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Methodological and practical solutions for the evaluation of the economic impact of RDP in Latvia

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Methodological and practical solutions for the evaluation of the economic impact of RDP in Latvia

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Abstract

The paper analyses methodological and practical solutions that have been introduced to assess the impact of the Rural Development Programme 2007-2013 in Latvia. The work on the development of the evaluation of the impact of rural support is only in progress, the range of data sources is not large either. Therefore the author offers a solution how the evaluation of the RDP is organized in Latvia, with the resources and the amount of information available, and what activities are planned in the future. Special attention is devoted to the development of the methodology for calculating the direct economic effect, including the principles of the formation of the group of the affected farms and the control group, as well as the choice of the range of indicators for the analysis of measures.

The approached mentioned in the research has already been applied when writing the Mid-term evaluation report.

Keywords: Evaluation, methods, impact, data.

JEL classification:Q14, C18, O38, O47.

1. INTRODUCTION

Since the accession of Latvia to the EU in 2004 and the implementation of the CAP, like in other EU countries, the problem of the evaluation of the CAP efficiency has become topical also in Latvia. Before the accession, the state support to agriculture was comparatively small and therefore a comprehensive evaluation was not carried out. By the introduction of the CAP measures, the evaluation system has to be established in Latvia. Partial work on building the system was already started by the evaluation of the Rural Development Programme (RDP) 2004-2006, but the establishment of a more comprehensive system has been started for the evaluation of the RDP 2007-2013. Thus, at present it is important to develop a complex approach to evaluate the public support in Latvia.

The aim of the paper is to analyze the methodological and practical solutions which are introduced to evaluate the impact of the RDP in Latvia, to reach the evaluation objectives both at the state and the EU level, as well as to find the most reasonable compromise between the informational needs from one side and the data availability and their costs from another side.

To achieve the aim, the following objectives were set:

- Information on the organization of the RDP evaluation process was collected;
- The information sources used for the evaluation were analysed;
- Methodological solutions applied in the Mid-term evaluation report were investigated in more detail.

At the end conclusions are offered, as well as the main problems that need to be solved in the future are emphasised.

The combination of quantitative and qualitative methods of the analysis has been used in the paper. The analysis has been carried out towards the application of the methods proposed in the guidelines of the EU Commission in Latvia, considering the data availability, as well as the approaches and solutions are described to ensure the necessary data. Furthermore, the paper analyzes the selection of criteria and indicators, evaluation methods and approaches, to meet the needs of the state institutions for specific evaluation results to be used in the adjustment and improvement of the policy measures. To reach that, a large amount of information and experience has been analyzed, as well as expert evaluation is used.

Due to the limited scope of the paper it was not possible to characterise in detail the analysis of the indicators of all measures, therefore mainly the measure "Modernisation of Agricultural holdings" is considered as an example, because it is one of the most important measures in the RDP in Latvia. The evaluation of the economic growth has been emphasized among the indicators, taking into consideration that calculation of other indicators is related to it.

2. ORGANIZATION OF THE RDP EVALUATION PROCESS IN LATVIA

Before the introduction of the RDP 2007-2013, there was not established a special institution for the evaluation of the impact of EU CAP and national support in Latvia. The work was performed in a form of separate agreements that the Ministry of Agriculture as the leading institution signed with research centres – universities, scientific institutions and private enterprises. The work was also carried out in the Ministry of Agriculture. But when the implementation of the RDP 2007-2013 began, according to the EU requirement to provide a continuous evaluation process preformed by an independent agency, a permanent structural unit in a scientific institution was created. It is small (3-4 experts), therefore experts – specialists in the particular fields - are attracted to carry out larger research and to prepare reports. This way, 25 experts were attracted in 2010 to evaluate the RDP impact in different areas – the economic development, the environment, the social development and the quality of rural life. The analysis was summarised in a concentrated form in the RDP Mid-term evaluation report.

27 RDP measures are being implemented in Latvia and separate their evaluation was ensured, answers to the evaluation questions were given, conclusions and recommendations were offered. The summary was performed along the axis and their sub-objectives, evaluating to what extent the objectives have been achieved.

