

THE EVALUATION OF SMALL AND MEDIUM FARMS' ECONOMIC VIABILITY IN THE NEW EU COUNTRIES

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Abstract

The common European agriculture policy of 2014-2020 emphasises that one of the ways to encourage the sustainable development in agriculture is the increasing of small and medium farms' economic viability. The EU names the viable production of foods that should increase the viability in agriculture sector encouraging the farms' sustainability, progress an integration growth in rural areas.

The article evaluates the alterations in farms' economical viability of the new EU countries (EU-10) according to the methodology of J. Scott (2001). It was determined that, based on the limits of viability by J. Scott (2001), the farms are viable. One specific indicator was distinguished (the production subsidies and gross profit ratio), that shows how the farms remain viable only with the help of direct payments. The latter appears to exceed the set limit of viability by 5 times in Lithuania and twice in the EU-10 countries. The tendencies of alterations in the farms economic viability in 2014-2020 are directed to the model of direct payments and the economic viability of the small and medium farms. It is supposed to increase the viability of the agricultural sector by guaranteeing the normal living rate of the farmers, by encouraging the sustainability, development and the integration growth in the rural areas.

Key words: *economic viability, farmers' farms, the EU agricultural policy, direct payments, the EU countries, financial indicators*

1. Introduction

In order to maintain a sustainable structure of farms together with the viability in ES-10, one should pay more attention to the modernisation and increasing of competition in small and medium family farms. The maintaining of these farms would allow keeping the agriculture more stable in the long-term perspective. Small and medium farms are less dependable on the supply of free-lanced workers and their qualification than the large ones. That is significantly important taking into consideration the supply of free-lanced work and the productivity tendencies in the farm. What is more, some of them use a little of free-lanced work, cherish the farming traditions, and consider the business planning in a long-term perspective, therefore the natural resources are preserved. The experience of the most of the EU countries shows that by paying more attention to the viability of small and medium objects in the agriculture the working places are maintained, the variety of activity grows, the new opportunities for increasing the income of farmers and other village inhabitants or decreasing their social isolation appear.

The evaluation of the farms' economic viability is becoming a more and more relevant question every day both in scientific researches and in the formation process of the agricultural policy. By performing the reform of the common agricultural policy of the future of agriculture, one of the EU priority aims in the scientific researches for 2014-2020 is a viable foods' production that should increase the viability of the agricultural sector by guaranteeing the normal living rate of the farmers, by encouraging the sustainability, development and the integration growth in the rural areas.

The EU, encouraging the sustainable expansion throughout the whole EU and striving to increase the farms' viability and competitiveness among all the agricultural types, also encouraging the innovative technologies in the farms dedicates huge financial resources (about 40 percent of the EU budget) for the expansion of agriculture and countryside (Europos ir jos ūkininkų..., 2013). One of the

anticipated results of the support is increasing economic viability of the farms. In 2004 the eight former socialistic countries joined the EU – Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Poland (PL), Slovakia (SK) and Slovenia (SI) together with the Mediterranean island-states Cyprus (CY) and Malta (MT). Later Bulgaria (BG), Romania (RO) and Croatia (HR) joined the EU as well. The financial support was highly important for the agriculture of these countries as they were performing the structural reforms in the agriculture and were transferring to the market economics. In order to evaluate the further perspectives of the farms it is relevant to evaluate the results of the farms' economic viability of these countries and to anticipate the perspectives. This problem is based on the results of former scientific researches (Singh, Bhillar, Joshi, 2009; Argiles, 2001; Adelaja and Sullivan, 1998; Popelier, 2005; Scott, 2001 and 2008; Conner et al., 2010; Vrolijk et al., 2010; Whitaker, 2009; Scotti et al., 2011 and others).

The aim of the research is to evaluate the economic viability of the EU members' farmers' farms and to anticipate the tendencies of alteration.

In order to achieve this aim the following objectives were raised:

1. To prepare the evaluation methodology of the economic viability.
2. To evaluate the alteration of the economic viability of the farmers' farms within the new EU-10 countries in 2004-2009.
3. To present the variation tendencies in the farms' economic viability for 2014-2020.

Methodology of the research

To justify the problem of the research the comparative and systematic analysis of scientific literature, EU legal acts, and analytical works was performed. The data grouping method, specification and classification, analysis of ratios (coefficients), graphic data visualisation and statistic analysis together with the collation methods were used to perform the empirical research and to interpret the results.

To carry out the research the Farm Accountancy Data Network (FADN) 2004-2009 data were used.

2. Theoretical justification of the significance of the farms' economic viability

The question of the viability of the agriculture subjects is significant not only in the EU, but also in the whole world. Agriculture is the main sector that keeps the farm economically viable, as the farms provide not only the food, but also perform other functions, important to the territory or the entire society. Therefore, the development of these functions has to be sustained with the help of means of agricultural policy.

