarów wiejskich na Łotwie, wyodrębniono trzy okresy: przedakcesyjny (lata 2000–2004); okres planowania 2004–2006 i okres planowania 2007–2013. Fundusze przeznaczone na pozarolniczą działalność zmieniały się w każdym z tych okresów. Na pierwszy okres przypadał program SAPARD. Zawarto w nim poddziałanie związane z rozwojem pozarolniczej działalności, w ramach którego wdrożono 391 projektów na łączną kwotę 35 883 972 euro. Średnia wysokość projektu to 127 819 euro. W tym samym czasie wdrożono „Program rozwoju pozarolniczej przedsiębiorczości” w celu wsparcia przedsiębiorców rozpoczynających bądź zmieniających profil działalności związanej z rolnictwem. Podczas realizacji programu sfinansowano 213 projektów (192 w łotewskich latach i 21 w euro) na łączną sumę 2 649 674 LVL i 1 036 068 euro. W drugim okresie funkcjonował program EAGGF, przeznaczony na rozwój działalności pozarolniczej, a jedynym poddziałaniem związanym z obszarami wiejskimi była promocja turystyki wiejskiej i sztuki. Na ten cel przeznaczono środki w wysokości 4 956 938 euro. Nabór przerwano już po roku z powodu wyczerpania się środków finansowych. W trzecim okresie „Program rozwoju obszarów wiejskich” ma cztery osie, w trzeciej funkcjonuje poddziałanie „Promocja jakości życia na obszarach wiejskich i jego dywersyfikacja” finansowane przez EAFRD. 18% łącznej kwoty 126 664 460 euro przeznaczono na wspieranie działalności pozarolniczej.

Key words: diversification, non-agricultural entrepreneurship, rural areas, state and EU support.

Słowa kluczowe: dywersyfikacja, obszary wiejskie, przedsiębiorczość pozarolnicza, wsparcie państwowe i z Unii Europejskiej.

INTRODUCTION

Agricultural and rural development is one of the key policy areas. Food and Agriculture Organization of the United Nations (FAO) has focused special attention on developing rural areas, where most of world's poor and hungry people are living, in order to carry its mandate to “raise the levels of nutrition, to improve agricultural productivity and to increase the living conditions of rural populations.” In many FAO documents rural areas and rural development are associated with areas where there is agricultural activity and a relevant percentage of total population is employed in the sector. The terms of rural and agricultural are considered interchangeable (Pizzoli and Gong 2007).

Rural areas cover 80% of the EU territory and are home to approximately 25% of its population. A distinguishing feature of Europe's rural areas is their diversity both in geographical and landscape features, and in the different challenges they face. These range from restructuring of the agricultural sector, remoteness, poor service provision and depopulation to population influx and pressure on the natural environment, particularly in rural areas near to urban centers. European citizens value rural areas as offering an alternative landscape and quality of life in their highly urbanized society (European Commission... 2003).

Already in 2006 European Commission underlined that over half of the population in the 25 Member States of the EU are living in rural areas, what covers 90% of the territory, therefore the importance of rural areas is increasing.

There is a low economical activity of rural inhabitants, the lack of qualified labor force in rural areas of Latvia, observed regional differences for typical entrepreneurship activities and employment and distinction between towns and rural areas, the level of rural households income is almost by third lower than in town households, outflow of labor force is observed too. The low density in rural areas forms high costs per capita for establishing and maintaining infrastructure. Poorly developed service is characteristic for such areas, as well as low quality of roads – surface is deteriorated, lack of services for telecommunications and internet. Most of cultural heritage is in poor or insufficient situation.

Auziņa and Zvirgzdiņa (2008) in the research admit that for development of entrepreneurship in Latvia in total positive trends can be observed; as well the major problem accentuated is imbalanced development in regions and different territorial units – towns and rural areas – and disproportions in all spheres related to entrepreneurship. Successful development of entrepreneurship in rural areas can be provided by considering and activating socio economical peculiarities and interests, management traditions and to model entrepreneurship according to specific resources in each territorial unit.