A list of indicators was designed for the evaluation of every measure and axis results. The list helps to find answers to the evaluation questions. It comprises both the indicators provided by the European Commission Guidelines (indicated as EU in Table 1) and national indicators of Latvia (LV). In addition, the evaluation group anticipates introducing several supplementary indicators to characterize better the changes due to the support and to be able to compare the impact of different measures more effectively (indicated as CES in Table 1). In comparison with

the EU Guidelines, the number of questions to better characterise the degree to which the objective is achieved has also been supplemented. For example, Measure No.121 contains an additional question (no. 5) that is related with the objective definition "… increase … farm diversification in agriculture …".

As an example, Table 1 summarises the evaluation questions and indicators for the measure "Modernisation of Agricultural holdings". This is the most significant measure in agriculture – 22% of the total RDP public funding is devoted to it.

Table 1: Evaluation questions and basic indicators for the evaluation of Measure No.121 "Modernisation of Rural Farms"

Type of indicator	121	**Modernisation of Agricultural holdings**
Input EU		Amount of public expenditure realised
Input EU		Additional state funding
Question EU	1	***To what extent have supported investments contributed to a better use of production factors on agricultural holdings? In particular, to what extent have supported investments facilitated the introduction of new technologies and innovation?***
Output EU	11	Number of farm holdings that received investment support
Output EU	12	Total volume of investments
Output LV	8	The number of supported farms in which the total related costs of the received support exceed EUR 600,000 during the programming period
Question EU	2	***To what extent have supported investments enhanced market access and market share of agricultural holdings?***
Result CES	3	Net turnover increase in the supported farms
Result CES	5	Market share of the supported farms in Latvia
Question EU	3	***To what extent have supported investments contributed to an enduring and sustainable activity of agricultural holdings?***
Result EU	3	Number of holdings introducing new products and/or new techniques
Result EU	2	Increase in gross value added in supported holdings/eneterprises
Result LV	2	Floor space of the newly erected or the renovated buildings
Result CES	4	The ability of the investment to create value added [additional gross value added per one investment unit in the supported enterprise projects]
Question EU	4	***To what extent have supported investments contributed to improving the competitiveness of the agricultural sector?***
Impact EU	1	Economic growth [Net additional value added expressed in PPS]
Impact EU	3	Labour productivity [Change in Gross Value Added per full-time equivivalent (GVA/FTE)]
Question CES	5	***How has the support affected the farm diversification in agriculture?***
Result CES	6	Changes in the production structure of the supported farms

Source: Handbook of the Continuous Evaluation System in Latvia

A similar approach is also used in other measures. Additional indicators (indicated as EVS) are chosen for each measure specifically and for a group of similar measures similarly. For example, for measures that provide for investing in rural farms, the following additional

results indicators are similar: "Market share of the supported farms in Latvia" and "Ability of the investment to create value added" (it is expressed as an additional gross value added per investment unit in the supported enterprise projects). These indicators are introduced with the aim to compare the yield of the investment in various measures, as well as to evaluate the impact of the support on the increase of the market share, at the same time also comparing the impact of various measures.

The impact evaluation process is organized in the following steps:

Information collection and analysis → Interpretation → Evaluation → Conclusions and recommendations.

The first part contains:

- calculation and summary of the outcome and the results;
- calculation of the impact indicators;
- calculation of the supplementary programme specific indicators;
- developing the initial indicator tendencies;
- obtaining and summarizing additional information (statistical surveys, surveys, etc.).

After obtaining the respective indicators, they are compared against the planned level and the evaluation is preformed, giving answers to the evaluation questions (at the level of the measure, axis and for the programme specific questions), as well as the analysis about whether and to what extent the objective of the measure/axis/programme has been achieved, conclusions are made and recommendations are given.

The main principle when evaluating the programme results is to evaluate what changes have appeared in the environment covered by the programme if compared to the condition if the programme were not implemented. It is planned to evaluate at the level of enterprises / farms – beneficiaries of direct support and in total in the involved industries and regions evaluating also the indirect effect.

Thus, the evaluation comprises not only enterprises (farms) that are the beneficiaries of direct support, but a control group is also created (where possible), which consists of possibly similar economic units that have not received the RDP support. Likewise, taking into account the significant territorial differences between various regions of Latvia, the impact of the RDP is evaluated not only for the country in total but also at the industry and regional levels.

