STRATEGY, FINANCING AND CONTROL OF RURAL DEVELOPMENT PROJECTS

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To achieve the objectives set out in National Rural Development Strategy Plan, conditions and activities consistent with utilization of Community’s and Latvia’s financial resources will be laid down in Latvia’s Rural Development Program – single for the whole country. Under the Rural development Programme priority will be given to the projects which will to higher degree promote the attainment of the objectives of the strategy.

From 2007 to 2013 about EUR 900 million of EU funding will be available for Latvia for agriculture and rural development activities. A program for securing agriculture and rural development loans for 2007-2013 will be one of the tools that will ensure successful uptaking appropriations of the European Union Funds for rural development for the next programming period. The Rural Support Service controls the effective use of financial resources and monitors risk factors under the contracts concluded in compliance with the EU Regulations. The terms of project implementation and records are verified on the spot on the project implementation site by selecting enterprises in order of financial importance and other risk factors.

Key words: Structural funds, monitoring, financing, control, loan guarantees.

JEL Classification: H11, F36.

Introduction

Becoming an EU Member State, Latvia started to receive funding from EU structural funds – financing for equalizing socio-economic conditions in the country. To receive the financing in 2004-2006, it was necessary to prepare a Development Plan which included the strategy of the government of Latvia and the priorities to which the financing from Structural funds should be directed.

Latvia took the necessary measures to create the institutional and legal basis in the area of foreign non-refundable technical assistance that would comply with the goals, main statements of assisting organizations’ activities and types of assistance (structural and regional policy in Latvia), thus creating basis for the efficient use of the received finances. In compliance with the Order of the Minister of Finance of the Republic of Latvia, the Department of European Union Funds at the Ministry of Finance in Latvia is responsible for executing the tasks of the leading institution when managing EU Structural funds. Effective use of Structural funds also depends on the practical experience gained during implementation of SAPARD program projects. The information received from the ex ante midterm evaluation performed by “Halcrow Group Limited” allowed to preclude part of the risk factors or to soften their negative effects.

Various aspects of strategy and financing of rural development projects have been investigated by many foreign and Latvian researchers. For example, there are many studies to discuss how and when to implement the reformed Common Agricultural policy (CAP) in the new Member State of the European Union (EU) so that the chosen option facilitates a sustainable development of agriculture and rural territories in the context of the EU CAP: Miglavs, 2005; Wichern, 2004; Saktiņa, 2005; Rukmanis, Pilvere, 2006; Meyers, 2005; Rabinowicz, 2004; Jakušonoka, 2005; Kazlauskiene, 2004.

Research goal: to analyze the results of uptaking EU funding from the perspective of subprograms and regions, as well as in comparison with Lithuania and Estonia, collecting data about the uptaking of the financing of European Agricultural Advancement and Guarantee Fund (EAAGF) and the most important prerequisites to ensure effective control of the use of EU funding, based on the requirements of EU Regulations on monitoring risk factors.

Tasks:
- to characterize the economic prerequisites influencing attracting EU Structural funds;
- to elucidate the results of attracting SAPARD financing in Latvia, Lithuania and Estonia;
- to characterize the submission process and outcomes of the projects to be executed within framework of European Agricultural Advancement and Guarantee Fund (EAAGF) on October 1, 2006;
- to characterize strategic decisions to balance financial resources of 2007-2013 planning period, including working out the mechanism for issuing loan guarantees;
- to analyze the role of control mechanisms in ensuring risk management in administering EU Structural funds.

1 Fields of research interests: Financing of Rural Development, Capital Structure in Agricultural Companies, Development and Financing of Small Enterprises in Rural Area.

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Materials and Methods. Laws and regulations of the EU Commission and statistical materials, materials of Ministries of Agriculture and National Payment Agencies of Lithuania and Estonia, data from Central Statistical Bureau of Latvia, Ministry of Agriculture of Latvia and Rural Support Service, Ministry of Economy and Ministry of Finance of Latvia, legislative acts and laws and regulations of the Republic of Latvia, as well as previous research and experience in this field have been used.

To achieve the above mentioned goals, different research methods have been applied: logically constructive and inductive method, statistical data processing, as well as statistical sampling and graphical method.

