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Improving of small farm market capability in Latvia

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Abstract

The aim of the paper is to analyze the possibilities to improve the market capability of small farms in Latvia. Therefore the paper deals with the factors constraining development plans of small farm holders, the current possibilities for improving small farm market capability, the possible development strategies to choose, and proposals for the improvement of small farm market capability in Latvia. The most significant barriers to implement the development plans for Latvian small farms are the lack of the production assets and also the difficulties to attract funding for long-term investments and current assets, as well as poor market infrastructure. The existing support measures have had a positive impact on the structural changes in Latvian agriculture; however, these measures have not been sufficient to solve the problems of the market capability of small farms and to contribute to their economic growth sufficiently. In order to improve the market capability of small farms of Latvia, programmatic approach is proposed consisting of four components: 1) training, 2) development of a business plan, 3) evaluation of a business plan, and 4) implementation of the business idea. Different instruments for the implementation of business ideas are attractable depending on whether the owner has selected the implementation of full-time agricultural strategies, part-time agricultural strategies or business diversification strategies.

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1. Introduction

Latvian agriculture is characterized by a large number of small farms – 95% of the total number of farms (79 130 farms in total numbers) are with the standard output less than 25 thousand EUR (CSB, 2011).

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These farms employ 79% of the total agricultural labour force (in annual work units (AWU)), hold about half of the total utilized agricultural area (UAA), but produce just 30% of the total standard output of Latvian agriculture. Along with the apparent low production level and productivity at these farms, they also receive small cash income due to the high level of self consumption and low volumes of sales.

The typical portrait of the average farm in Latvia (i.e, small farms) is summarized in Table 1.

Table 1. The typical portrait of the average farm in Latvia and in EU countries (Eurostat, 2013)

Indicator	Latvia (on average)	EU countries (on average)
UAA per farm, ha	21.5	14.4
Labour force per farm, AWU	1.0	0.8
Output per farm, EUR	9 320	25 450
Output per ha of UAA, EUR	433	1 770
Output per AWU, EUR	9 127	31 325
Share of farms with more than 50% of self-consumption	71%	27%

If compared to the portrait of the average farm in the EU, we can see a weak market capability of Latvian small farms - they are only partly market oriented and have questionable economical viability.

The weak viability of the small farms manifests itself in the tendency of declining number of farm numbers in Latvia. If year 2010 is compared just to the 2005, the number of small farms has decreased by almost 40% in Latvia (CSB, 2011).

According to statistical information, the similar situation with the large share of small farms in the total farm structure is typical also for some other EU countries like Lithuania, Poland, Romania and Bulgaria and they also face the decreasing tendency in number of small farms.

In the research literature, it can be found that generally subsistence oriented agriculture is linked with low level of economic development; it is considered that it lacks efficiency of resource use, especially labour (for example, Heidhues & Brüntrup, 2003; Braun & Lohlein, 2003). Though, there is also acknowledgment of the safety net nature of subsistence farming, as well as it can be a strategy selected by choice to satisfy lifestyle and consumption preferences (Fredriksson, Davidova & Bailey, 2010). Taking into account the current trends and general considerations regarding subsistence agriculture, it could be assumed that the tendency towards decreasing number of farms will continue in Latvia. Therefore, it was rather surprising that the survey conducted by the authors to obtain the intentions of small farm holders in Latvia showed large number of these farms planning the development. Finding solutions to support the development needs of these farms is a new challenge to face, and it is necessary because those processes affect close to two hundred thousand people in Latvian rural areas.

The aim of this paper is to analyze the possibilities to improve the small farm market capability in Latvia. Therefore the tasks were set to analyze the factors constraining development plans of small farm holders; to analyze the current possibilities for improving small farm market capability; to define the possible development strategies to choose, as well as to make proposals for the improvement of small farm market capability in Latvia.

The research methods used in the paper include academic publications analysis, statistical data analysis, and a survey of small farm holders. The small farm survey was conducted in Latvia in May-June, 2013. A mechanical sampling was applied for the survey to guarantee random sampling and to be able to analyse the data by statistical methods. Ranking analysis was used to range and analyze the development impact factors and importance of current support measures. Descriptive statistics and the analysis of cross tabulations were also used in the research.

In the context of this research the small farms are considered to be with the standard output less than 25 thousand EUR. The market capability the authors define as a market orientation and economic viability of the farms.

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