Discussions about the farms' economic viability and the factors influencing it were started in 1980s when the agriculture sector crisis, huge losses in the farms and bankruptcies of the agriculture banks began. At the same time the unexpected losses of institutions, providing loans for the farmers, induced the new scientific researches. The scholars (Adelaja and Sullivan (1998), Popelier (2005), Singh, Bhillar, Joshi (2001), Argiles (2001) and others) have not got a unite opinion on what factors influence the farms' viability by now. Usually these scientists (Adelaja, 2005; Scott, 2001; Scott, 2008 and others) try to evaluate the farms' economic viability by using the relative financial indicators and statistical methods. There is a great number of researches aiming to evaluate the reasons of low farmers' income and their sources (Whitaker, 2009 and others). Vrolijk, Bont, Blokland et al. (2010) researched the possible effect on the farms' economic viability after lowering the payments to agriculture. Scotti, Bergmann, Henke et al. (2011) assessed the effect of the direct payment on the farms' income and the farm's economic viability. Conner, Colasanti, Brent et al. (2009) analysed the factors, that support the increase of economic viability in the agriculture sector, nevertheless they did not evaluate their effect of alterations on the farms' viability. It is observed that the scientific researches lack the attention to evaluation of the farms' economic viability of the individual countries, the choice and application of the suitable evaluation models, and they also lack the evaluation of the effect of these factors in different countries. What is more, the researches also fail to present the

systematic attitude towards the perspectives of the economic viability stimulation. This question is extremely relevant in this period of Common EU agricultural policy reformation.

The scientific analysis of this topic revealed that the scientists interpret the concept of economic viability very particularly and use different methodologies for evaluation. Therefore the received data of the research in different countries are hardly comparable. What is more, there is a lack of researches that could include a detailed analysis of economic viability of the small and medium farms' with the aim to assess the possibilities, tools and problem extent of the priority realisation, anticipated in the EU common agricultural policy. Thus the article will provide the comparative analysis of the new EU countries (EU-10) farms' economic viability of 2007-2013 by using the prepared evaluation methodology of determining the small and medium farms' economic viability.

The evaluation methodology of small and medium farms' economic viability is prepared by using the results of J. Scott (2001, 2008), N. Koleda, N. Lace (2010), N. Lace, N. Koleda, G. Ciemleja (2010), Slavickienė, Savickienė (2013) researches. The scientists mentioned above determined that the financial factors and the indicators describing them are of the greatest importance. They are the most promptly and accurate to reveal the farms' economic viability. For this reason the farms' financial relative indicators are analysed designing them in to one totality.

3. Methodology of evaluating the farms' economic viability

Analysis of research by different scientists (Tillack, Epstein, 2000; Scott, 2001; Scott, Colman, 2008; Argiles, 2001; Popelier, 2005; Koleda, Lace, 2009; Koleda, Lace, 2010, etc.) conducted in the field of farm economic viability assessment revealed that there is no unanimity about which indicators in the methodologies are the most suitable to measure the economic viability of agricultural holdings. Differences of opinion often result from views of the scientists on economic problems, and therefore the variety of opinions only further demonstrates the importance of deciding on the methodology of farm economic viability assessment.

Scientists (Vrolijk H. C. S et al., 2010) argue that the assessment of economic viability of agricultural holdings in various countries demonstrates significant differences. That is determined by differences in the natural environment, a different support policy, return on equity, labour productivity, land productivity, etc. It is therefore essential to analyse and evaluate economic viability assessment methodologies and the feasibility of using those methods in assessing economic viability of agricultural holdings in Lithuania.

The absolute and relative indicators are commonly used for evaluating the farms' economic viability. The indicators that should be taken into consideration every time by analysing the changing situation in the farms, are very important, allowing reveal the main aspects or see the farm's advantages and disadvantages. The interpretation of the indicators enables to evaluate and provide the possible solutions.

The implementation of the financial relative indicators is the simplest way to assess the farms' economic viability. Usually these indicators are distinguished into four main groups:

- profitability;
- short-term and long-term solvency;
- effectiveness of activity;
- capital market.

The groups of indicators, listed above, and the indicators comprising them are recommended by evaluating the economic viability of the farms, their financial state, activity results, cash flows and other activity areas. As the economic viability of the farms' is a constant process, the scientists usually perform the retrospective and perspective analysis of the relative indicators. They also use the trend analysis, evaluate the reliability and analyse the deflection from the normal state of agriculture (Liou, 2008).

J. Scott (2001, 2008), N. Koleda, N. Lace (2010), N. Lace, N. Koleda, G. Ciemleja (2010) determined that the financial factors and the indicators describing them tend to be the most significant ones. Furthermore, they reveal the farms' economic viability in the fastest and most precise manner.

Table 1 shows the indicators that are most commonly used in the scientific literature and recommended as the best for revealing the economic viability of the farms (Scott (2001, 2008); Popelier (2005); Adelaja (2007); Vrolijk, Bont, Blokland et al. (2010); Scotti, Bergmann, Henke et al. (2011) and others).