Evaluation of the Uptaking of SAPARD and EA-AGF Financing

To achieve the objectives set out in National Rural Development Strategy Plan, conditions and activities consistent with utilization of Community’s and Latvia’s financial resources will be laid down in Latvia’s Rural Development Program – single for the whole country. Under the Rural development Programme priority will be given to projects which will to higher degree promote the attainment of the objectives of the strategy. It will be done by application of such criteria as development index of the territory, age of applicant, justification of the need for project and viability (Latvian Rural Development …, 2006).

Due to the implementation of the Rural Development Program of Latvian Rural Development Plan in 2004-2006, as well as due to starting the Single Program Document, the operation of SAPARD Agriculture and Rural Development Program of Latvia has been terminated, but the execution of liabilities the country had taken on when signing contracts with the beneficiaries within the framework of SAPARD program is continuing.

Efficient use of the financing of EU SAPARD program in Latvia took place due to the professional and qualitative work of the internationally accredited Rural Support Service (RSS). In a tough period from September 2001 when the first SAPARD projects were accepted till September 1, 2004 RSS reviewed 2103 projects (Summary Report on SAPARD …, 2004). 1811 projects were approved. Their total finances were 159 million Lats. 826 projects of them, or 45.6% are in the subprogram “Modernization of Agricultural Technique, Equipment and Buildings”, 441 project, or 24.4% - in the subprogram “Diversifying Agricultural Industry by Enhancing Alternative Sources of Income”, 281 project (15.5%) was approved in the subprogram “Afforesting Agricultural Land”, 150 projects (8.3%) – in the subprogram “Improving Common Rural Infrastructure”, but 105 projects (5.8%) – “Improvement of Processing and Marketing of Agricultural and Fishing Industry Products”. Comparative analysis of the financing of SAPARD projects in Latvia, Lithuania and Estonia approved by October 25, 2004 showed that:

- concerning the amount of projects, in all three countries the most active investment was in 1.1. subprogram “Modernization of Agricultural Technique, Equipment and Buildings”, while the most capacious investment projects are concentrated in 2.1. subprogram “Improvement of Processing and Marketing of Agricultural and Fishing Industry Products”. The investment amount, calculated per one project approved in 2.1. subprogram, exceeded 1 million Lats in Lithuania, while in Latvia it is twice less – approximately 0.5 million Lats;
- in all subprograms Lithuania has invested 1.6 times more in total than Latvia and 1.9 times more than Estonia, which is an evidence for a targeted concentrating of investment in fewer objects. On the contrary, Latvia has covered twice bigger number of support beneficiaries than Lithuania. (Jakušonoka (1), 2005).

The administration procedure of SAPARD projects envisaged carrying out ex ante evaluation after a certain period of program implementation.

Midterm evaluation (ex ante evaluation) of the implementation process of SAPARD program by June 30, 2003, has allowed identifying and assessing risk factors that may influence the efficiency of uptaking funding (Final report SAPARD …, 2003):

- inability to uptake potentially available funding of certain subprograms;
- bank refusal to credit a number of agricultural holdings, whose security mortgage was considered to be insufficient;
- difficulties to comply with the company’s economic sustainability criterion at the beginning of the program (before the change of the criteria in August 2003);
- insufficient cooperation between the banks and the Rural Development Fund concerning credit guarantees in less developed regions;
- insufficient accruals of cash to start the investment project. The fact that 80-100% of the SAPARD money is used to cover the bank loan from the moment the money is paid (Final Report SAPARD …, 2003);
- the long project evaluation period that often contradicts the project implementation terms and the wide range of documents required for receiving the financing;
- difficulties to organize price tenders in the country-side;
- influence of the trade monopolies when preparing cost estimates for the purchase of the technique (Ex-ante, 2003);
- limited possibilities of the communities to participate in SAPARD projects within the framework of the maximum level loan as provided by legislation.
The accomplishing of the goals of agricultural development, started within the framework of SAPARD program, is continuing in compliance with the priorities and goals stated in the Development Plan of Latvia (Single Program Document - SPD), using financing of EU Structural Funds.

