BUSINESS ASSESSMENT AND DEVELOPMENT IN COURLAND REGION

Linda Siliņa
Latvia University of Agriculture, Faculty of Economics,
Street Svētes 18, Jelgava, LV – 3001, Latvia
Linda.Silina@llu.lv

Abstract

The present research is done on business development possibilities in one of the regions of Latvia – Courland. Courland region is located along the Baltic Sea and is one of the five regions of Latvia. The number of residents in the region's towns decreased over the recent years, and the largest part of residents is concentrated in cities – Liepāja and Ventspils. Approximately a third of the population has a higher education, which allows us to state that the level of qualification of employees and managers of enterprises is high. The region is rich in various natural, mineral, water, etc., resources. It is forecasted that business will develop in 3 industries in the region: manufacturing, transport and trade, as well as agriculture, but various factors promote and hinder the development of these industries.

Key Words: *Courland, business, industry*

JEL Classification R11 Regional Economic Activity: Growth, Development, and Changes

1. INTRODUCTION

Courland planning region is one of the 5 regions of Latvia, it lies along the Baltic seashore. The smallest administrative units of Courland region are municipalities, the number of which is 19. Courland region has the longest sea border in the country – a 350 km long seashore with beaches, steep shores, sparsely populated dunes, and a large diversity of natural and cultural landscapes. The region borders on Lithuania's historical and cultural region of Žemaitija in the south and the regions of Zemgale and Rīga in the east. The farthest point of Courland in the north is the cape of Kolka.

Research on business in Latvia's regions has been done in various directions. Silinēviča with co-authors researched the impact of Latgale region's Special Economic Zone on this region's economic and social development (Silineviča, 2008: 221). Auziņa and Zvirgzdiņa identified and analysed the factors hindering business development (Auziņa, Zvirgzdiņa, 2008: 289). Development directions of the agricultural industry in Courland region were researched by Siliņa L. (Siliņa 2009), and an interregional division for industrial development was designed. Raņķevica V (2002: 394) analysed the impacts of and gains from Liepāja Special Economic Zone. Zvirgzdiņa R. researched business development possibilities, paying attention to the fact that mostly Rīga region is appropriate for business development in Latvia (Zvirgzdiņa, 2007:184). After analysing the above-mentioned researches, it was concluded that these researches do not specify the present business possibilities in the region, therefore, based on a preliminary study, the following research **aim** is defined – to analyse the indicators of business in Courland and to identify the possible directions of development.

To achieve the aim, the following research tasks were set forth:

- To analyse the resources and indicators of business in Courland region.
- To identify the possible directions of development in Courland region.

To conduct the present research, the monographic method, analysis, synthesis, the graphical method, marketing methods were applied. In the research, the scientific literature on business factors in Latvia as well as data summarised by the Central Statistical Bureau (CSB) of the Republic of Latvia were used.

2. BUSINESS RESOURCES IN COURLAND REGION

In 2010, 299 thousand **residents** lived in Courland region, which is 13.3% of Latvia's population. The number of residents, like in the whole Latvia, continuously decreases. In the period 2005-2010, the number of residents in Latvia decreased by 51.8 thousand, while in Courland it decreased by 10.4 thousand over the same period. During the same period, the working-age population increased by 0.6 thousand, while the numbers of residents under and over working-age decreased.

In Courland region, 40.7 thousand students study at its higher educational institutions, which is 13.4% of the total number of the region's residents. In total, 29% of the region's residents had a primary education, the second largest group or 26% was residents with a general secondary education, while 19% had a special secondary education. Of the region's population, 26% had a higher education.

Courland region is rich in renewable **natural resources**. Among these resources, the most important are soil, water, as well as wind, solar, wave, and geothermal energies.

In the structure of land in Courland region, forests occupy the largest part of territory, dominating over other types of use of land. The forest area in the region accounts for almost 52% of its total area in the beginning of 2010, a third of the total area is used for agricultural purposes, but swamps and water occupy a tenth of the region's area. Courland region is one of the richest regions for forests. Over the recent 5 years, the forest area in the region increased by 84.6 thousand ha or 12.3%. Forest stands are not evenly spread in the region. The majority of forests lie in the territories that are not useful for producing various agricultural products. Latvia's accession to the European Union promoted an increase in the forest area in Courland region. This increase is mainly related to a faster increase in the area of deciduous forests compared to the spread of coniferous trees. The forest area in which various deciduous trees grow increased by 117 thousand ha or 17%, while the area of coniferous forests decreased by 33 thousand ha or 7.4%.

