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IN THE CONTEXT OF RURAL DEVELOPMENT
IN LATVIA**

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CONTENT

1	Introduction and background	4
1.1	An introduction to rural employment.....	4
1.2	Agricultural employment	5
1.3	Non-agricultural employment	6
2	The context of rural employment	6
2.1	New employment opportunities	6
2.2	Education and skills – levels, access and provision	7
2.3	Other key factors in employment (if any)	8
3	Specific rural employment issues	9
3.1	The nature of under-employment.....	9
3.2	The scale of semi-subsistence farming.....	9
3.3	The implications of the ‘Lisbon Strategy’.....	10
4	Overview and prospects	11
5	References	12

1 Introduction and background

1.1 An introduction to rural employment

In Latvia in 2005, 31% of the total number of residents aged 15-74 years (persons involved in Labour Force Survey) were living in rural territory.¹ Although the rural population is decreasing every year in line with the decrease of total population in country, the number of persons aged from 15 to 74 in rural areas have an increasing tendency. The main reason is the comparatively big share of children (17% in 2004) in the rural population.

The employment rate in rural areas in 2005 was 54.2%, behind the urban employment rate at 58.5%. In 2005, the employment rate for men comprised 60.5%, for women 47.9%, although there are no significant differences by gender in unemployment rate² (8.1% of men, 6.5% of women).

The unemployment rate in rural areas in 2005 was 7.4% (see Table 1), which is the lowest unemployment rate since 1998. Despite a high urban unemployment rate (9.3% in 2005), the actual level of unemployment in rural areas is substantially higher, because there are several forms of hidden unemployment, for example, a proportion of unpaid family members in rural areas, number of part-time workers (81% of those permanently employed in agriculture), seasonally employed, and as well as that, the status of an employed person is applied also to persons who work in their household or private farm for their own consumption as a significant source of income.

The average level of rural employment has been quite stable since 2000. The main problem in the Latvian rural labour market is related to regional differences of employment. There are high unemployment rates in regions further away from the capital city Riga, especially in Latgale region (14.3% in 2004).

The employment structure of the population in rural areas is dominated by primary sectors – agriculture, hunting and forestry, as well as in the services sector. In 2004, primary sectors involved 36.4% of all employed rural inhabitants; 41% of those employed in rural areas work in the services sector and 21.7%³ - in industry.

Table 1 Main indicators of employment in rural territory in 2004 and 2005, thsd population

Rural territory	2004			2005		
	Total	Man	Woman	Total	Man	Woman
Persons aged from 15 to 74 years	565.7	281.4	284.3	566.2	282.5	283.8
Active population	332.1	186.0	146.1	331.5	186.1	145.4
Employment rate	53.8%	60.1%	47.5%	54.2%	60.5%	47.9%
Unemployment rate	8.4%	9.1%	7.5%	7.4%	8.1%	6.5%
Economically inactive population	233.6	95.4	138.2	234.7	96.4	138.4

Source: CSB of Latvia, Labour force Survey

¹ Rural territory according to statistics of Latvia is entire territory excluding all cities.

² Job seekers as part of the economically active inhabitants

³ Other than extractive industry and quarrying (NACE C)

1.2 Agricultural employment

The role of agriculture in the overall employment structure is gradually decreasing. Since 2001, the proportion of persons primarily employed in agriculture and hunting (15-74 years of age) has diminished from 12.3% to 8.5% (see Table 2). However 6.1 thousand people of those employed in agriculture (0.6% of the total employment) were employed in their individual farms with the purpose to produce agricultural production for their personal consumption.

Table 2 Number of employed in the main job, thsd.population in 2001-2005

	2001	2002	2003	2004	2005
Employed in total	960.0	989.0	1006.9	1017.7	1035.9
Employed in agriculture and hunting	118.2	112.3	104.4	97.0	87.8
Employed in agriculture and hunting, % of total	12.3%	11.4%	10.4%	9.5%	8.5%

Source: CSB of Latvia, MoA of Latvia "Latvian Agriculture and Countryside, 2006"

The structural changes in the agricultural sector of Latvia and increasing number of big farms results in use of more efficient technologies which are contributing to reduction of agricultural employment measured in average work units (AWU). Although the production structure in agriculture is still very fragmented and 86% of the total number of farms fall into the category of very small farms in 2005 (<2 economic size units (ESU), 36% of them are located in Latgale region)⁴, which are actually engaged in production for their own consumption. The number of other small farms decreased by 14%, while the number of medium-sized and large farms increased by 20% comparing to 2003.