Starting from the first publication of the J. Scott (2001) article, the financial indicators became the dominating methodology for evaluating the farms' economic viability and its reasons. The financial relative indicators are the primary indicators of the farms' economic viability. Therefore, the analysis is usually based on the relative indicators' sets, used with the other financial and non-financial information or the macroeconomic indicators while looking for the improved methodologies for the economic viability evaluation. For this reason this article is based on the J. Scott methodology.

Table 1. The indicators of the economic viability and their limits (Source: J. Scott, 2001)

Indicators	Viability Threshold
Return on equity, %	More than 5%
Expense to income ratio, %	Less than 80%
Debt to net income ratio, %	Less than 600 %
Direct payments to producers and dependency ratio, %	Less than 20%

While carrying out a research, J. Scott (2008) complemented the indicators' set with one more indicator of common solvency, which was claimed to be of a great importance to the farmers, as it signals the present level of their debts. Nevertheless, this indicator is not that important in the EU farms due to the intensive policy of farms' support and low rate of farmers' farms debts. The common indicator of solvency in the EU-27 states is low, as the farmer's asset exceeds his/her debts 4-6 times (EU farm economics overview FADN 2009, 2010).

The financial data of farms located in Check Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Cyprus, Malta (ES-10) are used in this article. For summarising the comparative analysis results, the ES-10 average data on farms' economic viability were used.

4. Research on evaluation of the farmers' farms economic viability in Lithuania and the EU-10 countries

The EU financial support before and after joining the union conditioned the changes in many sectors of economic activity for Lithuania and other EU countries. The financial support had a great impact on the agriculture sector.

The EU farmers were able to take benefit of the Union support and it became a strong impulse for the increasing viability within the sector (Melnikienė, Vidickienė, 2007). The EU funds were used to modernise the farmers' farms and food processing industry, for teaching and consulting the farmers, and the development of the alternative activity. They increased the countryside population's income, employment and improved the living conditions in the countryside.

The membership in EU opened opportunities in different sectors, especially the agriculture sector. The achievements are obvious as the agriculture in Lithuania and other EU countries has become the most rapidly developing sector both in economic and social areas.

The business development of small and medium farms is of a great importance as it is the background of the economic growth and one of the most significant sources of creating new working places in rural areas. The small and medium farms overtake the novelties more easily, are more mobile, adapt to the changing surroundings faster, and facilitate the transfer of economic resources from the declining to the developing sectors. Influencing the structural changes of the country they become the engine of renovation (Mažylis, 2006). The small and medium farm corresponds to the common interest aims, therefore the part of GDP created by it is constantly increasing in the nowadays economics (Štreimikienė, Dapkus, Šivickas, 2007).

The Lithuanian agriculture, similarly to the EU-10 countries, is the priority field of agriculture. Agriculture creates about 10 percent of the GDP every year. The farmers' farms in the villages make the greatest part of subjects with agricultural activity. In the beginning of 2004 there were about 108 021 farms registered in the Farmers Farms' Register, meanwhile 2012 had them twice more registered in comparison to 2004, that were managing 2,83 million ha of land, the number of which is still increasing.

Figure 1 shows that small farms of 13-15 ha of land make the greatest part in Lithuania and EU during the analysed period. Still the average farm size in Lithuania makes 11.8-14 ha and is smaller than in EU-10 countries (Figure 1).

