

SUSTAINABLE RURAL DEVELOPMENT IN ESTONIA*

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Introduction

After accession to the European Union the main goal of Estonian rural politics has been to maintain and develop nature-friendly farming based on natural culture, and through it also active and sustainable rural life. Agriculture has been an important sphere of activity and source of income for the Estonian inhabitants throughout history. By now, the importance of agriculture has decreased in the whole world economy, but a bearing role has remained in supplying the people with main foodstuffs, and in the business of rural areas and in formation of the cultural landscape.

Taking into account the fact that more than half the residents of the European Union live in rural areas that cover 90% of the whole territory, the development of rural life is of vital importance. In rural areas, land is mainly used for farming and forestry, which therefore play an important role in the life of rural communities, being a basis for a vital social structure and economy and a good administration of the nature and landscape.

Today, there are fewer farmers than there used to be and they are not working alone. They need the services of several companies to produce and sell their products. Farm families and people living and working in the countryside are also consumers who wish to get the same profit from the rural environment as does the rest of the society. For these reasons, the development policy of rural life is much more wide-stretching than on the fields of the traditional agricultural activity, including measures for the protection and improvement of the environment, plans for supporting rural communities and developing rural economy as a whole.

The aim of the article is to reflect the sustainable development of the Estonian rural life by increasing business, supporting rural life and the competitiveness of the production of agricultural products.

The author has set as their goal to study and given an overview of:

- The economic situation and employment of the rural population of Estonia
- Strategy for the development of rural life
- Rural economic business
- The importance of forestry in the sustainable

development of rural life

- The competitiveness of the Estonian agriculture

Economic structure and employment

The constant growth of employment is not infinitely possible due to the profile and qualification of people, and there are always certain people who do not want to enter labour market for certain reasons. Estonia does not have very big resources left for increasing employment, but the productivity of labour is an indicator where Estonia has ample resources for development and which may turn out very effective in alleviating the problem of labour supply. The growth of labour productivity through improvement of qualification would enable the enterprises to produce more effectively and increase added value created by an employee. According to the data of 2005 the productivity of labour force in Estonia made up only 55.9% of the average of the European Union, which is one of the biggest lags from the average indicators in Europe.

The average economic growth of the last 10 years in Estonia has been 6.1%, and from the European Union Member States, only Ireland has witnessed a bigger growth (7.8%). As the average economic growth in the European Union at the same time has been 2.3%, the per capita GDP in purchasing power parities has increased from the initial one-third to about a half (50.4%) of the EU average [5].

In 1996-1999 there was a constant decrease in creating new registered jobs. The ratio of unemployment to vacant jobs characteristic of structural unemployment grew during this period from 19.9 to 30.3. This ratio was highest among skilled workers in agriculture and fishing sector, growing from 42.4 to 91.0. In other words, at the beginning of 1999 there was one vacant job for 91 registered job seekers in these sectors [4] The actual rate is probably even higher because not everyone registers at the employment agency.

During the years 1989-2003, the economic situation of the rural population changed significantly. Unemployment and non-activeness became a problem. At the beginning of the 1990s there was almost no unemployment, but in 2000, there were

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28,500 unemployed persons (13.8%) in the country and 144,300 non-active persons, i.e. 41.2% of the labour force. In the rural areas, the number of employed people has decreased since 1989 from 246.3 thousand to 169.1 thousand in 2004 (-31.3%). The importance of the primary sector (agriculture, hunting, forestry and fishing) in employment has decreased by more than three times since 1989 (from 55.9% to 17.3%). 4.3% of all employees were engaged in the agriculture of the European Union. In Lithuania, Latvia and Finland, the agricultural employment rates were 19.6%, 13.5% and 6.2%, respectively. In countries with old agricultural traditions, such as Denmark and Germany, only 3.7% and 2.6% of the workforce of the whole country is engaged in agriculture, respectively [9].

The economic growth that continued in 2005 brought about positive changes on the labour force market. The main sources of the increase in employment are still the processing industry, rural tourism, increase in joint activity, but also the transport and construction sectors. In addition to big farms and enterprises, the European Union also favours the diversity of the activities of small farmers, the development of less favourable areas and activities of alternative areas of production. Thanks to the support measures of the EU the decrease of employment in agriculture slowed down in 2004.