However, productivity in agriculture is still considerably lower than in the national economy overall, although it has grown essentially during recent years. In 2005, it was 2089 LVL per person employed⁵, which is two times higher comparing to the level of 2003. This has largely occurred due to the support after accession to the EU, with procurement price increases for milk and sugar beet. Before accession into the EU, the yearly growth was substantially slower at 3% in 2002 and 7% in 2003 comparing with the previous year.

At the same time, agricultural income (average per one full time employee) is still low (in 2005, 129 Ls/per month/per employee⁶), which is 27% less than average income per employee in the Latvian economy. The number of people regularly employed in agriculture exceeds by three times the number of people declaring agriculture as the main job comprising 261,900 population. Only 6% of them are salaried workers and 81% of those regularly employed have worked part-time which is just a half of amount of work per person on average (in total 134,800 average work units (AWU) were involved in agriculture in 2005). So, during the last two years the number of farms which have an income from other gainful activities has grown essentially from 6% in 2003 up to 36% of economically active farms in 2005⁷.

Alongside the growth of production efficiency and productivity in agriculture, the numbers of employees could continue to decrease also over the coming years. In order to maintain the social and economic vitality of rural areas along with the decreasing role of agriculture in rural

⁴ Source: LSIAE, by use of CSB „2005 survey on the structure of agricultural holdings in Latvia”

⁵ Source: Latvian Economic accounts for Agriculture

⁶ Source: Latvian Economic accounts for Agriculture

⁷ Source: LSIAE, by use of CSB „2005 survey on the structure of agricultural holdings in Latvia”

employment, it will be necessary to diversify job opportunities within the existing agricultural enterprises or within the business units operating in other branches of the economy.

1.3 Non-agricultural employment

In 2004, primary sectors – agriculture, hunting and forestry involved 36.4% of all employed rural inhabitants, 41% of the employed in rural areas work in services sector and 21.7%⁸ - in industry. Concerning primary sectors, during the last five years number of people employed in agriculture and hunting as in main job decreased by 26% (2005 versus 2001) while number of people employed in forestry increased by 51%.

Forestry involves about 11 % of the employed population in rural areas or 34.5 thousand people in 2005. Timber industry employs 47 thousand people in total⁹. In 10 districts of the country, the production of timber and products thereof has become the leading sector of industry. Timber industry with 20% of the value added in industry is the first runner up behind food industry.

The number of farms which have an income from other gainful activities than agriculture has grown up to 8.3% of economically active farms in 2005¹⁰. The biggest part or 65% of these farms has diversified their activities in forestry and 6.5% are involved in wood processing as well. The second most widespread type for farms with other gainful activities is contract work using the farm's machinery and equipment – 16% of these farms. Rural tourism is offered by 9% of farms. Forestry and rural tourism are the sectors constantly increasing their share on other gainful activities since 2001. There are some distinctions comparing other activities in different regions – e.g., 12% of Pieriga region farms are operating in retail sales where the reason is higher level of population density and consumer accessibility.

Non-agricultural employment in rural areas is growing very sluggishly due to the restricted alternatives comparing to primary sectors and lack of capability of rural inhabitants to start a business in other sectors. For the most part of population an obstacle for successful implication in labour market outside the primary sectors is insufficient level of education and/or lack of professional experience.

2 The context of rural employment

2.1 New employment opportunities

The share of economically inactive population in rural areas is 41.5% in comparison with 35.6% in urban areas in 2005.

New business enterprises, diversification of existing agricultural holdings as well as broadening of public sector and public services can contribute in growth of employment level in rural territories.

Although nationally the number of economically active establishments and companies grows, 72% of establishments are located in seven cities of republican importance. However, there are significant differences of entrepreneurial activity and employment between regions. During 1999 to 2004 number of economically active companies in Riga has grown by 11 on 1000 inhabitants, whereas in Kurzeme and Vidzeme planning regions – 2, Zemgale – 1.8, but Latgale – only 1.6.

⁸ Other than extractive industry and quarrying (NACE C)

⁹ Source: Forest sector in Latvia, 2005

¹⁰ Source: LSIAE, by use of CSB „2005 survey on the structure of agricultural holdings in Latvia”

Latgale is characterized by the least favourable aggregate of social and economic factors comparatively with regions in other new Member States: the number of population employed in agriculture – 4 times higher, the lowest GDP per capita (1.8 times lower) and unemployment – 2.2 times higher¹¹.

New employment opportunities can be facilitated by external factors and by the initiative of the local population. Business infrastructure and potential consumers of the offered products and services are preconditions for establishing a new enterprise in rural territory.