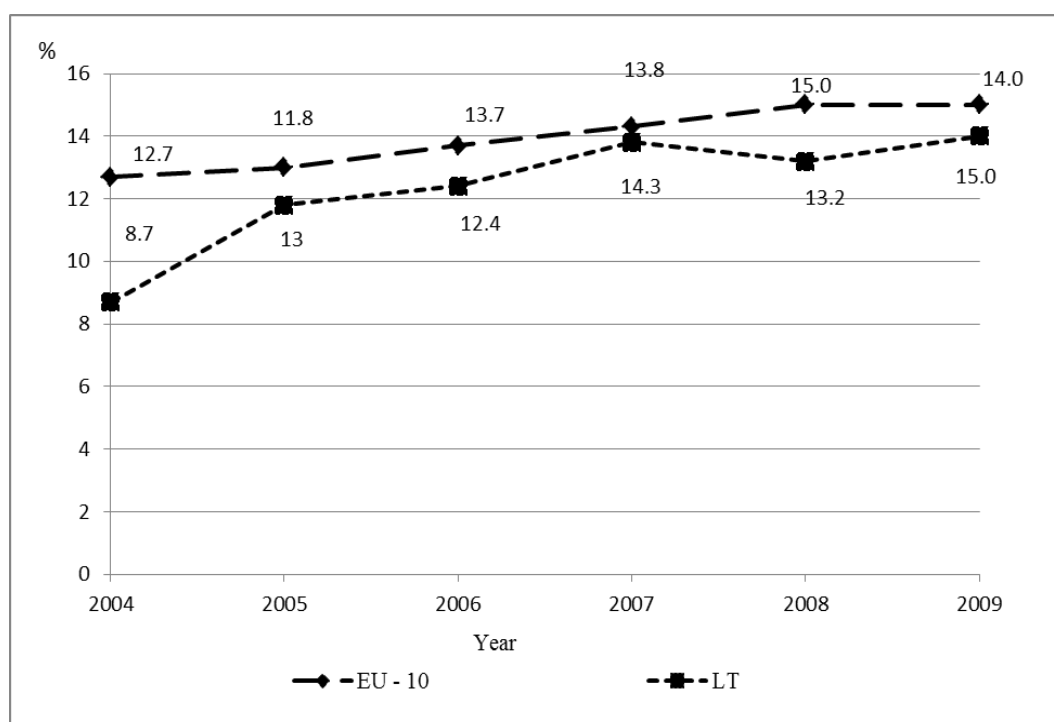


Fig. 1. The average farm's size in Lithuanian and the EU-10 farms in 2004–2009, in ha

Since the start of Lithuanian independence it was claimed that a small size of a farm is the crucial obstacle for implementing industrial technologies, therefore its increase in the country was considered as an undoubted achievement. Still the radical changes of nowadays in the farmers' farms structure require setting of certain priorities: will it further be going on the direction of increasing the farms' concentration and income differentiation, or will there be a search for ways how to form an equal

farms' structure with prevailing mixed production farms, based on the average size family work. The latter, as observed in the other countries' experience, is the basis of sustainable agriculture production.

Nevertheless, it is discussed that small and medium farms may be viable. A stable number of such farms and the size of the managed land in other countries show that these farms may easily find niches of their activity and be effective. By the way, they are given an important role in preventing the employment in agriculture and inhabitants in the rural areas. Forming of the farms' structure in Lithuania significantly differs from the ones in the Baltic States region. Although there is a strong tendency of the farms becoming larger, nevertheless, in the entire region, even the neighbour Latvia with clear farms' concentration, the number of medium sized farms remains stable. These farms are viable and productive in the old EU member countries such as Germany, Denmark, Sweden and Finland. They also successfully act in Poland, where small and medium farms prevail in the structure both under the number and the land (Melninkienė, 2012).

It is important to analyse the small and medium farms' financial indicators and determine their tendencies. Thus, in order to interpret the calculated indicators correctly, it is important to determine their variations in time and to compare them with the indicators of the other European Union subjects of agricultural activity. That means that collecting of financial data within the farms is a necessary tool, showing the farm's state on economic viability, its strengths and weaknesses. According to J. Argiles (2001), the financial factors and their indicators are able to provide information much faster, as the increasing farms' financial liabilities, low level of net profit and the profitability of assets, as well as being exposed for the random effects in the agriculture, lead to the decreasing income. The decreasing income is also influenced by the falling prices and natural surroundings that effect the production, income and the cash flows (Argiles, 2001).