In Estonian rural areas the percentage of unemployed people from the whole working population increased to 11.7% by 1999. Former collective farm centres, which operated as service centres, were closed. A high structural unemployment rate and a low level of servicing caused the departing of the younger and more active population to towns, making the local social environment considerably poorer. By the year 2005, the unemployment rate in the rural areas had decreased to 7.7%. The rate of unemployment in 2004 was higher among people with basic education – 15.5%, followed by people with secondary and vocational education – 9.5%, secondary vocational education – 7.9% and people with higher education or a degree – 3.5% [5] According to the data of the labour market survey, 40% of rural population does not actively seek for a job.

Rural Development Strategy

In recent years positive changes have taken place in the rural life of Estonia, nevertheless, attempts to create values that would balance the uneven development in rural areas have not been successful. The population of borderlands is constantly decreasing. The Estonian rural development policy has been considerably influenced since the beginning of the 21st century by the accession to the European Union.

Before the accession to the European Union Estonia had the opportunity to benefit from the pre-accession agricultural and rural development programme SAPARD (applications for support were accepted during 2001-2003), the finances of which Estonia implemented very successfully. The essential working out of the Estonian Rural Development Plan and Rural Development Strategy started in September 2004 together with the representatives of producers and rural organisations. Estonian National Development Plan for the years 2004-2006 (RAK) and Estonian Rural Development Plan 2004-2006 were worked out and approved. Various means are used to direct rural development, e.g. market organisation measures and structural measures. [3]. In July 2006 the Government approved Estonian Rural Development Strategy for 2007-2013, on the basis of which rural life will be supported during the next seven years with almost 14 billion kroons [10].

In 2000 the trade conditions for agricultural products with the EU became more favourable for Estonia, because the EU gave up export subsidies to basic products on entering Estonian market. At the same time Estonia imposed import duty on the import of foodstuffs with states with which no free trade agreements had been made. The share of agricultural products in total exports in 2001 grew by up to 8% [8].

Within the framework of the programme for the years 2007-2013 the member states of the EU receive supports through the European Agricultural Fund for Rural Development (EAFRD), from which the relevant budget funds of Estonia will be co-financed. In connection with the new programme period also the rules for the distribution and implementation of structural means are renewed.

The financial support to rural life is divided into three areas:

- Competitiveness of agriculture;
- Environment protection and land management;
- Non-agricultural business and village life in the rural area.

The aim of the strategy is to enhance the competitiveness of Estonian agriculture and forestry, agricultural land management and environmental sustainability, the improvement of the quality of life in rural areas and the diversification of rural business, taking into consideration the corresponding aims of the EU. The principal priorities of the strategy proceeding from this include:

- enhancing the competitiveness of agriculture to the level that agricultural enterprisers could obtain a livelihood under diminishing support;
- agricultural production methods applied should ensure healthy environmental state; agricultural land

use should sustain in areas where it has an important role;

- the diversification of rural business primarily in less favourable areas and the improvement of the quality of life in rural areas [6].

Rural economic business

Farmers and private undertakers located in the country are the central layer of the society forming and determining the organisation and sustainability of the rural life inherent in Estonia. The preserving of smaller households is very important from the viewpoint of the vitality of rural life: these provide rural inhabitants with jobs, help to maintain inhabitation and the local cultural environment. Small households can develop into vital production units mainly via specialising or by alternative rural business. In the tough economic competition, farm families can hold on by developing joint activity.

Local self-initiative has grown fast in rural areas and the possibilities of local inhabitants to participate in the development of the region have increased. The number of non-profit organizations has grown fast in Estonia. One of the leaders of self-initiative of rural inhabitants has been the Estonian Village and Small-town Movement Neighbourhood. Within the framework of the cooperation of villagers village elders have been elected and village development plans have been worked out. A development plan is the agreement between the inhabitants of a village on how the village might develop.