In 2004, household disposable income in cash and in kind in the urban areas was 112.43 LVL per person per month and in the rural areas – 77.84 LVL per person per month¹². Income differences, underdeveloped living environment, lack of access to different public services, as well as better personal success opportunities in urban areas drive young people away from countryside to the cities¹³. The low competitiveness of the agricultural sector delays the entrance of young labour and entrepreneurs into this sector as well, thus increasing the average age of those employed in agriculture. That becomes a factor which impedes implementation of innovative approaches in agricultural production. Comparing with the proportion of economically active employed persons over the age of 65 in economy as a whole (2.5%), 28% of farm owners-managers employed in agriculture in 2005 were older than 65¹⁴.

Rural areas have become sparsely populated as the result. At the start of 1999, 760 thousand people lived in rural areas, while at the start of 2005 – only 738 thousand¹⁵. That increases the costs for building and maintenance of infrastructure objects per one inhabitant. After accession to the EU, migration of population (also other than youth) to other EU countries started and, according to preliminary data, at the end of 2005, about 2% of inhabitants (about 50 thousand) worked in other EU countries – mainly in Ireland and the United Kingdom¹⁶.

Growth of employment will be closely linked with the development of the whole economy which will result in growing demand for labour in rural areas. Along with an increase of amounts of construction in the whole country (by 54.7% comparing to 2000) there was increased demand for people engaged in the construction sector. Production and use of renewable energy resources, especially biomass, as well as the processing sector could provide new job opportunities for the next period.

2.2 Education and skills – levels, access and provision

The level of education of population in rural territories is generally lower than that of urban inhabitants. Only 7.3% of populations in rural areas have university degree (in cities 16.8%) and middle professional degree 20.5% (in cities 25.2%). The same is for vocational training – 4% compared to 5% in cities.

In rural areas presence of adults (at age between 25 and 64) in training and education programmes in 2004 was 8.4%, which is slight increase compared to 7.8% in 2003 and 7.3% in 2002. Adult life-time education in 2005 was provided by the LRATC. In order to promote rural development, improve the professional and business knowledge of rural entrepreneurs, ensure

¹¹ Typology Of Rural Areas in The Central And Eastern European EU New Member States, Institute of Agricultural Development in Central and Eastern Europe, 2004

¹² Statistical Yearbook of Latvia 2005

¹³ President of Latvia Strategic Analysis Commission Research „Latvia and free movement of Labour. Example of Ireland”, 2006.

¹⁴ Source: LSIAE, by use of CSB „2005 survey on the structure of agricultural holdings in Latvia”

¹⁵ Source: MoA of Latvia “Latvian Agriculture and Countryside, 2006”

¹⁶ Ministry of Economy of Latvia and Latvian University Evaluations (unpublished)

consulting and training in all parts of Latvia the training seminars have been conducted (participated in total by 26,000 persons) and free-of-charge consultations have been provided.

There is a low education level of persons employed in the agricultural sector. In 2005, there were only 4.4% of farm managers with higher agricultural education and 17% with vocational education. 66.7% of managers has managed their farms just with practical experience.

There is a lack of qualified labour and insufficient knowledge in forest management and distribution of products. The percentage break-down of forest owners depending upon education level is the following: 15.5% higher education, 53.8% secondary education, 20% primary education and 9.8% unfinished primary education¹⁷. In separate fields, education institutions do not secure sufficient knowledge of current production methods, technologies and equipment, alternative ways of use of forest and forestry products; there is a lack of understanding in respect of inter-sectoral co-ordination and partnership.

Farmers and rural entrepreneurs benefit from an advisory and education support system - Latvian Rural Advisory and Education Centre (LAAC). The LAAC was established as a training and advisory institution for farmers and rural entrepreneurs. There are 26 local agricultural advisory offices that are delivering advisory services in all main fields of agriculture activities and rural development in all 26 districts of Latvia.

Higher education in the agricultural sector is provided by University of Agriculture of Latvia (LLU) in the status of a derived public entity under the supervision of the Ministry of Agriculture. During the last three years the number of full-time students has remained almost constant. The number of part-time students (i.e., students paying tuition fee) exceeds the number of full-time students. The number of budget places reached 3039 in 2005 (in Agriculture and Forestry – 533) or 32% of the total number of the students.

2.3 Other key factors in employment (if any)

About 39% of the country population resided in rural territories. The territory of Latvia is characterized with low population density: 35.7 inhabitants/km², while this indicator in rural territory is just 14.2 inhabitants per km² in year 2005, which is one of the advantages of the rural territory as area of residence: it provides for more spacious living environment. On the other hand, low density must be considered as a disadvantage for development requiring high infrastructure set-up and maintenance costs per capita. That becomes a restricting factor to establish new job vacancies.