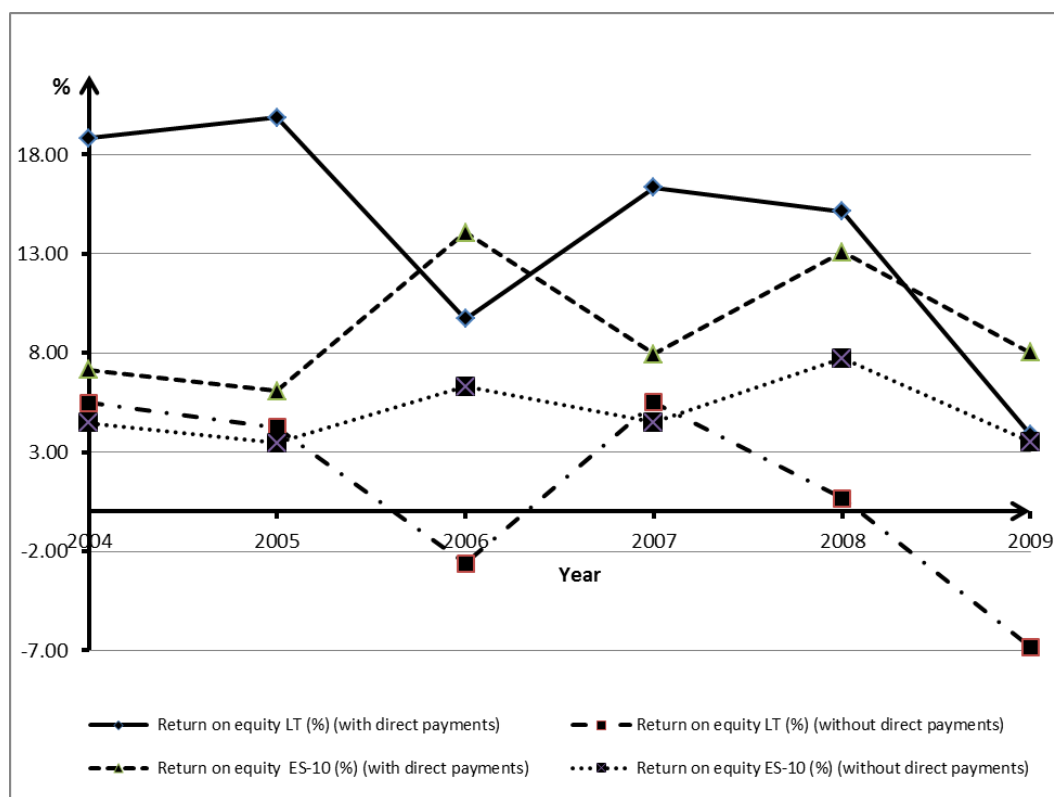


Fig. 2. Return on equity in the Lithuanian and EU-10 farmers' farms, 2004–2009, in percent

Based on methodology of the research, made in Canada, the authors of the article calculated the Lithuanian and EU-10 countries' economic viability of farmers' farms based on the FADN data. One of the most important indicators of the economic viability is the return on equity (ROE). Comparing the indicators of 2004–2009, the lowest ROE was in 2009 in Lithuania (Figure 2). In 2009 – it was 3,90 % with subsidies for production, and without direct payments to producers – the negative 6,83 %. Nevertheless after acquiring the financial support both from the state and the EU, every year the ROE was more than 5% of the set limit of viability, except of 2009. Analysing the data of EU-10 farms, the ROE was positive every year, still it went above the 5% viability limit without the production subsidies only in 2006–2008. In this case the economic viability of the farms was sustained artificially, as the subsidies on production can be considered relatively temporal. It is important that the subsidies have a long-term lasting impact, but not the short-term impact on the development of the farms' economy. C. Popelier (2005) states that the return on equity is decreasing all over the world, due to the fact that there is no long-term concept of the agricultural sustainability, which would guarantee the long-lasting stability and viability in agriculture.

The main aim of every farmer's farm is not only to produce the amount of agricultural and food products, necessary for the family, but also to get sufficient amount of income so that it guaranteed the normal living rate of the family and allowed the further expansion of the anticipated activity. It should be noticed that the income of the Lithuanian and EU-10 farmers' farms was increasing within the analysed period, and the received subsidies for production were of the greatest effect.

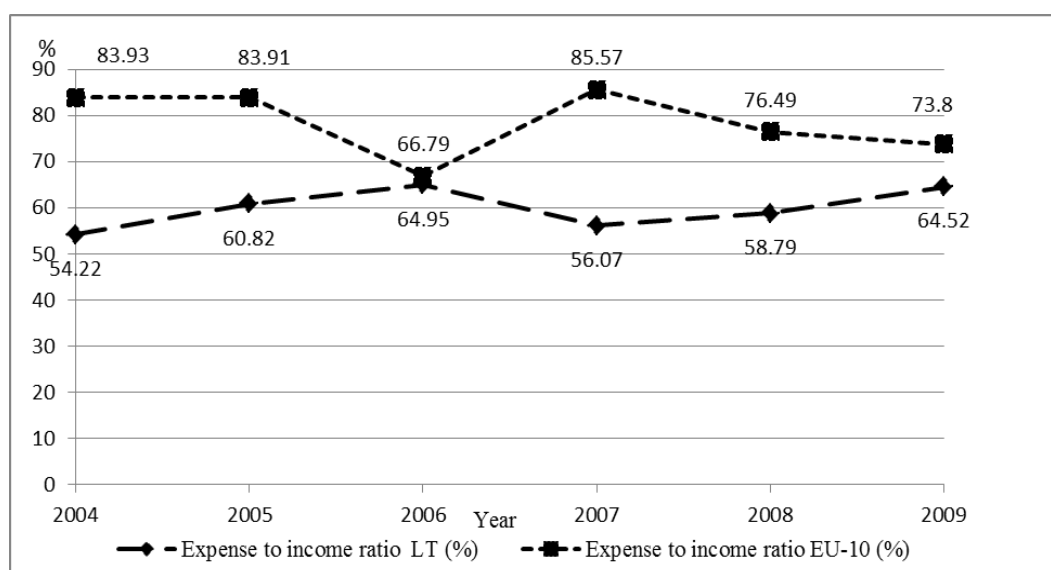


Fig. 3. Expense to income ratio in the Lithuanian and EU-10 farmers' farms, 2004–2009, in percent

The expense to income ratio fluctuated insignificantly during the analysed period (Fig. 3). Comparing the data of 2004 to 2009 it increased by 7.33% in Lithuania, and it decreased respectively by 10.13% in the EU-10 countries. The farmers' farms in Lithuania did not increase the viability limit of 80%, still the EU-10 increased the limit, in 2004–2005 and 2007, set in J. Scott's (2001) research. The slight increase shows that the prices paid to the producers for their production (services) are insufficient, compared to the increasing expense. Although the gross profit of the farm both in Lithuania and EU-10 was increasing except of the year 2009 (DG AGRI EU-FADN..., 2004, 2005, 2006, 2007, 2008, 2009), the debts of Lithuanian farmers' farms increased significantly. In 2004, compared to 2009, it achieved 70 % (Fig. 4).