Non-agricultural entrepreneurship should be developed in Latvia. As more persons will create new work places, as smaller burden for agricultural subsidies will be, as well as for state budget in total. The same idea comes from Leščevica (2005), that rural entrepreneurship is related to create and maintain such environment what provides work places, lasting income for inhabitants, support to local or rural entrepreneurs, effective use of (land) property, optimization of farms to reach the level of entrepreneurship – not to reproduce but to produce to get profit and understanding that agricultural production may be as a style of living, but in this case farmer cannot claim for status of entrepreneur, cohesion of entrepreneurs, to reach common aims and not to be afraid of changing directions of activities.

Research object: rural areas

Research aim: to analyze national and EU support opportunities to develop non-agricultural entrepreneurship in rural areas of Latvia.

Research tasks:

1. To observe rural area definition.
2. To make research on main rural development periods in European Union.
3. To observe national and EU support programs to develop non-agricultural activities in Latvia and to analyze activity of inhabitants to obtain the support.

Research methods: theoretical discussion, statistical data analyses, analyses and syntheses.

RESULTS AND DISCUSSIONS

Rural area definition

Different scientists in the world have researched this topic. For example, Bollman (2007) thinks that "Rural is distance and density. Individuals are "more rural" if they must travel longer distances to access services or to access markets to sell their goods and services. Also, low population density (which results in the lack of "agglomeration economies") defines rural areas – implying that production systems will be smaller and generally less". Dammers and Keiner (2006) thinks that although crop fields and pastures still shape the image of rural landscapes, the question is how the rural areas of Europe will develop in the future. The result is that various categories of rural areas can be identified according to the respective importance of economic components and that rural areas have undergone a process of economic and social diversification. More than ever, a clear definition of the term "rural area" is out of sight.

Gallego (2004) is convinced that the concept of "rural area" involves a number of socio-economic aspects, such as structure of the employment, population age and population change. Unfortunately these data are difficult to collect at the commune level for EU25, and we have based the study on population density and size of territory.

The OECD has given a definition of rural areas based on the percentage of the population of a region living in rural communes (OECD 1994). A commune is classified as rural if the population density is below 150 inhabitants per km² (Gallego 2004).

In Latvia according to Rural Development program 2007–2013 (2010) mentioned that in confirmation to administrative territory reform, what was implemented in 2009, there are two definitions of rural area:

- Up to December 31, 2008 rural area is a whole territory of Latvia, except cities of Republic meaning and towns of district centers. A rural area should be considered also rural area of district centers towns with rural area.

- From July 1, 2009 rural area is whole territory of Latvia, except cities of Republic meaning and units of municipalities – towns with amount of inhabitants over 5000. Amount of inhabitants are defined according to data of Central Bureau of Statistics about amount of inhabitants in Latvia`s administrative territories at the beginning of previous year.

Rural Development Policy of European Union

Since middle of last century the aim of European Community was to reduce the regional differences in the European Union. Financial tool in order to reach the goal is Structural Funds, which serve to strengthen economical and social alignment in the EU member states. It has a significant impact on the competitiveness of the regions and on the living conditions of their inhabitants, mainly by co-financing multi-annual development programs. (Tetere 2010)

Table 1. Main Periods, Documents and Financial Sources for Rural Development in EU and its Description Since 2000