Courland region's resources that are located in the bowels of the earth and will be sooner or later used consist of sedimentary rocks and minerals, liquid minerals, geothermal energy, and geological structures useful for economic activity.

There are 3 fields of mineral deposits of national importance in Courland region where limestone, clay, and sand are excavated.

3. INDICATORS OF BUSINESS IN COURLAND REGION

In Courland region, 16.2 thousand small and medium enterprises operate, of which 15.0 thousand or 93% correspond to the group of micro-enterprises. The largest number of enterprises operated in 2007, and their number decreased on average by 2% until 2009.

Table 1: Percentage distribution of enterprises by size group in 2004 – 2009 in Courland region

Size groups of enterprises	2004	2005	2006	2007	2008	2009
Micro	89.7	90.0	91.0	90.9	90.7	92.5
Small	8.2	8.0	7.1	7.4	7.5	6.1
Medium	1.8	1.7	1.6	1.5	1.6	1.3
Large	0.3	0.3	0.2	0.2	0.2	0.1

Source: CSB data

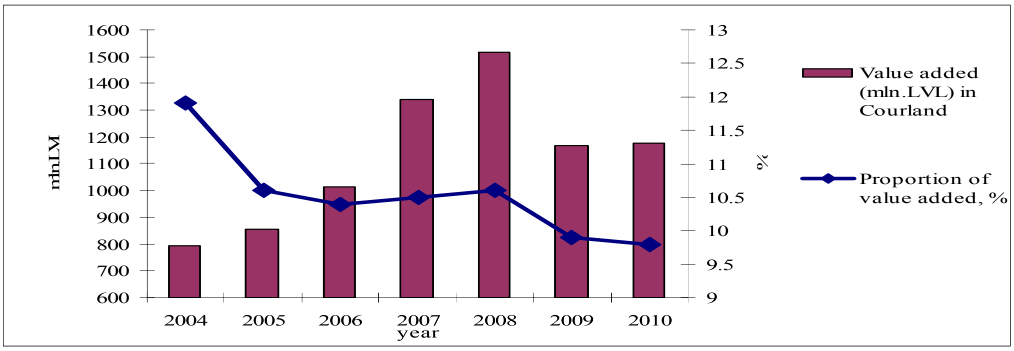
An increase in the number of micro-enterprises is observed in Courland region, and during 6 years it increased by 36%. But the numbers of small and medium companies decline. The number of large enterprises is also smaller by approximately one fifth, which can be explained by the economic situation, as the operation and expansion of such enterprises require large investments.

The largest number of micro and small enterprises is engaged in economic activities related to agriculture and forestry. It justifies the fact that in general there are a large number of enterprises in the region that indicated agriculture and forestry as their economic activity. Therefore, small and fragmented farms emerged, which hinders the development of both enterprises and industries. The second largest proportion belongs to enterprises of other economic activities, for instance, real estate operations, information services, health care, etc., which accounts for 35% of all the region's micro and small enterprises.

According to an analysis of the distribution of medium enterprises, one can conclude that the largest number of medium enterprises in Courland region or 30% of their total number operate in the manufacturing industry. Almost a fifth of construction enterprises are also classified as medium size enterprises. A tenth of agricultural enterprises also are of medium size, which indicates that agricultural enterprises can make a deeper specialisation.

In current prices, the value added of goods and services produced by businessmen who do their business in the territory of Courland region increased from LVL 794.3 million to LVL 1.18 billion or almost 1.5 times in the period 2004-2010. The highest value added produced at the region's enterprises – LVL 1.34 billion – was in 2007, which exceeded the indicator of 2004 as many as 1.7 times. As a result of decrease in domestic and foreign demand due to the recession, the value added decreased to LVL 1.17 billion in 2009 or as many as 1.2 times compared to the previous year. Owing to the activation of the factors impacting demand in the domestic market and abroad, an increase in output at the region's enterprises was observed in the second half of 2010, thus ensuring a slight increase in value added compared to 2009.