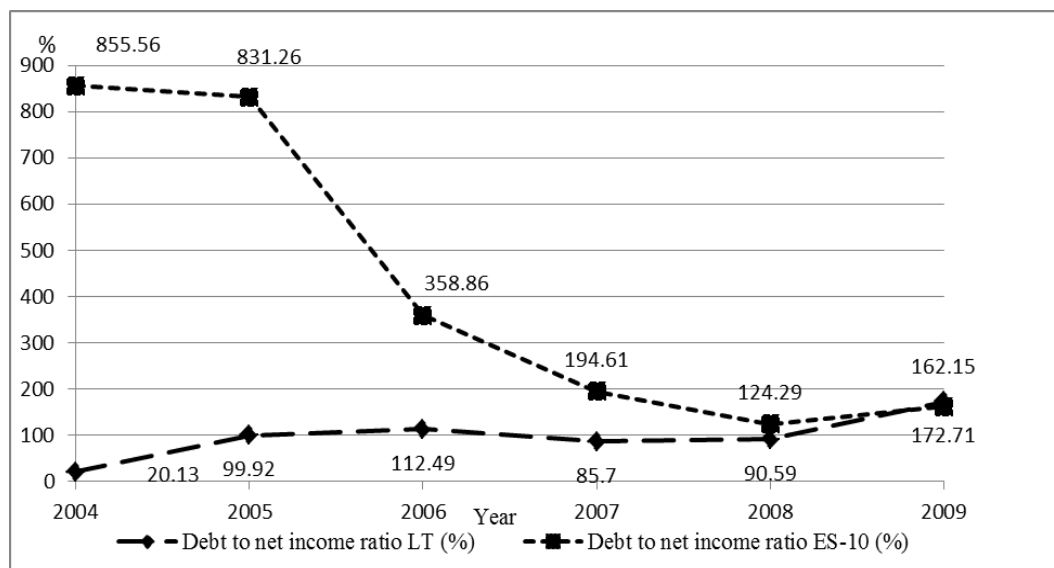


Fig. 4. Debt to net income ratio in the Lithuanian and EU-10 farmers' farms, 2004–2009, in percent

J. Scott (2001) states that the debt to gross profit ratio should not exceed 600 %, so that the farmers could cover their debts on time during the terms indicated in the contracts. That means that the debt coverage indicator in Lithuania is high and the debts are covered on time. The ratio of debt and gross profit exceeded the set limit in 2004-2005. Comparing the indicators of 2004 to 2009, a decrease of 6.9 times of the indicator was observed.

After Lithuania and other countries joined the EU, possibilities of the farms of providing themselves with financial resources became higher. This happened due to the modernised production technologies. The farms could achieve better results, and together with the financial support the common production of the agricultural products increased. In 2004-2009 the ratio of production subsidies and the gross profit fluctuated averagely from 50.65 % to 114.44 % in Lithuania, while the same indicators in the EU-10 increased by 18,74 % during the analysed period (Fig. 5). The limit of viability increase the limit by 5 times in Lithuania, and twice in EU-10 countries (the recommended amount is less than 20 %) (Table 1).