| Period | Document | Financial sources | Description |
|-----------|----------------------|-------------------|--|
| 1970–1999 | CAP reform documents | EAGGF | A first territorial element was added in the 1970s via the designation of less favored areas (LFAs) eligible for special measures. The aim was to stop the agricultural and rural exodus, which threatened the survival of certain rural areas and the preservation of the natural environment and landscape. This was later developed into a wider approach integrating LFA measures with other policies aimed at assisting particular regions. The first steps for rural development at Community level started in 1972. Since the reform of 1988 the agricultural structural policy is a part of a regional policy and rural development was financed not only by the EAGGF Guidance Section but also by other structural funds. Reform in 1992 stressed the environmental aspects of agriculture. |
| 2000–2006 | Agenda 2000 | EAGGF | Established a sustainable framework for the future of rural areas throughout the EU, complementing reforms in market sectors in promoting a competitive, multifunctional agricultural sector and encouraging alternative sources of income in rural areas as well as bolstering agri-environment measures. The new rural development policy aimed to improve integration between the different types of EU assistance, helping to ensure smooth and balanced development in all European rural areas. The main features of this development are: <ul style="list-style-type: none"> – strengthening the agricultural and forestry sector; – improving the competitiveness of rural areas; – maintaining and preserving the environment and rural heritage. |
| 2007–2013 | CAP reform 2003 | ERDF | To introduce a new system of compulsory modulation (i.e. switching of funds from production to rural development), which Member States may use to finance the introduction of the new rural development measures agreed in the CAP reform or to reinforce existing measures. Under compulsory modulation farms receiving over EUR 5000 a year in direct payments will have those payments reduced (modulated) by 3% in 2005, 4% in 2006 and 5% from 2007 onwards. Additional funds will thereby become available under the second pillar from 2006 onwards. When the modulation rate reaches 5% it will result in additional EU rural development funds of EUR 1.2 billion per year. The 2nd pillar supports agriculture as a provider of public goods in its environmental and rural functions, and rural areas in their development. |

Source: composed by authors, according to European Commission... (2003 and 2006).

The strengthening of EU rural development policy has become an overall EU priority. The conclusions of the Göteborg European Council of June 2001 make this clear: During recent years, European Common agricultural policy (CAP) has given less emphasis to market mechanisms and through targeted support measures become more oriented towards satisfying the general public's growing demands regarding food safety, food quality, product

differentiation, animal welfare, environmental quality and the conservation of nature and the countryside (European Commission... 2003). For this reason in EU there are known couple of rural development periods and documents what shows the growing importance of rural development (see Table 1).

National and EU Support Programs to Develop Non-agricultural Activities in Latvia

When it drew up its Financial Perspectives for 2000–2006 (under Agenda 2000), the EU was concerned about the situation in the candidate countries, especially those from Central and Eastern Europe. This resulted in the creation of two pre-accession funds, (ISPA and SAPARD), and the setting-up of a EUR 40 billion reserve for anticipated Structural Fund expenditure following accession. SAPARD enables the EU to assist the restructuring of the farm and rural sectors of the candidate countries in Central and Eastern Europe in the run-up to accession. Its main objectives are to (European Commission... 2003):

- establish an EU framework for supporting sustainable agricultural and rural development in the central and eastern European candidate countries during the pre-accession period;
- solve problems affecting the long-term adjustment of the agricultural sector and rural areas;
- help implement the EU's *acquis communautaire* (body of existing legislation) in relation to the CAP and related policies.

To provide availability of EU instruments to promote development of agriculture and rural areas in Latvia, there are planning documents worked out in Latvia: SAPARD – Development program of agriculture and rural areas in Latvia; Single Programming Document (SPD) and Rural Development Plan for year 2004–2006; National Strategic Reference Framework (NSRF) and Rural Development Plan (RDP) for 2007–2013. Besides these documents Ministry of Agriculture worked out Program for Non-agricultural Entrepreneurship Development (PNED) for local investments.

Latvia as EU pre-accession country since 2000 had access to structural financial support for agriculture and rural development. SAPARD finances were available from 2000 to 2006. The document related to SAPARD was worked out by Ministry of Agriculture. In Single programming Document or Latvia's Development Plan 2004–2006 Latvia's government defined strategy and priorities for cohesion of socio economical conditions by use of EU structural finances.

In SPD included priorities for rural areas, agriculture and forestry development received support from guidance section of European Agricultural Guidance and Guaranty Fund (EAGGF).