Similarly to the EU pre-accession period SAPARD, Latvia government ensures 25% financing from the total amount of justified expenses also when uptake financing of Structural Funds. SPD puts forward three most significant mid-term goals: development of the competitiveness and facilitation of employability, development of human resources and improvement of infrastructure. To achieve the above goals, SPD has set four priorities:

1. Facilitation of balanced development (ERDF),
2. Facilitation of entrepreneurship and innovation (ERDF),
3. Human resource development and facilitation of employability (ESF),
4. Facilitation of Agricultural and fishing industry development (EAAGF and FIMFT).

On September 30, 2006, in SF Management Committees of Projects were agreed for 80.67% of the total available SF financing (see Table 1). The largest progress can be observed within the framework of European Structural Fund (ESF) – 92.16% of the available funding. The considerable progress in the European Agricultural Advancement and Guarantee Fund (EAAGF) also has to be mentioned – approved projects for 97.79% of the available funding. Close to maximum are also projects approved within the framework of Fishing Industry Management Financing Tool (FIMFT) – 85.10% of the available funding. 72.35% of the available funding has been approved for the projects in European Regional Development Fund (ERDF). SF beneficiaries have been paid 23.26% of the totally available SF financing, including 61.74% paid from EAAGF and 46.07% from FIMFT.

When analyzing activity of the entrepreneurs submitting projects to uptake EAAGF funding across the regions, it turned out that entrepreneurs from Ziemelvidzeme, Ziemelkure and Dienvidkure, Lielriga and Viduslatvija have submitted the largest number of projects (Summary …, 2006). The interest of businessmen in EAAGF after accession to the EU has been facilitated by the big amount of co-financing. If in SAPARD programs on average 45% of the justified costs were paid back for investment in agriculture and processing industry, then in EAAGF the co-financing part is 50%, with an opportunity to increase it to 60% if the project is implemented in less favorable regions, which refers to 74.4% of the entire territory of Latvia.

The activity in submitting projects is very high, the planned amount of financing for several activities has already been exceeded and the acceptance of projects has been terminated. In total, the number of the signed contracts for Priority 4 activities is 2430 on October 1, 2006, with the total public financing in the amount of LVL 94.9 million, while 1515 contracts have been paid for. The total amount of support for the latter is LVL 62.9 million.

The biggest number of Project applications and signed contracts is in 4.1. sub-priority activity 4.1.1. "Investment in Agricultural Holdings" (see Table 2). During the analysis the beneficiaries who have signed the contracts were grouped according to the type: farms, limited liability companies, joint stock companies, sole proprietorships and individual businessmen, physical persons.

On October 1, 2006, the total support financing for investment in agricultural holdings, according to the signed contracts (713) is 33,784,785 Lats (Signed ..., 2004), i.e. calculating per one enterprise – 47,384 LVL (see Table 3). However, it differs significantly as to the type of the enterprise: limited liability companies and joint stock companies have on average 2.3 times larger support (88,309 LVL) than farms (37,585 LVL).
Table 2. The number of contracts and amount of support (EAAGF and national) on October 1, 2006, LVL.