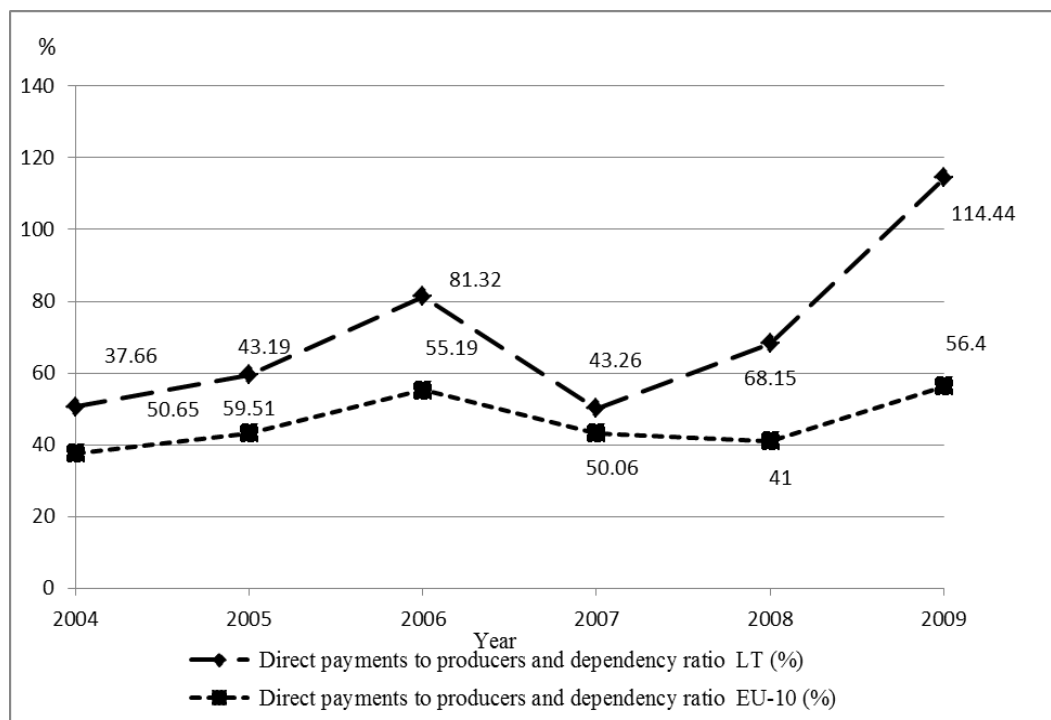


Fig.5. Direct payments to producers and dependency ratio in the Lithuanian and EU-10 farmers' farms, 2004–2009, in percent

However it should be noted that the decreased gross profit and the received high production subsidies (direct and compensated payments) from the state which helped the EU to have a great effect on that. It is necessary that the subsidies create, sustain and strengthen the farm's economic viability during the long period, but are not the means for keeping income for the short time period.

To sum up, the farms in Lithuania and the EU-10 are viable only with the help of production subsidies, as this indicator is strongly remote from the viability limit. All the remaining indicators are lower than the set limit in 2008 and 2009 (Table 1). Therefore the farmers have to choose the right management strategy, the optimal solutions' results and improve the agricultural activity results eliminating the production subsidies and creating the farms' income for the future. However it is necessary to note, that any, even a slight gross profit of the farm without the subsidies would reflect the effective solution and the farms viability in the future.

Based on the researches of J. Scott (2001) a conclusion could be drawn that the primary data of the farm's economic viability is observed in its financial reports. At present, while the most suitable evaluation method of the farm's economic viability does not yet exist, it is attempted to use all the sources that could evaluate the farm's economic viability. In order to pick the most suitable indicators out of many offered, that could prove the farm's economic viability, the scientists in their empirical models usually apply the statistical methods. Looking for reasons they evaluate the economic viability of the farm, try to adapt the existing models, improve them or look for the new models or algorithms of the farm's viability, since there is no solid model that could be applied.

5. The tendencies of small and medium farms' economic viability 2014-2020

While choosing the particular indicators of the farms' economic viability, one should follow the aims of the farms' economic viability:

- To increase the agricultural production;
- To guarantee a normal living rate of the farms;

- To stabilise the market;
- To ensure the supply of food and other agricultural products, their keeping conditions;
- To ensure that the foods reach the consumer by the prices favourable to him (Europos ir jos ūkininkų..., 2013).

The European Commission in its communicate on the Common agricultural policy in 2013 continues its reform started in 2003 with the aim to orient the agriculture more towards the market needs, to anticipate its constant and rapid modernisation, to expand the services of information communication and consulting, to increase the support to the younger farmers, smaller farms and producers. Similarly, it strives to perform a more flexible and common policy in the agro-environmental protection and ecologic agriculture, as well as the stronger cooperation in the pilot projects.

The European Commission has offered a distribution of the financial envelope of direct payments among the EU members. The member states with the direct payments (of 1 ha of agricultural land) 90% lower than the average of the EU, by the 2020 will be able to decrease the gap by one third between the present level and the 90% of the average amount of the direct payment in EU. The decrease of the direct payments will be mainly felt in Malta, Cyprus and Slovenia as their direct payments are strongly remote from the average of the EU-10. However, the direct payments will be increased for the Baltic states (Lithuania, Latvia and Estonia) (Table 2). The new direct payments' model is aimed at the production subsidies and natural barriers.

Table 2. Average direct payments per hectare EU-10 State, 2007-2009 and 2014-2020 (average DP/ha PEA) (Source: Common Agricultural Policy ..., 2013)

States	ES-10	CZ	EE	CY	LV	LT	HU	MT	PL	SI	SK
Average DP/ha PEA, 2007-2009	206,7	248,8	130,6	360,1	115,6	147,30	192,7	802,0	205,4	317,2	201,9
Average DP/ha PEA, 2014-2020	276,0	254,8	156,6	351,7	141,8	174,4	257,3	673,7	221,7	312,6	215,4

In order to retain a sustainable structure and viability of Lithuanian and the EU-10 farms, a greater attention should be paid to modernisation and increasing the competitiveness in the small and medium family farms. The preservation of these kinds of farms would allow maintain the agriculture more stable in the long-term perspective. The small and medium farms, in comparison to the large ones, to a greater extent depend on supply and qualification of the employees. It is extremely relevant while looking at the supply and productivity tendencies of the hired workforce in the villages. Additionally, in the farms with too little hired workforce, the farming traditions are fostered, and the natural resources are preserved due to the attitude towards the business as a long-term perspective. The experience of the majority of EU countries shows that after paying more attention to the viability of the small and medium business subjects in agriculture, the working places tend to be maintained, the variety of activity is increasing, the new possibilities of raising the farmers' and other villagers' income and the social exclusion is decreasing.