The aim of Rural Development Plan (RDP) 2004–2006 was to increase income level of rural economies, to develop and increase effectiveness of production in rural economies by following environmental requirements and differentiating rural economical activities and income, and preserving rural population. It was financed from guaranty section of EAGGF to reach defined activities and subactivities of the aim (Latvijas Lauku attīstības programma... 2010 a).

For the period of 2007–2013 related document for rural diversity is Rural Development Program 2007–2013 to allocate European Agricultural Fund for Rural Development (EAFRD).

Pre-accession Period – 2000–2004

There were two programs available for the period 2000–2004:

- Program for Non-agricultural Entrepreneurship Development;
- SAPARD as support for diversification and development of rural areas in Latvia.

Program for Non-agricultural Entrepreneurship Development (PNED)

Program for non-agricultural entrepreneurship development in Latvia was approved on October 14th, 2002. It was worked out by Ministry of Agriculture. It was done to solve problems immediately related to maintaining rural economic population and environmental development by creating labor opportunities for production and income resources not related to agricultural, and to increase welfare of rural inhabitants.

The general aim of program for non-agricultural entrepreneurship development – promotion of economical life in rural area by supporting common farming, as well as sectors not related to agriculture, and improving the infrastructure by accomplishing rural landscape according to needs of entrepreneurship and with consideration of requirements of environment protection (Klismeta 2003).

Subaims of program:

1. To create opportunity to receive financial support to start and develop non-agricultural entrepreneurship in rural areas, in that way facilitating to solve employment problems and income increase of rural inhabitants.

2. To promote forming and activating of rural inhabitant initiatives to facilitate integration of economically inactive inhabitants in entrepreneurship in rural areas (MK rīkojums... 2002).

The aim and subaims on the paper are exactly the thing that is needed in rural areas most – to give financial support for starting and developing non-agricultural entrepreneurship, by facilitating solutions of rural inhabitants employments problem and increase of income, promoting rural population initiative and involving them in entrepreneurship because it is possible to live in a countryside, moreover – live good, not only growing potatoes and sugar beets on few hectares or few cows and pigs, but to find extra or alternative management way at the same time.

Program for non-agricultural entrepreneurship development is planned for such sectors of action:

- industry (not for processing agricultural production what is directly related, for example, with processing of meat or milk);
- social life, tourism, recreation and other services (except financial intermediation, operations with real estate, state administration and protection and trade);
- construction;
- craft;
- entrepreneurship related to program warranty and computer supply;
- aquaculture;
- hunting.

That means that with help of the program there will be supported activities related to non-agricultural production and development of infrastructure – improved access roads to

the companies, provided communication accessibility for use of information technologies, water supply and installation and improvement of energy supply, as well as improvement of landscape – dismantling or reconstruction of ruinous household buildings, use of disused or abandoned agricultural land, except afforesting, improvement of surroundings and so forth, of course, if it is a specific support as help for an entrepreneurs needs (Klismeta 2003).

The program offered three types of support:

- bank loan;
- guaranty for loan;
- support payment.

Planned results of program in case of successful implementation were:

- amount of unemployment will decrease by 9%;
- the level of income will increase in average by 2% per one member of household;
- 0.3% of natural household's activities are changed to commercial activities (MK rīkums... 2002).

Within the program there was an opportunity for rural inhabitants to receive loans. The weighted – average percent rate for loans according to the PNED were:

- loans in Lats – 8.24%;
- loans in Euro – 5.88%.

During the implementation of program there were 213 loans granted (192 in Lats and 21 in Euro) in total amount of LVL 2 649 674 and EUR 1 036 068. Allocation of granted loans by regions of Latvia is summarized in Table 2.