<table>
<thead>
<tr>
<th>Measures</th>
<th>Contracts and amount of support</th>
<th>01.10.2004</th>
<th>1.10.2006</th>
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</thead>
<tbody>
<tr>
<td>4.4.1. Investment in agricultural holdings:</td>
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<td></td>
<td></td>
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<tr>
<td>number of contracts</td>
<td>355</td>
<td>713</td>
<td></td>
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<tr>
<td>total amount of support, LVL</td>
<td>15 905 802</td>
<td>33 784 785</td>
<td></td>
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<tr>
<td>per project, LVL</td>
<td>44 805</td>
<td>47384</td>
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<tr>
<td>4.4.2. Setting up of young farmers:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>number of contracts</td>
<td>73</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>total amount of support, LVL</td>
<td>1 146 221</td>
<td>4 780 660</td>
<td></td>
</tr>
<tr>
<td>per project, LVL</td>
<td>15 702</td>
<td>15936</td>
<td></td>
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<tr>
<td>4.4.3. Improvement of processing and marketing of agricultural products:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>number of contracts</td>
<td>10</td>
<td>32</td>
<td></td>
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<tr>
<td>total amount of support, LVL</td>
<td>7 338 756</td>
<td>20 728 261</td>
<td></td>
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<tr>
<td>per project, LVL</td>
<td>773 876</td>
<td>647758</td>
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<tr>
<td>4.4.4. Promotion of adaptation and development of rural areas:</td>
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<td></td>
<td></td>
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<tr>
<td>number of contracts</td>
<td>29</td>
<td>399</td>
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<tr>
<td>total amount of support, LVL</td>
<td>1 205 102</td>
<td>27 896 857</td>
<td></td>
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<tr>
<td>per project, LVL</td>
<td>41 555</td>
<td>69917</td>
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<td>4.4.5. Forestry development:</td>
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<td></td>
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<tr>
<td>number of contracts</td>
<td>12</td>
<td>983</td>
<td></td>
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<tr>
<td>total amount of support, LVL</td>
<td>104 729</td>
<td>5 591 574</td>
<td></td>
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<tr>
<td>per project, LVL</td>
<td>8 724</td>
<td>5688</td>
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</tbody>
</table>

Source: own calculations based on the data of the Latvian Rural Support Service, 2004; 2006

Table 3. The number of contracts and amount of support (EAGGF and national) on May 18, 2006, LVL.

<table>
<thead>
<tr>
<th>Measures</th>
<th>Contracts and amount of support</th>
<th>Including</th>
<th>farms</th>
<th>joint-stock companies, Ltd and others</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.4.1. Investment in agricultural holdings:</td>
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<tr>
<td>number of contracts</td>
<td>714</td>
<td>577</td>
<td>137</td>
<td></td>
</tr>
<tr>
<td>total amount of support, LVL</td>
<td>33 784 785</td>
<td>21 686 522</td>
<td>12 098 263</td>
<td></td>
</tr>
<tr>
<td>per project, LVL</td>
<td>47 318</td>
<td>37 585</td>
<td>88 309</td>
<td></td>
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<tr>
<td>Financing of Structural Funds</td>
<td></td>
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<tr>
<td>number of contracts</td>
<td>18 437 081</td>
<td>11 652 338</td>
<td>6 784 743</td>
<td></td>
</tr>
<tr>
<td>total amount of support, LVL</td>
<td>25 822</td>
<td>20 728 261</td>
<td>49 524</td>
<td></td>
</tr>
<tr>
<td>per project, LVL</td>
<td>15 347 704</td>
<td>10 034 184</td>
<td>5 313 520</td>
<td></td>
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<tr>
<td>National co-financing</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>number of contracts</td>
<td>21 495</td>
<td>17 390</td>
<td>38 785</td>
<td></td>
</tr>
</tbody>
</table>

Source: own calculations based on the data of the Latvian Rural Support Service, 2006


The next programming period foresees changes in the institutional structure of the introduction of EU agriculture and fishing industry policy. CAP market and the support for direct income will still continue to be financed from EAAGF Guarantee part but the other activities for the agricultural and rural development will be co-financed from one fund – European Agriculture Fund for Rural Development (EAFRD). Thus rural development program for the next programming period will cover support activities that will be co-financed from EAFRD. But support activities in fishing industry will be provided in a separate Action Program for Introducing European Fishing Industry Support in Latvia for 2007-2013.

The rural development program for Latvia in 2007-2013 is currently being worked out. It is planned to ensure support on three main axis in it: 1) to enhance the competitiveness of agricultural and forestry industries; 2) to improve the environment and rural landscape; and 3) to facilitate the quality of rural life and diversification of economics and the 4\textsuperscript{th} axis – Leader program – development of local partnership network, implementation of cooperation projects, implementation of innovative approaches and the multi-industry concept.

Support activities should facilitate the achievement of the goal defined in the Strategy of Rural Development of Latvia for 2007-2013 in the following directions:
- development of the abilities of rural residents;
- generation of income from labor in rural areas;
- development of the rural environment complex;
regionally balanced socially economical development. (from the Strategy of the Ministry of Agriculture).