In order to keep the agriculture sector viable, two models of inducing the farms' competitiveness should be implemented. The first model should be aimed at the large farms that compete in the market with the lowest costs on production and orient towards the standard production, for the further processing and production. The second model is supposed to be aimed at the small and medium farms, competing with the help of their exclusive production. These farms look forward to increasing their income by continuing the processing process of agricultural and food products within the farm also by

providing the final products to the market. The farms, asking for investment subsidies, should declare the competition type they are choosing. The farms should be supported by the means most suitable for the chosen model of competition.

In order to increase the viability of the small and medium family farms and to elaborate the cooperation, the following provisions should be followed:

1. To foresee the individual funds for the farm groups of different sizes by planning funds of the investment subsidies. One of the funds should be for small and medium farms, the other – for the larger ones. It is important for these two farm groups not to compete together.
2. To differentiate the intensity of investment subsidies, according to the farm's size (the smaller the farm, the bigger intensity of the support).
3. To ensure the complexity of support provided to the small and medium farms, by combining the investment subsidies with the support for consulting in the fields of technologies and marketing, teaching of employees with the help of the labour exchange and similar.
4. To apply the support mechanisms for supporting the farms managed by two or three generations, so that the farmers did not have the incentives to divide the farms by settling the young farmers.
5. To give priority to small and medium farms to use the means of financial engineering for acquiring the land and other investment.
6. To support the logistic centres for production produced in small and medium farms.

In summary, it could be stated that after joining the EU, by modifying the Common agricultural policy, and dominating of the tendencies of changing village economics, when the growth of the added value created in the agriculture depends mainly on the direct payments, which have the tendency to increase or decrease depending on the particular country, the evaluation of the economic viability of the farms becomes of a great importance. That is one of the means for creating a greater added value and for sustaining the viability of small or medium farms, at the same time following the main aim of the Common agricultural policy to sustain the agriculture viable.

6. Conclusions

1. By evaluating the economic viability of the farms, the J.Scott methodology was chosen. The indicators, provided in the methodology are the financial indicators, most commonly found in the scientific literature, evaluating the economic viability of the farm: return on equity, liabilities to gross profit ratio, expense to income ratio, production subsidies to gross profit ratio. The provided indicators most rapidly and precisely reveal the disturbances, which should be taken into consideration every time by analysing the changing situation in the farms. They are very important, allowing reveal the main aspects, see the farm's advantages and disadvantages. The interpretation of the indicators enables to evaluate and provide the possible solutions.

2. After the analysis of the economic viability of Lithuanian and EU-10 farms it was determined that based on the viability limits provided by J. Scott, the financial indicators are reliable (by evaluating the economic viability). One specific indicator was distinguished (production subsidies to gross profit ratio), which shows that the farms remain viable only with the help of financial support, as they go above the limit of viability even by 5 times in Lithuania and twice in the EU-10 countries. The received direct payments have a positive effect on the most of financial indicators and keep the farms' viability artificially stable. The farmers have to choose the right strategy of management, the optimal decision results and to improve the agricultural activity results excluding the direct payments to producers. They should also create the agriculture income for the future, since the calculated indicator of the return on equity without the subsidies remains negative for the past several years in Lithuania and below the set limit in the EU-10 countries.

3. By performing the reform on the common agricultural policy for the future agriculture, one of the EU priority goals in the scientific researches for 2014-2020 is the viable production of foods, that is

supposed to increase the viability of the agriculture sector by guaranteeing the normal living rate of the farmers, and encouraging the sustainability, development and integration growth of farms in the rural areas. The tendencies of the change of economic viability in 2014-2020 are directed towards the direct payments' model and the economic viability of small and medium farms. The direct payments are one of the means of creating a greater added value and maintaining the economic viability of the small and medium farms. In order to keep the agriculture sector viable, two models of inducing the farms' competitiveness should be implemented. The first model should be aimed at the large farms that compete in the market with the lowest costs on production and orient towards the standard production, for the further processing and production. The second model is supposed to be aimed at small and medium farms competing by their exclusive production. These farms look forward to increasing their income with the help of continuing the processing process of agricultural and food products within the farm, also by providing the final products to the market. Therefore, the farms, asking for investment subsidies, should declare the competition type they are choosing. The farms should be supported by the means most suitable for the chosen model of competition.

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