Over the last five years, the proportion of inferior quality roads in the road network has increased by 10% on the average and the overall road quality continues to decrease. In 2004, 44% of tarmac roads and 32% of gravel roads were in the state of dilapidation. This restricts the mobility of country people and hinders development of businesses.

Only 45% of rural local municipalities had the territorial development plans elaborated. This has resulted in a situation where, in the remaining 55% parishes due to lack of development plans, entrepreneurial activity is not promoted¹⁸.

¹⁷ Source: Guidelines of Forest and the Related Sectors Development, approved by Cabinet in April 4 2006

¹⁸ Latvian Association of Local Governments

3 Specific rural employment issues

3.1 The nature of under-employment

Rural areas account for 75% of total number (13066 in year 2004) of disadvantaged families in Latvia. Due to this reason there is shortage of people who are able to work producing high quality result and in an accountable way.

The role of agriculture in the overall employment structure is decreasing owing to the growth of production efficiency and productivity in agriculture. Number of job vacancies provided within the existing agricultural enterprises with the diversified activity or within the business units operating in other branches of economy are not sufficient. However, only 6% of employed in agricultural farms were paid workers in 2005, more than 90% employed in agriculture are engaged in family business.

3.2 The scale of semi-subsistence farming

There were 133044 economically active farms in Latvia in 2005. No farm products were produced for sale in 63% of all farms. That means more than a half of all farms are working for self –subsistence. It was assumed that semi-subsistence farms may sell up to 50% of their production. From all farms in Latvia only 19.5% are producing for market consumption (see Table 3) Comparing the situation in regions, it was observed that the main agricultural region (Zemgale) is selling 25.7% of production, and in this region are located most of the large-scale farms.

Table 3 Farms by share of agricultural output destined for sale and by region in 2005, Latvia

Share of agricultural output for sale, %	All farms	Of which by regions				
		Pierig a	Vidzeme	Kurzem e	Zemgal e	Latgal e
100	1.2	1.1	1	1.6	2.3	0.8
51-99	18.3	15.9	17.6	23.1	23.4	14.9
≤50	17.6	10.8	18.1	21	18.5	18.1
No farm products were produced for sale	62.9	72,3	63.2	54.3	55.9	66.3

Source: LSIAE, by use of CSB „2005 survey on the structure of agricultural holdings in Latvia”

These results and assumptions comply with the results of economic size of farms where 86% of the total number of farms fall into category of very small farms in 2005 (<2 economic size units (ESU), 36% of them are located in Latgale region)¹⁹, which are actually engaged in production for their own consumption only (see Table 4).

Since 2003 number of these very small farms increased in both terms – in absolute and in relative due to the direct support policy in the EU where subsidies are paid decoupled from the production. Agricultural area under very small farms increased as well, while total standard gross margin decreased significantly.

¹⁹ Source: LSIAE, by use of CSB „Structure of agricultural holdings in Latvia of June 2003”

Table 4 Number of farms, utilised agricultural land and standard gross margin by economic size in 2003, 2005, Latvia

<i>All farms</i>	<i>Economic size units</i>				
	<i>Total</i>	<i><2</i>	Small farms 2,0-7,9	Medium-size farms 8,0-39,9	Large farms >40
Number					
2003	131414	110282	17828	2846	458
% of total number 2003	100%	83.9%	13.6%	2.2%	0.3%
2005	133004	113780	15276	3311	638
% of total number 2005	100%	85.5%	11.5%	2.5%	0.5%
Utilised agricultural land, thsds ha					
2003	1494.9	571.9	394.4	271.2	257.4
% of total utilised land 2003	100%	38%	26%	18%	17%
2005	1705.2	686.3	369.2	309.8	339.9
% of total utilised land 2005	100%	40%	22%	18%	20%
Total standart gross margin, thsds lats					
2003	199490.3	64971.2	48898	34277.4	51343.7
% of total SGM 2003	100%	33%	25%	17%	26%
2005	192797.0	52155.3	38560	36625.4	65456.4
% of total SGM 2005	100%	27%	20%	19%	34%

Source: LSIAE, by use of CSB „2005 survey on the structure of agricultural holdings in Latvia”

Number of very small and small farms in 2005 (<8 ESU) comprise 96% of all farms, 62% of utilised agricultural land are used for semi-subsistent farming in order to create 47% of SGM of sector.

Further restructuring processes and development of agricultural enterprises producing for the market could offer new job vacancies for a rural population engaged in semi-subsistence farming.