According to the data of the Centre of Registers, the number of companies located in rural areas has still been rather stable over the past years (26,000 – 27,000 companies). The farmers that are economically active (operating) made up about 68-70% of these. The critical years of operation in the life cycle of rural companies are 3-5 years. The survival percentage of companies is rather small (54%) and the ability to make additional investments at the expense of equity capital is small. The farmers engaged in agriculture terminate their activities more often than other companies. The less competitive salary fund has an effect on those companies, too, who have difficulties hiring and keeping skilled workers. The fact must also be taken into account that according to the rules of the farm accountancy data network (FADN), there are only about 7,000 so-called professional commercial enterprises who receive most of their income from agricultural production. The greater centres and the municipalities surrounding them are more vital [7]. In the municipalities that are on the outskirts of rural areas and away from larger transport roads, the number of areas of activity is small and limited only to public services and a few companies.

It is very important to find an ancillary activity. Of the approximately 37,000 farmers in Estonia, 2,746 households gain their income from non-agricultural activities, which makes up 7.5% of all the farmers. Thus, it is very important to pay more attention to the diversification than so far, thus improving the opportunities of the farmers withdrawing from agricultural production to reorientate, and creating more non-agricultural job positions. As the secondary and tertiary sector are engaged 94.2% in the rural area (94.9% in the EU), these sectors have a greater potential from the viewpoint of creating new job positions. By improving the tertiary sector, it is also possible to slow down the problem of services moving out of the rural areas. Even now, 66% of value added is created in the service sector [5].

The increasing of the competitiveness of the whole foodstuffs production chain – from the agricultural producer to the processor – by supporting respective investments is in the central position. Next to the modernisation of traditional agriculture, the diversification of agricultural production, increasing of the quality of products, recovery and development of villages and the creation of new non-agricultural companies and job positions in the country need to be contributed to. Through non-agricultural business, the potential of the local natural environment is exploited. The main criterion at developing economic activities alternative to the agriculture is the creation of job positions to provide employment opportunities for workforce freed or freeing from agriculture [3].

In the past few years, small agricultural companies have terminated their activity, but at the same time, larger agricultural companies have expanded their business. The importance of leased lands in areas under cultivation has also increased. In 2005, agricultural companies leased 48% of agricultural land on the average.

Forestry as a field of the sustainable development of rural life

Forest is one of the most important recoverable natural resources, which covers more than half of the land of Estonia (2.28 million hectares). More than half of the forest land is administered by the state. Compared to other countries of the European Union, Estonia is on the fourth place for the proportion of forest [1].

A great part of the former farmlands of Estonia has become covered with wood in the recent fifty years. According to the data of the Land Registry and Land Board, more than 300,000 hectares of forest land on former farmlands is owned by private forest owners as legal persons and companies, which makes up over 30 times more than the area of forest

lands owned by companies before WW II. From the economic viewpoint the continuous concentration of forest ownership to private forest owners as legal persons (especially foreigners) reduces the number of jobs in rural areas and the opportunities of earning an income for rural inhabitants.

In the course of the returning and privatisation of forest lands the owners have received approximately 55,000 registered immovable properties that make up approximately 700,000 hectares of forestland. The average area of a forestland property is about 12 hectares. Cadastral units smaller than 5 hectares make up 61% of the overall number of the total of cadastral units, but they take up only 19% of the area of private forests. The area of State owned forests growing on former private lands is ca 600,000 hectares [2].

From the viewpoint of regional employment the forestry based industry has a significant role as an employer. The share of employees in industries based on forestry is up to 9% of total employment. From timber products the leading export article in monetary value is saw timber. In former years the main export article was raw timber, whereas in recent years the share of saw timber has grown. The main part of saw timber goes to Great Britain and Germany. The majority of exported raw timber is pulpwood, with main export markets in Sweden and Finland. Approximately 60% of Estonian timber products is sold to these export markets. Although the number of jobs in agriculture decreases, it is balanced by the rise in employment in timber processing and fishing sectors.

The main developers of rural life are family farms. So, the Estonian rural life mainly depends on the vitality and sustainability of a family farm. The forest has always been a significant source of work and income for farm families.

A great proportion of the 55,000 private forest owners of Estonia manage their forests by following the sustainable principles. The Estonian forest resources are mainly used in the wood processing industry. The wood processing industry comprises four production industries:

- wood processing
- production of paper and paper products
- publishing and printing, and
- furniture production.