3. CHARACTERISATION OF THE INFORMATION SOURCES AVAILABLE FOR EVALUATION

To calculate the values of the necessary indicators, information is needed. As up to now data of such volume were not accumulated for the evaluation purposes, the identification of information sources for the needs of the RDP evaluation is a complicated process which has not completely finished yet.

The main way anticipated for collecting the information necessary for the evaluation is obtaining it directly from the support beneficiaries. When clients apply for the support in the Rural Support Service, they have to fill in a number of documents, including giving information

about their enterprise, its production volumes, financial indicators a.o. This information differs based on the measure. Some of the measures (especially the ones related to investment) require submitting annual reports where clients indicate data about their enterprises. For example, the Measure "Modernisation of Rural Farms" collects this information about the clients:

1. actual place of the project implementation;
2. investment (totals, justified expenditures, public financing);
3. data about the support beneficiary (legal status, age, gender);
4. financial data (net turnover and costs in the reporting year);
5. if agriculture is the basic economic activity;
6. type of production (biological or conventional);
7. the average number of employees in the last finished year;
8. education level of the support applicant;
9. characteristics of the project territory (LFA[1], NATURA, a.o.)
10. if new technology will be introduced / a new product developed;
11. sub-sector in which the project will be implemented;
12. anticipated project measures (what buildings, machinery is planned to be purchased / build, etc.).

Similar information is also collected about other measures where rural farms participate.

Data about the support beneficiary allow identifying them in other databases, therefore it is possible to obtain additional information that is not collected by the Rural Support Service but that are available in the Enterprise Register or the database of the State Revenue Service.

FADN (Farm Accountancy Data Network) should be considered the most significant information source about rural farms. Every year FADN in Latvia summarises data about 1000 farms, selecting them based on their size, specialization and location. FADN summarises economically active farms (with the economic size above 2 ESU[2], therefore the farms that have received support form a big proportion in the sample size. In total FADN comprises 288 farms out of 2028 (14%) that have received support until the end of 2009, including 254 farms about which data are available from 2007-2009, thus the data can be used for the analysis when evaluating the changes due to the support. The fact that FADN represents farms of different groups allows creating a sample for analysis purposes, taking into account different criteria, as well as the analogous base group. The formation principles of these sample groups are discussed in more detail in the next section.

Data of the Central Statistical Bureau of Latvia (CSB) are mainly used to obtain the background indicators. The RDP evaluation provides for summarising a significant number of indicators – around 50. It is planned to obtain part of the indicators that cannot be derived directly from the data of the CSB from the institutions of other countries, as well as societies,

[1] LFA – Less Favourite Areas
[2] European Size Unit (1200 EUR Standard Gross Margin)

industry associations (especially the environment indicators, data related to a specific industry, e.g. tourism, museum operations, etc.).

The RDP evaluation is not limited only to summarizing and analysis of quantitative information. In addition, surveys, interviews and focus group discussions are organized, as well as expert observations are performed. In some cases these are the main methods to evaluate the impact of the measure. For example, in Measure No.111 "Vocational Training and Information Actions" the evaluation was performed based on the trainees' survey, which was carried out about a year after the end of the training. The findings of the survey reveal that training has left a positive impact on the development of the farms; however, the respondents have evaluated the impact as small. Likewise, for Measure No.323 "Basic Services for the economy and rural population", the main informative basis for making conclusions was the focus group discussions during the Mid-term evaluation. They were organised in every region.

4. INDICATORS USABLE IN THE EVALUATION, AND METHODS OF THEIR CALCULATION

4.1. Evaluation of the direct impacts

EC Guidelines recommend only some basic indicators to characterise the RDP and the impact of certain its measures. However, the calculation of these indicators is rather complicated. To apply the recommended quazi-experimental methods, the number of affected (analyzable) units has to be sufficiently big, which in case of Latvia as a small country is possible only for some measures. It is even more complicated to create a control group, which, according to the methodology, should comprise 4 times more units that the affected group. The situation is similar also in other countries of the region where the number of the supported units is not that big as in the largest EU Member States.