Figure 1: Changes in the amount and proportion of value added produced in Courland region period 2004-2010

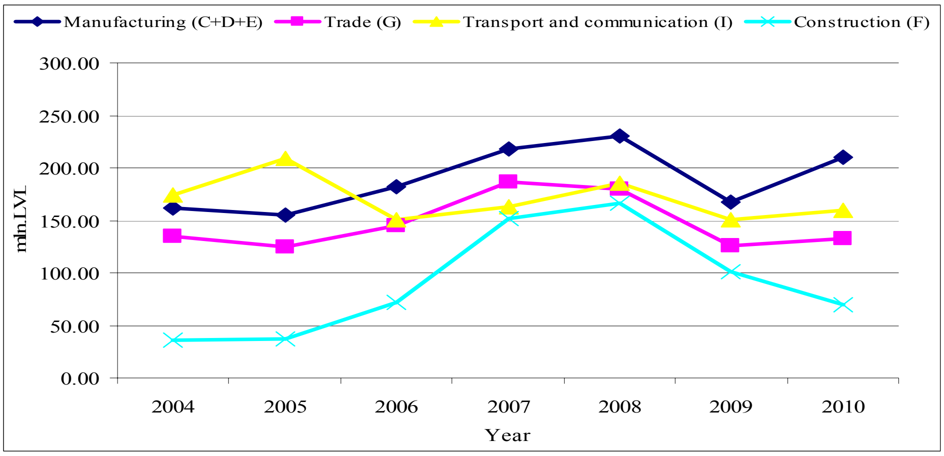


Source: constructed by the authors according to CSB data and the result of the author's forecast

The proportion of value added produced in Courland region ranges within 10-12% of the total value added of Latvia's national economy in the period 2004-2010. The highest level was achieved in 2004 when the value added produced by the region's businessmen was 11.9% of the total value added produced in the country. Over the next years until 2007, an increase rate of value added lags behind the average rate in the country, therefore, the proportion of value added produced in Courland decreased to 10.3%. After an insignificant increase of 0.1 percentage point in 2008, the proportion of value added produced in the region declined to 9.9% in 2009. Irrespective of an increase in value added in absolute figures by LVL 11.5 million in 2010, the negative trend remained, reaching a proportion of 9.85% in the total value added of the country. The growth of economic potential of the region is impacted, to a great extent, by two cities – Liepāja and Ventspils. The cities reduced the negative impact of the economic crisis on the output of goods and services in the region owing to successful operation of seaports during the recession. The turnover of cargo received and shipped away in Ventspils port decreased only by 6.7% in 2009, whereas in Liepāja it increased 4.6%. It provided possibilities to retain jobs in these cities and limit a decrease in domestic consumption, thus reducing the intensity of economic downturn in the region.

The leading areas of business in Courland region are identified by analysing amounts of value added in the respective industries of the national economy. In the period 2004-2010, the largest amounts of value added, compared to other industries, were produced in the industries of manufacturing (C+D+E), transport and communication (I), trade (G), and construction (F).

Figure 2: Changes in the value added of significant industries in Courland region period 2004-2010



Source: constructed by the authors according to CSB data and the result of the author's forecast

The industry of manufacturing dominates in the region over the entire period of analysis. In the beginning of this period, i.e. in 2004, a value added of LVL 182 million was produced in this industry, in 2010 it increased to LVL 216 million, exceeding the level of 2004 by 18%. The maximum value added in this industry or LVL 263 million was produced in 2008, while the highest increase rate was observed in 2006 and 2007, respectively 16% and 23%. The industry overcame the recession in 2009, and in 2010 businessmen doing their business in this industry increased the amount of value added by 6%.

A status of the second largest industry in the region is held by the industry of transport and communication. Enterprises operating in this industry provided sea and land cargo transportation services, producing a value added of LVL 136 million in 2010. It exceeded the indicator of 2009 by 5%. Owing to the successful performance of Ventspils and Liepāja ports in 2009, the smallest decrease in value added by LVL 23 million or 13.5% compared to the previous year is observed in the industry of transport and communication.