Table 2. Descriptive Indicators of Latvia's Regions and Amount of Loans Granted to Entrepreneurs, 2002–2004

| Region | Inhabitants ths** | Area [ths, km ²]** | Loan [LVL] | Loan [EUR] | Total [LVL*] | Loans [%] | Loans in LVL [%] | Loans [LVL] | |
|---------|----------------------|--------------------------------------|---------------|---------------|-----------------|--------------|---------------------------|---------------|------------------------|
| | | | | | | | | Per capita | Per km ² |
| Riga | 1099 | 10.5 | 403 350 | 187 500 | 535 126 | 14 | 75 | 0.49 | 50.96 |
| Zemgale | 290 | 10.7 | 522 169 | 122 000 | 607 911 | 16 | 86 | 2.10 | 56.81 |
| Kurzeme | 313 | 13.6 | 396 800 | 170 000 | 516 276 | 14 | 77 | 1.65 | 37.96 |
| Vidzeme | 248 | 15.3 | 1 126 363 | 286 038 | 1 327 391 | 35 | 85 | 5.35 | 86.75 |
| Latgale | 369 | 14.5 | 603 589 | 270 530 | 793 719 | 21 | 76 | 2.15 | 54.73 |
| Total | 2319 | 64.6 | 3 052 271 | 1 036 068 | 3 780 423 | 100 | 80 | 1.63 | 58.52 |

*1 LVL = 0.702804 EUR; ** beginning of 2004.

Source: Valsts reģionālās... (2007) and authors calculations.

According to the information in Table 2, it can be summarized that:

1. Amount of received loans and its structure by regions are different – Entrepreneurs of Vidzeme region have been most active and have obtained LVL 1.3 mln or 35% of total amount, what exceeds Kurzeme by 2.6 and Riga region by 2.5 times. It is understandable that small amount of loan obtained in Riga region is because of the aim of the program (to promote non-agricultural activities in rural areas). The second biggest amount of loans is obtained in Latgale region – 21% of total amount.

2. In average 80% of loans are granted in Lats out of total granted loans, most of all entrepreneurs from Vidzeme and Zemgale regions have trust to national currency. The amount of granted loans in these regions reached accordingly 85 and 86%.

3. Calculating amount of loans per capita, it may be concluded that the average amount in Latvia is LVL 1.63. But in regions the differences are notable (even 11 times) – from LVL 0.49 per capita in Riga region to LVL 5.35 per capita in Vidzeme.

4. The smallest differences are observed according to amount of granted loans by size of area – from LVL 37.96 in Kurzeme to LVL 86.75 per km² in Vidzeme.

In total for the loans of PNED 47% were granted out of available support.

Latvian Development fund (LDF) was a responsible/ administrative institution of program implementation. The institution was guarantying 101 loan in amount of LVL 456 505. To receive the loan, the necessary guaranty to entrepreneurship projects was from 50% to 70%. The guaranties given by LDF were from 3 up to 10 years long period.

Guaranties for loans were given for such sectors as rural tourism, wood processing, metal processing, road reconstructions, timber cutting, transport services, constructions, car services etc.

There were support payments available for the entrepreneurs. One payment could not exceed LVL 10 000. Support payment was granted after project was finished. One project could have as guaranties for loans as support payment at the end of project.

Table 3. GDP and the Programs Support Payments for Projects by regions of Latvia

| Region | GDP in 2007 | | Allotment of payment (LVL) | Granted payment (LVL) | Payment | | Granted payment LVL / mln LVL of GDP |
|---------|-------------|-----|----------------------------|-----------------------|----------------|--------------|--------------------------------------|
| | mln LVL | % | | | % of allotment | % of granted | |
| Riga | 9854 | 67 | 202 137 | 162 137 | 80.20 | 13 | 16.45 |
| Zemgale | 1180 | 8 | 402 963 | 285 683 | 70.90 | 22 | 242.10 |
| Kurzeme | 1518 | 10 | 317 959 | 262 375 | 82.50 | 20 | 209.45 |
| Vidzeme | 990 | 7 | 569 628 | 401 762 | 70.50 | 31 | 405.82 |
| Latgale | 1220 | 8 | 253 770 | 168 096 | 66.20 | 13 | 137.78 |
| Total | 14 762 | 100 | 1 796 980 | 1 280 053 | 71.20 | 100 | 86.71 |