To find out in what way it is possible to evaluate the impact of the Measures and the Programme correctly, taking into account the real situation in Latvia, in the spring of 2010 research "Methodology for the Evaluation of the Impact of the RDP 2007-2013 Measures" was carried out by Riga International School of Business and Economic Administration and Institute of Economics and Business. Specialists of econometrics and other areas with experience in economic analysis were involved. Their task was to evaluate the possibilities to apply the evaluation methods recommended in EU Guidelines to Latvia.

At the end of the research it was concluded that the impact of the support is expressed with the time offset. In the optimistic case it is 2 years. This means that in 2010 the real impact of only those projects that were commenced until the middle of 2008 can be evaluated. It has to be indicated that there are very few such projects in Latvia. Most of the Measures were actively started only in 2009.

PSM - (ATT - DiD) and GPS - (ATT - DiD) or a combination of these methods is admitted as the recommended methods to evaluate the impact of additional gross value added, as well as the increase of the number of labourforce. However, it is difficult to ensure the required number of support beneficiaries and respectively select similar farms without support.

In addition, the approbation of these methods requires time and the results are not guaranteed. Thus, when the Mid-term evaluation was carried out, simplified methods were applied, at the same time ensuring that the direct effect is calculated – difference between the changes in the particular indicators in the farms affected by the support and the other farms. Taking into account the crisis due to which the income of the farms decreased fast (especially in 2009), a different approach to the evaluation of the impact would not even be imagined.

Evaluation of economic growth in the support beneficiaries' group

To evaluate the direct impact in the measures that relate to a sufficient number of farms the combination of the data of Rural Support Service (RSS) and FADN was used. It was concluded to be useless to make a group only from the FADN comprised farms in the measure "Modernisation of Rural Farms" because the support level, as well as the size of the farms differs a lot and even one or some farms may significantly change the total results if they are calculated from the sample group. Therefore the indicators of the affected farms are selected from the RSS database which summarises information according to the example described on page …. .

Only two of the mentioned indicators may be used to calculate the economic growth: net turnover and total costs. It has to be added that the total of the collectable indicators was prepared as provided by the initial CMEF guidelines, where these indicators were meant to be used for the calculation of the value added. In 2009 the guidelines were corrected, providing …. as the indicator of the economic impact, as a result of which the gross output is necessary instead of the turnover and only intermediate consumption is considered from the costs. It was not possible to change the indicators submitted by rural farms because the project introduction was already commenced on a mass scale. Therefore it was decided to maintain the present form but to use FADN for recalculation because FADN offers data about the total turnover and costs, as well as the gross value added.

The evaluation of the impact was performed for 2008 (compared with the previous year) and 2009 separately. The basic scheme is as follows: using the data from the RSS database, the difference (turnover minus costs) is calculated for all the affected farms on which there are data available for both years we are interested in. In our case, data about 720 farms are available for years 2007 and 2008, and about 998 farms in 2008 and 2009. The respective indicators for the support group can be derived from FADN. Here the group will be smaller – 254 farms for 2007-2008 and 288 farms for 2008-2009.

To recalculate, these indicators per farm are calculated. The changes of the gross value added on average per farm are calculated proportionally to the FADN group. For this purpose the ratio between the above mentioned quantity (net turnover minus costs) and the gross value added in the farms of the FADN group that have received the support is used.

The obtained mean indicator of one farm then is related to the number of all the affected farms. The result for year 2009 is calculated similarly. By adding up the indicators of both years we have obtained changes in the gross value added in the support beneficiaries' group. At

present we calculated this effect (absolute changes in GVA) as -16 286 thsd EUR in total at supported farms.

Construction of the base group and calculations of the results

To evaluate the direct impact, a suitable base group should be selected and calculations for it should be preformed. The only source that comprises detailed information about various farms in Latvia is FADN. Initially the size of the farm and its specialisation were chosen as selection criteria. As the proportion of the support beneficiaries is very different in different groups of the farm size, farms of all sizes cannot be included in the base group. Applying a simplified approach at the beginning, farms with the economic size above 16 EVL (groups of the size 4-7) were included. In the future, along with making the methodology more precise, a proportional number of farms from all the groups could be included, but then precise selection criteria should be developed within the framework of the farm selection groups. As the structure of the supported industries differs more than it differs in an average farm (41% of the projects in this measure are implemented in grain cultivation and 33% - in dairy farming, whereas these industries comprise only about 45-50% in the country's agriculture structure), the specialisation industry was taken into consideration when forming the base group. Comparison of the results gained with and without applying the specialisation weight showed that they are significantly different. One of the main reasons is the fast reduction of prices in 2008-2009 exactly for grain and milk. Therefore, without taking into account the specialisation, the relative results of the support beneficiaries would be much worse.