The industry of construction is important for the region's development. Its boom in 2006 and 2007 was fostered by a sharp increase in the flow of domestic and foreign investments to expand and modernise businesses in various industries. The value added produced in this industry in these years increased respectively 1.9 and 2.1 times, which exceeded the growth rates of other industries. With the recession beginning, the region's enterprises sharply decreased their material investments, and municipal governments stopped financing objects of business and social infrastructure. As a result, the value added produced in the construction industry declined as many as 1.4 times in 2009. Due to the small flow of investments in 2010, construction companies were not able to overcome the economic crisis, and their value added decreased 4.5%.

After Latvia's accession to the European Union, Courland region uses **co-funding from the EU Structural Funds** in its development projects. The number of projects submitted in Courland region was 636, which accounts for 12% of the total number of projects submitted in Latvia. Approximately half of all the projects or 328 were approved.

Table 2.:EU co-financed investment projects of businessmen in Courland

Priority	**Total funding (mln.LVL)**	**Funding of ESF (mln.LVL)**	**Courland region**		
			mln. LVL	***as % of total funding***	***as % of total EU funding***
Promotion of sustainable development	156.2	95.5	13.8	8.88	14.53
Promotion of business and innovation	391.0	115.9	12.9	3.31	11.16
Development of human resources and promotion of employment	129.7	96.1	4.3	3.36	4.53

Source: unpublished data of Courland planning region

The percentage distribution of projects co-financed by the EU indicates that businessmen are more interested in the projects that are related to measures developing human resources and promoting employment. These activities include 44% of all projects approved, and the regions' enterprises obtained LVL 4.3 million, accounting for 4.5% of total EU funding. A relatively high proportion relates to projects in which businessmen tackle problems of business and innovation; their proportion accounts for 36% of all projects approved in region.

4. BUSINESS DEVELOPMENT DIRECTIONS IN COURLAND REGION

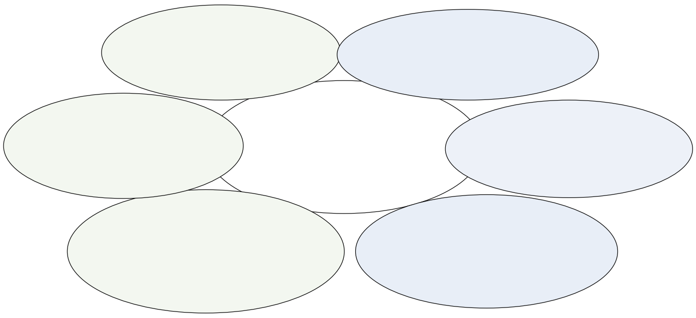
Based on the results of the previous analysis, 3 the most important industries, which would produce the largest amount of value added in the future, were selected: manufacturing, agriculture, and transport and trade.

By applying SWOT analysis (Kalve, 2005), the factors promoting and hindering the development of an industry were selected, of which 3 were identified as priority factors and included it's in Vienne chart.

According to the computation result, several factors can promote the manufacturing industry's development, but the most significant factor is the *preserved city infrastructure* that is used in manufacturing; there is a possibility to restore buildings and constructions. The second most significant factor is *availability of EU funding for projects* because after the accession to the EU in 2004, significant funds are available for developing skills of employees and introducing new technologies at enterprises, thus creating additional value added. The third most significant factor is ports in the cities of Liepāja and Ventspils that provide a large assortment of services for businessmen.

However, along with the promoting factors, always the hindering ones exist. The first one is *imbalance of territory*, as so far manufacturing was developing mostly in cities. Due to the imbalance of territory, a situation emerges that individuals choose *towns or rural areas for their place of residence*. But industrial development could be possible also in other towns of the region, which is one of the problems that have to be tackled by the region's businessmen.