When using the forests for wood, the other areas of application of the forest should not be paid less attention to. Preconditions have been established for the industrial collection of the by-products of forest and satisfying the needs of people taking berry and mushroom picking as a holiday and using the forest. To ensure an increase in the usage of forest

during holidays, respective information programs have been worked out.

Competitiveness of agricultural production

The development and success of the economy of a country as a whole greatly depend on the international competitiveness of its sectors of economy. The international competitiveness of a sector of economy is a complicated phenomenon in which the efficiency of the activities of a company, geographical distance from destinations and the support policy of countries towards their producers intertwine. The situation at the assessment of the competitiveness of different countries is especially complicated.

In order to understand the current situation of the competitiveness of the Estonian agricultural production, attention must be paid to deeper problems as well. In the 1990s, the restructuring of agriculture was inhibited both by the collapsing of earlier Soviet markets and the liberal trade policy applied in Estonia. Mainly due to the liberal foreign trade policy of Estonia, the balance of both the whole foreign trade and the foreign trade of agricultural products turned negative. In such unequal competitive conditions, the competitiveness of agriculture as a sector decreased and there were no possibilities for making the necessary investments. The purchase prices of agricultural products decreased. In addition to this, the need increased in relation to the bringing of agricultural production into conformity with the EU directives. After the accession to the EU, the self-financing ability of the investments of Estonian farmers has increased in relation to direct aid, but the level of expenses made has also increased, and mainly so due to the increase in fuel prices [5].

In 2000, the trade regime of the Estonian agricultural products with the EU became more favourable as the EU gave up the export subsidies of the basic products entering the Estonian market. At the same time, Estonia levied import duties on the import of foodstuffs with the countries with which free trade Agreements had not been concluded. The proportion of agricultural products in the whole export increased to 8% in 2001 [8].

The effect of foreign trade on the development of Estonian agriculture has constantly been getting stronger after the regaining of independence. During the Soviet time, the Estonian agricultural production was mainly specialised in import feedingstuffs. A great proportion of the agricultural production was taken out of Estonia to the other regions of the Soviet Union. The policy of the Soviet Union significantly restricted the traditional export market of the Estonian agricultural products. The good competitiveness of the agriculture of the Estonia that has

regained its independence on the world market is best characterised by the fact that in case of mutually opened markets, the trade balance of the Estonian agricultural products has a great surplus. For example, the importance of Ukraine in the import of the Estonian agricultural products in 1999 was about 16 times smaller than in the export. In case of Latvia, the same ratio was more than four times and in case of Latvia, more than two times smaller [4]. It can be concluded from here that the reason for the regress in the Estonian agriculture in the last decade of the last century was not the low competitiveness of the sector of economy, but the worse position of the Estonian producers in the economic policy competitive conditions [8].

According to the structure survey, agricultural holdings of less than 10 hectares in size make up 65% of all agricultural holdings. At the same time, they only use 8.6% of the agricultural land. Agricultural holdings of more than 100 hectares in size make up 5% of all agricultural holdings, but use 65% of the agricultural land [5].

Summary

The main developers of rural life are family farms. Therefore, the Estonian rural life depends on the vitality and sustainability of the family farms. Forest has always been an important source of work and income for farm families. The Estonian forestry has a significant role in the economy of the country. From the viewpoint of social development, forestry as an insurer of employment in the country is especially important.

The accession to the European Union has significantly affected the development of rural life in Estonia, as a result of which positive changes have occurred in the rural life. It is important that the rural life was diverse and provided various job possibilities near one's home, so that the availability of main services and the quality of life were guaranteed for the inhabitants. The Estonian Rural Development Plan

for 2007-2013 is aimed at increasing the competitiveness of Estonian agriculture and forestry, maintenance of agricultural lands, increasing the quality of life of rural areas and diversification of rural business.

Important development and growth potential of business also lies in the development of the business and innovation knowledge of people. It is necessary for people to know how to use new ideas in their work. New more vital companies are the result of improved business awareness. To keep the Estonian rural life sustainable, more attention has to be paid to the wider supporting of the development of rural areas.

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