To achieve the above, the European Commission strategic system has to be put in place. It would determine principles and priorities of rural development in connection with the needs of EU different rural territories, stating the measures and working out the typology of rural territories that would ensure the satisfaction of the needs of these territories.

The strategic system for the implementation of the support has to serve as the basis for Member States when working out the national development strategy at the regional level in their own countries, which would clearly define how the rural development funds will be supplemented from the other EU funds (including also the common agricultural policy and Structural Cohesion funds).

In their national strategies the Member States should indicate different financial intensity of the support policy in connection with the typology of the territories and the priorities set by the Commission. (Saktina and Meyers, 2005).

The legal basis of the CAP for the 2007–2013 programming period is:

- Decision of the Council of Europe on the Strategic Statements of the Community Rural Development (2007–2013 planning period);

National normative documents (Law on the Agricultural and Rural Development, annual state budget laws, etc.) comply with these Regulations of the Council of Europe and European Commission, as well as the strategy and planning documents that are still at the initial stages of being worked out.

**Types, Objectives and Measures of EAFRD Support**

Support programs financed by EAGF will be the direct payments, not related to production, to the farmers, as well as measures stabilizing the market of agricultural products, such as export of agricultural products to the third countries, financing compensation and intervention measures that so far were financed from EAGF Guarantee Payment part. The support activities financed by EAGF will by nature continue the activities supported by EAGF Guarantee Payment part supported so far. The transfer of financing these measures to the new fund in principle will neither affect the amount of the available funding, nor the most significant requirements for receiving the funding.

EAFRD began its operation from January 1, 2007. The strategy of use of EAFRD for the next planning period of 2007–2013 was provided by the Regulation No.1698/2005 of the Council of Europe of September 20, 2005, on the Support for Rural Development from the European Agricultural Fund for Rural Development.

<table>
<thead>
<tr>
<th>Axis</th>
<th>Indicative division of ELFLA financing, %</th>
<th>Mill. EUR (indicative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>50</td>
<td>487</td>
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<tr>
<td>2)</td>
<td>74</td>
<td>359</td>
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<tr>
<td>3)</td>
<td>15</td>
<td>723</td>
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<td>4)</td>
<td>11</td>
<td>556</td>
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<tr>
<td>2)</td>
<td>30</td>
<td>292</td>
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<tr>
<td>3)</td>
<td>85</td>
<td>248</td>
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<td>3)</td>
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<td>437</td>
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<tr>
<td>3)</td>
<td>20</td>
<td>195</td>
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<td>2)</td>
<td>57</td>
<td>110</td>
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<tr>
<td>3)</td>
<td>43</td>
<td>847</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>973</td>
</tr>
</tbody>
</table>


Although the EU terms provide that the determining of the amount of financing every individual activity is the competence of each Member State, in order to ensure coordination and achievement of the basic goals of EAFRD in all EU Member States, the Regulation provides the minimum absolute amount of financing that has to be directed to the four axis and their goals respectively:

- at least 10% of the total EAFRD investment should be allocated for every measure included on axis 1 and 3;
- at least 25% of the total EAFRD investment should be allocated to axis 2 measures;
- at least 5% of the total EAFRD amount of finances should be allocated to axis 4, but this allocation can be reduced to 2.5% in relation to the new Member States.
According to the currently available Project of financial perspectives of the next programming period, during 2007-2013 approximately EUR 900 million of the EU funding will be available for the measures of agricultural and rural development in Latvia. EUR 210 million of the co-financing from Latvia has to be added to this amount (assuming that the average co-financing rate for Latvia is about 23%). In total it equals to EUR 1,110 million over a seven-year period or EUR 158.6 million per year. (Rukmanis, Pilvere, 2006).

A rural development strategy should also envisage: the encouragement towards more business activities, the creation of off-farm employment, improving the attractiveness of certain rural areas. (Wichern, 2005).