Source: Centrālā statistikas pārvalde (2010) and authors calculations

The highest rate of granted payment was obtained in Riga region and Kurzeme – accordingly 80 and 82%. But granted payment structure does not conform to GDP structure created in regions. The smallest amount of granted payments structure is in Rigas and Latgales regions, but the biggest – in Vidzemes region. The differences are observed also according to granted payment amount calculated by each region's GDP – from LVL 16 in Riga region to LVL 406 in Vidzemes region, per million Lats of GDP.

During the implementation of program 244 support payments were granted, but in fact only 179 payments were done. In average one grant was LVL 7 151. 28 projects were rejected because of non-compliance to the requirements of PNED.

Since May 1, 2004 new applications were not admitted because the amount of required payments for projects exceeded the real amount of finances available and according to the rules of PNED it was a time to stop approve new projects, as Latvia became a member state of European Union.

To receive the support, implementation of the project should provide at least one of the benefits:

- creation or preservation of work places;
- receiving/increasing income;
- economical development of the enterprise;
- development of entrepreneurship in the area.

According to the requirements of PNED during the period of implementation LVL 6 758 385 were granted to the projects what would provide 656 new work places in rural areas. So from the previous we may see that the investment for one work place in average is LVL 10 302. Out of 244 approved projects 29 projects had aim to create new enterprise.

Main projects approved in the sectors like:

- wood-processing, wooden products production and wood exploitation;
- construction, gravel and sand pit elaboration;
- hotels, other kind short term settlement places and restaurants.

Most common aims of the projects were:

- purchase of equipment and facilities;
- reconstruction and construction of buildings;
- purchase of computers and programs (Nelauksaimnieciskās... 2004).

Special Accession Programme for Agriculture and Rural Development (SAPARD)

The European Council made a clear distinction between pre-accession expenditure and enlargement. Expenditure reserved for pre-accession could only be used during the pre-accession period. Once a country joins the European Union, it benefits from special enlargement assistance.

There were three instruments assisting the applicant countries until they joined the EU:

1. PHARE: consolidation of institutions, participation in Community programs, regional and social development, industrial restructuring and development of the small-business sector.

2. ISPA (Instrument for Structural Policies for Pre-Accession): development of transport and environmental infrastructure.

3. SAPARD (Special Accession Programme for Agriculture and Rural Development): modernization of agriculture and rural development (Tetere 2010).

Relation between rural policy and agricultural policy in Latvia during the work out of SAPARD program was confirmed to EU trends – directed to rural development. To create preconditions for integrated, multi-shaped and sustainable rural development, there was a Rural Development Program defined. This document along with Agricultural development conception determined state long-term planning and development aims for rural sector.

The main aspects in the Program were:

- development of agriculture, forestry and fishery;

- promotion of entrepreneurship in rural areas;
- diversification of rural areas;
- environment protection and rural cultural heritage preservation;
- improvement of infrastructure;
- development of educational system and cultural aspects.

Total amount available from SAPARD program for Latvia was EUR 203 333 169. At the end of the program there were 97.7% obtained. That indicates – planned amount of finances in total relatively was high.

There were four main subprograms under SAPARD. The third subprogram was set for Diversification of rural economy by promoting alternative incomes.

Within the subprogram there is couple important activities implemented to increase and diversify employment in rural areas, to increase employment opportunities outside the traditional agriculture and to promote use of renewable energy resources, in that way decreasing unemployment, increasing income of rural inhabitants, kinds of income sources and employment possibilities. Main sectors for the project implementation were technical services, rural development, craft, production of alternative heating, non-traditional agriculture. The biggest share (60%) of finances was obtained for rural tourism development.

Under this subprogram 391 projects were implemented in amount of EUR 35 883 972. The average size of the project was EUR 127 819.