Figure 3: Factors impacting the development of manufacturing in Courland region



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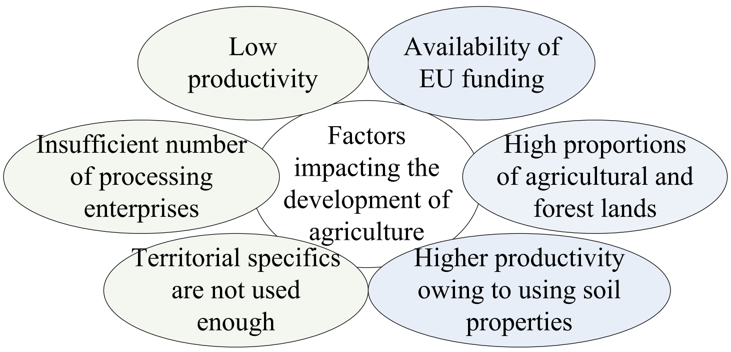
The third aspect that hinders the development of manufacturing is the low activity of businessmen, which is directly indicated by the number of registered enterprises that tends to decline (Lursoft Databese, 2011) . It points at the need to promote the development of this industry by stressing the positive factors for manufacturing.

The second direction for business development is agriculture, as a large number of the region's population is employed at enterprises registered for agriculture and forestry, and the significance of agricultural products in the structure of value added increases.

Figure 4: Factors impacting the development of agriculture in Courland region



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A factor promoting the agricultural industry's development in Courland is the region's resources, respectively, the proportions of agricultural and forest lands are high in the region, as a result of which an important resource – land – is at the disposal of enterprises of this industry. But at the same time, businessmen have to work on raising productivity (Siliņa, 2007). One of the ways of achieving it is to use the region's agricultural and climatic specifics, choosing the most appropriate industries to be developed. Since various military bases were located in the region before, there is a large area of land that is not used for economic activity.

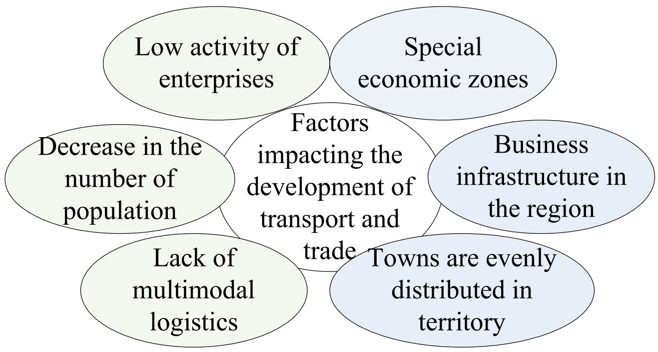
Along with raising the low level of productivity, enterprises have to improve their management to increase crop yields that are by 2/3 lower than potentially possible.

Businessmen believe that their business development is directly impacted by the lack of processing enterprises that purchase their products, especially milk processing was stressed.

The development of this industry and the further expansion of enterprises was certainly impacted by the availability of EU funding that provided and provide possibilities for expanding fixed assets of enterprises, purchasing land, etc., which, in general, increase the competitiveness of agricultural products both in the region and in the EU.

The third group of industries is transport and trade.

Figure 5: Factors impacting the development of transport and trade in Courland region



Source: constructed by the authors

There are infrastructures in Latvia's regions for developing the industries of transport and trade and other businesses in Courland region, as railway transport, port infrastructures, and motor roads of relatively good quality are available, but a problem is the lack of multimodal logistics. In relation to this promoting factor, there is a third factor – towns are evenly distributed in territory, as providers of transport and trade services incur higher costs with increase in distances among population centres in the region.

The present research stresses only three the most significant industries and their development factors, but Courland region has a high potential for developing service industries, for instance, construction in case the economic situation changes in the country.

CONCLUSIONS

Such significant resources as human and natural (minerals, soil, etc.) resources, infrastructures, etc., are at the disposal of businessmen in Courland region for economic activity and development. The largest amount of value added was produced in the period 2007-2008, whereas in 2009 a decrease in value added was observed. The first positive trends became apparent in 2010. The most significant industries in the structure of value added are manufacturing, transport and trade, as well as construction. However, based on the analysis of the available information, the authors believe that in the future, enterprises could be engaged in such industries as manufacturing, trade and transport, as well as agriculture.

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