Within the process of development of Latvian National Rural Development Strategy Plan, the correlation is secured with other Community policies: Regional Policy, Common Fisheries Policy, etc. The following complementary criteria are set for other European Union funds (European Social Fund, European Fund for Regional Development, European Fisheries Fund):

- On promoting agricultural entrepreneurship in conformity with Axis 1 – the complementary for ERDF and EFF, the projects should be related to the production and processing of agricultural (except fisheries) products;
- Projects related to innovations in agricultural product production and processing shall be financed from ERDF, however investments related to the production of these products will be financed from EAFRD;
- For promotion of the entrepreneurship within Axis 3 – the complementary for ERDF, only the micro enterprises in rural areas will be supported under EAFRD, whereas other projects will be financed from ERDF;

Control, Loan Guarantee System and Risk Management

To ensure introduction of SF and CF according to the concentrated model, three operational programs are being worked out. They provide the responsibility of the involved institutions and the division of duties.

It is planned that in the concentrated model the intermediary institution performs the following functions:

1. Working out the OP (within the framework of industry competence) – (analysis, strategy, priorities, criteria, etc.);
2. Working out implementation terms (criteria, attributable expenses, corresponding activities, etc.);
3. Financial planning;
4. Monitoring at the priority level;
5. Project selection and approval;
6. Project implementation management, signing contracts, monitoring the implementation;
7. Control and monitoring on the spots where the Project is implemented;
8. Checking and approval of the payment orders, preparing expenses declarations;
9. Advertising and publicity activities at the priority level and measures level.

To preclude financial risks, financial control of the projects is performed. Financial assessment ensures that the costs planned in the projects, are feasible, optimally planned, correspond to market prices and the planned activities and ensure observance of all financial management principles.

As provided by Regulation 1260/1999 of the Council of EC, the Ministry of Finance of the Republic of Latvia and the Monitoring Committee collect data and ensure three-level monitoring indicators:

1) influence indicators that are defined at the program level;
2) results indicators that are defined at the priority level;
3) outcome indicators that are defined at the level of measures.

The indicators reflect the outcomes of the Single Program Document implementation stages and the process of implementing the Financial Plan. To ensure storage of reliable financial and statistical information and a computerized monitoring information exchange system, implementation of a special Management information system is continuing.

The measures to be taken to perform financial management and monitoring are provided by the Regulations 1260/1999 and 438/2001 of the Council of EC, including the verification of costs and control activities. The beneficiary is responsible for the complete project accounting as provided by the signed contract with LAD, while LAD ensures the accounting of the finances of the Structural fund paid to the beneficiary and the co-financing from the state budget.

There are three main elements of financial control: checking of the management and control systems, selective control of the activities, and the declaration program at the end of the program. Control of certain activities on the spot checks the supply of the co-financed products and services and the existence of the declared expenses (Regulation 438/2001). Selective controls comprise not fewer than 5% beneficiary candidates a year. The candidates to be controlled on the spot are determined, based on the risk analysis and sufficiently representative sampling elements as provided by the Article 19 of the Regulation No.2419/2001 (EC).

The control comprises all the liabilities and duties of the beneficiary candidate, which can be controlled on the spot. Pre-project physical control of the building projects is also carried out. Pre-payment physical control is provided for all projects.

Farmers that are subject to controls on the spot, are chosen by RSS, based on the risk analysis and taking into account the representation coefficient of the submitted applications for financing (Regulation 2419/2001). When perfor-
ming risk analysis, the volume of the support and other significant indicators are taken into consideration. All projects, the total amount of financing of which exceeds EUR 200,000 or LVL 130,000 are subject to mandatory controls. It is advisable to control projects with the financial support above EUR 90,000 or LVL 58,000, while in specific cases the so-called “little projects” with the financial support less than EUR 10,000 or LVL 6500 are controlled. When summarizing information about the signed contracts between the beneficiaries of EAAGF Advancement part in 4.1.1. activity “Investment in Agricultural Holdings” it is planned that the mandatory controls will include not fewer than 17 “big” projects (above LVL 130,000), not fewer than 65 projects above LVL 58,000 and in special cases certain “small” beneficiaries (below LVL 6500) will be controlled according to the judgment of RSS. As a Payment Agency in the case of need the RSS can apply sanctions that include reducing the financial support, its termination or even exacting.

Rural entrepreneurs face credit constraints and limited access to investment support.

Territorial and differentiated targeting can be more equitable AND more efficient: targeting can speed up economic convergence, targeting may have larger investment impact. New financial framework can be used most effectively to achieve policy goals (Meyers, 2005).