For this purpose, the farms of the FADN group that have not received support in the reporting period in the respective measure were divided into 3 groups, based on their specialisation:

- Field crops (41% of the implemented projects);
- Dairy farming (33%);
- Other (26%).

Taking into account the small proportion of the projects of other sub-sectors and the large variety (none of the other sub-sectors is predominating), they are not divided more. The proportion of each specialisation group was determined according to the number of implemented projects in it. As a result, the calculations of the changes in the gross value added were performed for every of the groups separately (on average per farm). 131-155 farms were represented in each of the groups, which was considered to be a sufficient number to perform proper calculations. To receive the total, weight was used – the proportion of the sector within the number of support beneficiaries. Similarly to the support beneficiaries' group, farms of the size 4-7 (16 EVL and above) were included in the group. The results are summarised in Table 2. According to the performed calculations, irrespective of the decrease in absolute figures, the net GVA increase (if compared with the farms without support) is positive in this period. However, the positive results are achieved only in 2008, but in 2009 they are slightly in minuses.

Table 2: Calculation of the net changes in the gross value added in measure nr.121 for years 2007-2009

	No. of projects supported	Value of GVA			
		2007	2008	2009	2007-2009
Field crops (LVL,average per farm)	1073	-7 556	-23 984	-32 068	-24 512
Dairy farms (LVL,average per farm)	857	-16 791	-20 573	-25 796	-9 006
Other farms (LVL,average per farm)	688	-19 283	-24 885	-27 143	-7 860
Total	2618	-13 661	-23 105	-28 721	-15 060
Gross changes of GVA per year:					
Average per base group farm (weighted, LVL)		x	-9 444	-5 616	-15 060
Total in base group (thsd.LVL)		x	-17 407	-10 762	-28 168
Total in base group (thsd.EUR)		x	-24 767	-15 313	-40 080
Total at supported farms (thsd EUR)		x	1 719	-18 005	-16 286
Net growth of GVA		x	26 487	-2 692	**23 795**

Source: Own calculations

The net increase for every year is calculated based on the following:

(average growth per one supported farm – average growth per one farm in the base group) x the number of supported farms = the impact of the total direct support

As a result, the net GVA increase in 2008 and 2009 is obtained EUR 23 795 thsd.

When interpreting the results it should be considered that projects in the analysed farms were implemented in 2008 and 2009, thus a full impact has not been expressed yet. Therefore the discussed example should be more considered like an approbation of the evaluation methodology than a completed analysis that allows making conclusions about the actual yield of the measure.

4.2.Evaluation of the indirect impacts

To determine the total impact of the support, along with the direct impact at the micro level there also exists the indirect impact. The author of the paper does not have any evidence that similar research would have been done before in Latvia at a sufficiently large scale or that any methodology would have been approbated. Therefore it is necessary to develop such a methodology.

According to the CMEF guidelines, it is necessary to evaluate the following indirect effects: double counting, deadweight, leverage effect, substitution, displacement and multiplier effect.

It is planned to prevent the significant effect of double counting already during the development process of the selection group. As the support paid within the measure "Modernisation of Agricultural holdings" is many times larger if compared with similar investment support measures, the impact of other support measures on the farms supported through this measure is considered to be small. In addition, it is assumed that it will distribute evenly across the supported farms in this measure and not supported farms.

The impact of another reducing effect – deadweight – is precluded when creating the base group, because only the net economic growth in the supported group is evaluated, compared with those farms that have not received this support.