This was the first program in Latvia what started to support non-agricultural activities in regions by EU support (Latvijas Lauksaimniecības un... 2007).

Planning Period 2004–2006

The Act of Accession (Annex II, Chapter 6) defines, for the period 2004–06, a special rural development regime for new Member States. This regime is mainly based on a new Temporary Rural Development Instrument (TRDI), funded by the EAGGF-Guarantee section, but operating using differentiated appropriations (as is already the case for SAPARD and the Structural Funds) – European Commission... (2003).

Simple Programming document (SPD) Priorities were set by the Latvian Government for 2004–2006 to promote economic and social cohesion, using EU Structural Funds financing. There were four priorities to be followed:

1. Promotion of balanced development (financed by ERDF).
2. Promotion of entrepreneurship and innovations (financed by ERDF).
3. Development of human resources and promotion of employment (financed by ESF).
4. Promotion of rural and fishery development (financed by EAGGF and FIG (Ministru kabineta 2006).

Under Priority 4 of the SPD there was an activity – *Reformation of rural areas and promotion of development*. One of the subactivities to diversify rural areas was *Promotion of rural tourism and craft*. The activity of project applicants was very low – only 60%. At the end of period 98 projects were implemented with an average sum of EUR 50 581 per project. The activity was available only in year 2004, as available finances were applied (Latvijas Lauku attīstības programma... 2010 b).

Planning Period – 2007–2013

To ensure the sustainable development of rural areas the new regulation focuses on three policy objectives: competitiveness of agriculture and forestry, land management and environment and quality of life and diversification of economic activities (European Commission... 2006).

The aim of Latvian Rural Development Plan 2007–2013 is set to support agricultural and rural development. For that reason four axes are formed:

1. Improvement of agricultural and forestry competitiveness (40% of EAFRD).
2. Improvement of environment and rural landscape (42% of EAFRD).
3. Promotion of rural life quality and its diversification (18% of EAFRD).
4. Implementation of Leader approach. (reserved 2.5% of EAFRD).

The aim of third axe is to diversify and develop entrepreneurship in rural areas, to support development of current infrastructure to stop economical and social recession. The support will be provided for creation of alternative income in rural areas, especially to create and develop micro enterprises. It will provide satisfaction of non-agricultural and non-forestry economies and welfare in rural areas by use of EAFRD. The main activities under this axe are:

1. Support for foundation and development of enterprises (including diversification of activities not related to agriculture).
2. Promotion of tourism activities.
3. Basic services for economy and inhabitants.
4. Preservation and renovation of rural heritage.

Financial support from EAFRD related to diversification of rural areas is for activities: 1., 2. and 4.

Activity **Support for foundation and development of enterprises (including diversification of activities not related to agriculture)** supports foundation and development of non-agricultural entrepreneurship in micro enterprises, especially in economies, where agricultural production is changed for another kind of production, prior supporting non-agricultural entrepreneurship in rural areas. There are subactivities supported:

- support for creation and development of micro enterprises;
- diversification of non-agricultural activities in agricultural enterprises;
- production of energy from biomass of non-agricultural and non-forestry origination.

Table 4. Expected Results of the Activity 1

| Subactivity name | Supported | | Created or preserved | | Average per enterprise |
|--|-------------|-----|----------------------|-----|------------------------|
| | Enterprises | % | work places | % | |
| Support for creation and development of micro enterprises | 2 300 | 75 | 5 000 | 57 | 2.17 |
| Diversification of non-agricultural activities in agricultural enterprises | 720 | 23 | 3 700 | 42 | 5.14 |
| Production of energy from biomass of non-agricultural and non-forestry origination | 55 | 2 | 120 | 1 | 2.18 |
| Total | 3 075 | 100 | 8 820 | 100 | 2.86 |

Source: Latvijas lauku attīstības... (2010 b) and authors calculations.