State joint stock Company “Rural Development Fund” guarantees short and long term loans issued to rural entrepreneurs by banks, credit institutions and other specialized financial institutions. Basing on the guarantees issued by the “Rural Development Fund” rural entrepreneurs in 2005 were able to receive loans for the total amount of 30.73 million LVL, including for acquiring of the EU structural funds – 17.98 million LVL.

Agriculture and Rural Development Loan Guarantee Program for 2007-2013 will be one of the tools to ensure successful uptaking of the financing of the funds of the European Union for rural development for the next programming period. The goal of the program is to ensure a continuous and demand-appropriate opportunity for the rural entrepreneurs to receive loan guarantees in case of insufficient loan security that will also allow the small rural farms and holdings to use the EU funding for modernization and development. To implement the program, during 2007-2013, credit resources in the amount of 160 million in total will be attracted to the rural development in Latvia. To ensure effective use of the attracted credit resources it was planned to assign 1790 loan guarantees, with the total guaranteed amount of money – 51 million Lats (Order of the Cabinet of Ministers No.569, of July 28, 2006). To execute the program by the end of 2006, it was planned to resign the cooperation agreements of the Rural Support Fund with commercial banks. It was planned to work out and ratify the Regulations of the Cabinet of Ministers on state guarantees for rural entrepreneurs and agree the Regulations with the European Commission, providing the procedure that FKTK look at fund guarantees as state guarantees, whereas the national budget should include this state guarantee for the issued guarantees and the ones that are in force (as required by the new EU bank monitoring requirements from January 1, 2007). Such a mechanism of credit guarantees will significantly reduce the impact of risk factors and will increase the project efficiency (see Table 5).

<table>
<thead>
<tr>
<th>Table 5. Main tasks to achieve the program outcomes for the Agricultural and Rural Development credit guarantee program for 2007-2013</th>
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<tbody>
<tr>
<td>Types of activities to be supported (measures)</td>
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<td>Target territory</td>
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<td>Beneficiaries</td>
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Guarantee of risk can be in term for program implementation (1.01.2007.-10.12.2013), but the final term for the guarantee is 30.12.2023. The Fund takes the risk only for the remaining part of the basic amount of the guaranteed loan; the cooperating banks take the risk for the other part. To avoid risks of the bank system it is planned to diversify the placement of RDF funding. Should the RDF lose its reserve capital, the Ministry of Agriculture
of the Republic of Latvia as the holder of the Fund shares turns to the Cabinet of Ministers with a proposal to cease the program or reduce the types of supported measures. State guarantee for LVL 32.75 mill. is included in the budget of 2007.

Conclusions

1. Under the Rural development Programme priority will be given to projects which will to higher degree promote the attainment of the objectives of the strategy.

2. The comparative analysis of the approved SAPARD financing in Latvia, Lithuania and Estonia indicated that Latvia has covered the largest number of support candidates but Lithuania has concentrated investment in a smaller number of projects in a targeted manner.

3. Ex ante evaluation of SAPARD program has allowed to assess risk factors that preclude the efficiency of the uptaking process and to reduce their impact significantly.

4. Latvian enterprises have dynamically and actively got involved in the uptaking of EAAGF funding; the most actively the submission of projects has taken place in 4.1.1. activity “Investment in Agricultural Holdings”, while the most active regions were Ziemelvidzeme and Kurzeme.

5. Grouping of EAAGF beneficiaries according to the type of their business indicated a significant difference between the farms, joint stock companies and limited liability companies in the amount of financial support.

6. Evaluation of the financial risks and control of project finances allow performing qualitative control of the use of project finances as provided by the Regulations of the EC.

7. It is important to use all three elements of financial control: checking of management and control systems, selective control for certain expenses, as well as declarations at the end of the program.

8. New financial framework can be used most effectively to achieve policy goals.

9. The operation of the Rural Development Fund should be based on a new loan guarantee system designed specially for the new programming period, which will allow ensuring more efficient use of the EU financing and will reduce the risk factors.

10. A mechanism of credit guarantees will significantly reduce the impact of risk factors and will increase the project efficiency.

References