To evaluate the substitution effect (negative effect related to the fact that supported farms may push other farms out of the market), the potential approach has been considered theoretically, but it has not been approbated in practice yet. Due to the fact that the substitution effect should be more expressed between closely located enterprises, to calculate this effect it is recommended to use the approach based on a comparison of the activities of similar farms without support in different regions. One without support working group should be formed in a region with high support volume/intensity of the analysed measure, another – in a region with low support volume/intensity of the analysed measure. However, this approach should be considered with certain caution as many other factors that change in the compared regions, as well as a wide range of different support measures should also be taken into consideration. The calculation of this effect should be considered suitable only in financially significant measures with a sufficiently big number of beneficiaries.

The displacement effect exists if because of different support volume/intensity the economic activity moves to the regions with high support volume/intensity. Thus due to the support in one region, a negative impact is created in another.

Theoretically, the calculation of this effect should be performed in two steps. First, the operation results of similar support beneficiaries and the farms working without support in the region with high support intensity are compared. Then, the operation results of the support beneficiaries working in the region with high support intensity and the farms without support working in the region with low support intensity are compared. The difference reflects the presence of the displacement effect.

In practice such calculation steps have not been performed yet although the analysis pays big attention to the support intensity in different regions, which creates basis for a further analysis. Former experience shows that displacement of activities between regions is not so expressed in Latvia. The distance of the respective place from the capital of the country has more significance when determining the level of activities. Information about the support distribution, possessed by the evaluators, reveals that larger support intensity has been in less developed regions, thus there is no reason for a negative displacement effect to develop.

Multiplier effect. In practice, when performing the Mid-term evaluation, there has been an attempt to evaluate the multiplier effect. There are foreruns for evaluating this effect in Latvia, but there is lack of sufficient data in rural territories to do it.

Thus a simplified approach has been used. The indirect multiplier effect (increase of indicators incurred outside the farm due to the support) is calculated for a rural territory, taking into consideration what part of the additional expenses of the support beneficiary stay in the rural territories. This effect is assessed as additional demand for labourforce, goods and services outside the support beneficiary farm, which has been incurred due to the increase of the operation scope in it (including investment, intermediate consumption, a.o.). Using FADN

information, it has been evaluated at the level of 20% from the intermediate consumption in the support beneficiary farms, but in Measure No.141 it is at the level of 25% from it. The evaluation includes what part of the purchased resources is usually purchased from other rural farms. As experts also admit, it has to be concluded that the multiplier effect is low in Latvian countryside because due to the poorly developed infrastructure, money leaves these territories fast.

5. CONCLUSIONS AND SOLUTIONS PLANNED FOR THE FUTURE

Only together with the implementation of the RDP 2007-2013 a permanent system for the evaluation of rural support in Latvia is developed, thus the forerun is still in progress. Along with the introduction of the programme, regular collection of indicators from the support beneficiaries has only been started. Frequently this information is not sufficient to evaluate, therefore other alternative data sources are searched, surveys and interviews are used.

A system of indicators has already been developed, with the help of which answers to the evaluation questions are given. In addition to the indicators included by the EC and the state institutions of Latvia, it also comprises supplementary indicators that allow receiving an additional view on the yield of the support. For example, the market share of the supported farms and the yield of the investment (value added against the investment) is evaluated, which allows comparing the yield of various measures of a similar character.

Latvia is currently approbating the principle of net effect evaluation recommended by the EC guidelines. However, due to the small size of the selection groups about which information is available and the small period of time since beginning the measures, it was considered unsuitable to develop econometric models in 2010, but the approbation of the methodology for direct impact evaluation was performed, selecting the support beneficiary and base groups according to certain criteria (size and specialisation) and relating the obtained data to all the supported group. The obtained results in general corresponded to the level that would be expected according to the plans.

Latvia lacks experience and also specialists to evaluate the indirect effects. Research with the aim to find out the potential solutions was performed. Already in 2010 when the Mid-term evaluation report was developed, the potential effect of the most part of these effects was evaluated with the help of quantitative or qualitative methods. The work should be continued.

The approaches and methods developed so far are only in their approbation stage. Therefore it is planned to continue the work on improving the current approaches. That also includes making more precise the criteria for the base group selection, improving the methodology of the evaluation of the value added in measures where mainly the indirect impact is expressed (Measure No.321 a.o.). It is planned to supplement the quantitative analysis about the most significant measures with the qualitative, including surveys, organising seminars, as well as processing data of the previous programming period to analyse how the performed investment has affected the operation of the enterprise long-term.

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