As we see the information from Table 4, 75% of total supported enterprises will have support under subactivity **Support for creation and development of micro enterprises**, but within the activity there will be 57% of work places created or supported. The biggest amount of work places per enterprises – more than 5, is planned for support subactivity **Diversification of non-agricultural activities in agricultural enterprises**, in such way there will be 42% of work places created or supported from total amount for this activity.

Activity **Promotion of tourism activities** supports non-agricultural activities in rural areas, by developing and improving rural tourism and services and infrastructure related to tourism. Supported subactivities are:

1. Reconstruction of current tourism housing up to 20 beds.
2. Construction and reconstruction of catering unit to purchase necessary equipment.
3. Construction and reconstruction of common kitchen, dining room, toilets and bathrooms in camps and hostels (construction of sauna is not included).
4. Diversification of tourism services.
5. Investment in environmental protection in rural tourism houses.

Expected results of the activity are: 366 supported tourism activities in amount of EUR 25 874 380; 19 900 extra visitors, 150 created work places.

Activity **Preservation and renovation of rural heritage** promotes cultural heritage preservation, renovation and improvement related to agricultural, forestry, reproduction and manufacturing sectors, providing accessibility and engaging to inhabitants and tourists. This activity includes support for: development of museum activities; development of professional education institutions. There will be 10 cultural heritage preservation activities supported. 5 500 inhabitants will profit from services improved (like internet access etc.)

The biggest investments in planning period 2007–2013 are planned to support foundation and development of enterprises not related to agricultural activities.

Rural Support Service aggregated information about obtained and paid out EAFRD resources.

Table 5. Expected Investments and Implemented Projects and Allocated EAFRD up to 24.09.2010 in Latvia

| Activity | EAFRD finances | | Allocated Fund | | Implemented projects |
|---|----------------|-----|----------------|--------------------------|----------------------|
| | EUR | % | EUR | expected investments [%] | |
| Support for foundation and development of enterprises | 114 765 747 | 91 | 10 256 836 | 9 | 103 |
| Promotion of tourism activities | 10 349 752 | 8 | 504 908 | 5 | 28 |
| Preservation and renovation of rural heritage | 1 548 961 | 1 | 446 897 | 29 | 5 |
| Total | 126 664 460 | 100 | 11 208 641 | 9 | 136 |

From the latest information, the table 5 shows that acquiring of the fund is very inactive. Most activities are run under Support for foundation and development of enterprises, but the biggest amount obtained for the activity Preservation and renovation of rural heritage. There are more projects in process of implementation.

CONCLUSIONS

1. In the world there is no common definition for rural area. Mainly considered is population density. Any way socioeconomic aspects should be considered as most important classification of rural areas. In Latvia rural area is whole territory of Latvia, except cities of Republic meaning and units of municipalities – towns with amount of inhabitants over 5000.

2. Discussions about the necessity to promote rural development have started since 70th of previous century in EU, and still only from 2000 the purposeful policy is introduced, what continuous at present. Within the framework of CAP, rural development becomes more and more important. For the financing of rural development activities since 2007 the European Agriculture Fund for Rural development is created.

3. In the period of pre-accession, Latvia had special program for financing non-agricultural activities from state budget, where 213 loans were granted. The granted amount of loans was not equal to the regions. The biggest amount was granted to Vidzeme, the smallest amount – to Latgale and Riga regions according to amount of inhabitants and size of territory. Besides the loans there was planned to pay grants for non-agricultural activities, but only 71% was paid out.

4. Latvia has received a significant financial support from the European Union to support non-agricultural activities in rural areas for many years (three planning periods). Sufficient activity of project applicants was observed for first period – 2000–2004 from SAPARD programme. The lowest activity was observed in second period – 2004–2006, but mostly it may be explained due to financial shortage for this activity from the EAGGF. The current period is just started, so it is difficult to analyse the results, as the most active applicants are at the end of planning period. Although 3.5 years have passed since the beginning of the period, only 8.85% of available EAFRD are obtained.

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