3.3 The implications of the ‘Lisbon Strategy’

The objectives of the “Lisbon strategy” and Latvian National Programme for Lisbon Strategy (2005-2008) comply with objectives of the Latvian Rural Development Strategy plan for programming period 2007-2013 and areas of their action which has been elaborated on the base of analysis of economic situation including rural employment aspects.

Latvian National strategy plan for rural development has been elaborated in accordance with the Latvian National Development Plan for 2007 – 2013, which sets down the long term development strategy objective – education and knowledge for development of economy and technological excellence.

The main objective of Latvian National strategy plan for rural development is: prosperous people in sustainably populated countryside of Latvia.

In Latvian Rural Development Strategy sets out the following underlying principles:

- Promotion of permanent activities and reduction of dependency on public income support.

In order to promote sustainable development of rural areas, the support should create basis for growth of sufficiently competitive entrepreneurs in rural areas on later stages of development and

they should not enhance the dependence of welfare of rural population on income support payments

- Territorially differentiated approach to support measures

Measures should promote the implementation of development strategies underpinned by availability of local resources and the support should be tailored to the level of social and economic development and characteristics of each region (territory). The support should diminish the social and economic level differences among different territories in Latvian countryside as well as among rural and urban territories. This principle shall be implemented through higher co-financing rates for projects implemented in less developed areas as well as/or selection criteria for giving priority to specific areas according to their level of development.

- Balance and succession

The support must be balanced between the increase of competitiveness of agriculture and forestry, sustainable management of natural resources and support to alternative sources of employment at the countryside.

4 Overview and prospects

The employment rate in rural areas in 2005 was 54.2%. The average level of rural employment has been quite stable since 2000. The unemployment rate 7.4% is the lowest since 1998, although the actual level of unemployment in rural areas is substantially higher due to the several forms of hidden unemployment - unpaid family members in rural areas, part-time workers (81% of those permanently employed in agriculture), seasonally employed, and as well as that, the status of an employed person is applied also to persons who work in their household or private farm for their own consumption as a significant source of income.

The main problem in the Latvian rural labour market is related to regional differences of employment. There are high unemployment rates in regions further away from the capital city Riga, especially in Latgale region.

The employment structure of the population in rural areas is dominated by primary sectors – agriculture, hunting and forestry, as well as in the services sector. The role of agriculture in the overall employment structure is gradually decreasing owing to the growth of production efficiency and productivity in agriculture.

The structural changes in the agricultural sector of Latvia and increasing number of big farms results in use of more efficient technologies which are contributing to reduction of agricultural employment measured in average work units (AWU). However, productivity in agriculture is still considerably lower than in the national economy overall, although it has grown essentially during recent years. 7% of those people employed in agriculture were employed in their individual farms with the purpose to produce agricultural production for their personal consumption, that means more than a half of all farms are working for self –subsistence. The low competitiveness of the agricultural sector delays the entrance of young labour and entrepreneurs into this sector as well, thus increasing the average age of those employed in agriculture. That becomes a factor which impedes implementation of innovative approaches in agricultural production. Further restructuring processes and development of agricultural enterprises producing for the market could offer new job vacancies for a rural population engaged in semi-subsistence farming. Alongside the growth of production efficiency and productivity in agriculture, the numbers of employees could continue to decrease also over the coming years. Number of job vacancies provided within the existing agricultural enterprises with the diversified activity or within the business units operating in other branches of economy are not sufficient.

Concerning other sectors, during the last five years number of people employed in forestry increased by 51%. Forestry and rural tourism are the sectors constantly increasing their share on other gainful activities since 2001. Non-agricultural employment in rural areas is growing very

sluggishly due to the restricted alternatives comparing to primary sectors and lack of capability of rural inhabitants to start other business. For the most part of population an obstacle for successful implication in labour market outside the primary sectors is insufficient level of education and/or lack of professional experience.

New business enterprises, diversification of existing agricultural holdings as well as broadening of public sector and public services can contribute in growth of employment level in rural territories. New employment opportunities can be facilitated by external factors and by the initiative of the local population. The territory with low population density providing more spacious living environment must be considered as a disadvantage for development requiring high infrastructure set-up and maintenance costs per capita. That becomes a restricting factor to establish new job vacancies. Business infrastructure and potential consumers of the offered products and services are preconditions for establishing a new enterprise in rural territory.

Growth of employment will be closely linked with the development of the whole economy which will result in growing demand for labour in rural areas. Along with an increase of amounts of construction in the whole country (by 54.7% comparing to 2000) there was increased demand for people engaged in the construction sector. Production and use of renewable energy resources, especially biomass, as well as the processing sector could provide new job opportunities for the next period.

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