

Development of rural entrepreneurship

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Abstract

The private enterprises located in the countryside are the central social stratum who forms and determines the organisation and sustainability of the rural life characteristic to Estonia. The preservice of smaller households is very important from the viewpoint of the vitality of rural life: these provide rural inhabitants with jobs, help to preserve settlement and the local cultural environment. Next to the modernisation of traditional agriculture, the diversification of agricultural production, improvement of the quality of products, restoration and development of villages and the establishment of new agricultural companies and job positions in the country need to be contributed to.

The main means for the faster introduction and development on non-agricultural fields of business is investment aid for the diversification of rural entrepreneurship and the implementation of business ideas. An alternative way or a way supplementing the abovementioned method is the implementation of joint activity for the acquisition of rural farm equipment, and also the use of cooperative financing with the mediation of credit unions. Non-agricultural entrepreneurship and the establishment of social economy create new job positions and the proportion of these in employment increases from 17% to 23% according to estimates. The Estonian forestry also plays an important role in the economy of the country. From the viewpoint of social development, forestry is especially important in the country as an insurer of employment. In many rural areas, forestry is the main field of production offering job positions.

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Introduction

The aim of the present article is to discuss the possibilities of developing rural entrepreneurship and the problems accompanying it. The authors have set as their aim to study the employment of Estonian rural inhabitants, the diversification of rural entrepreneurship and the investments into agricultural entrepreneurship.

The problems of rural life are topical in Estonia, as since 1991 the number of job positions has drastically decreased in rural areas. This has brought about a decrease in the number of rural inhabitants and a lot of land that could be cultivated is not used. Farmers and private enterprises located in the country are the social stratum

that forms and determines the organisation and sustainability of the rural life characteristic to Estonia. Traditionally, rural life has relied on the development of very small companies, incl. agricultural cooperatives and credit unions. Small households can develop into viable production units only via specialising or alternative rural entrepreneurship.

The problems of rural life are topical in Estonia, since in the years following the regaining of independence the number of jobs has decreased considerably in rural areas. This has been accompanied by the decrease of rural population, farms and houses have been abandoned and a considerable share of arable land is left unused. Throughout times agriculture has been an important area of activity and source of income for the inhabitants of Estonia. Although the relative importance of agriculture in the world economy as a whole has diminished by now, it has retained a key role in rural enterprise and in providing the population with basic foodstuffs.

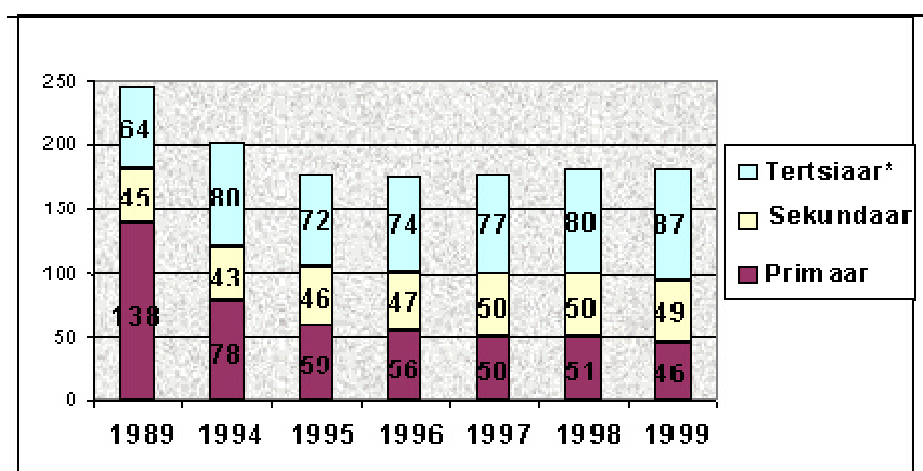
Today, there are fewer farmers than there used to be and they are not working alone. They need the services of several companies to produce and sell their products.

Rural Population 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.

During the Soviet regime the structure of employment was determined by the division of labour between the former Soviet republics. The priority of Estonia was to enhance agricultural production, which caused one-sidedness of economy and forced development of the agricultural sector in disproportion as compared to the rest of economy. Therefore the liberalisation of market at the beginning of 1990s brought about considerable changes in the sectoral structure of rural employment. During 1990-1998 the employment of rural areas was lower than in towns and since 1993 the split has ever grown. In 1998 the decrease of employment in rural areas stopped and employment of women even grew in rural areas. The changes in the structure of employment in rural areas are shown on figure 1.

Figure 1. Employment in rural areas in different sectors (1989-1999)



Tertsiaar = Tertiary*, Sekundaar = Secondary, Primaar = Primary

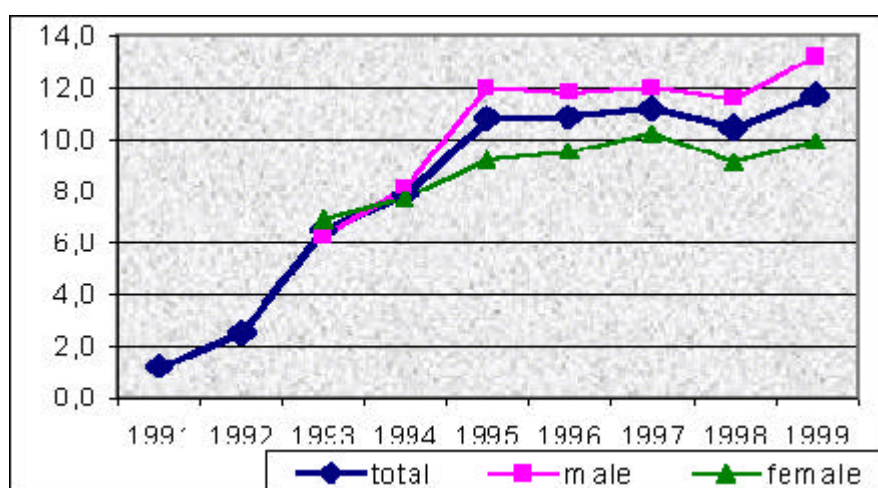
Note: Primary sector – agriculture, hunting and fishing; secondary sector – processing industry, energetics, water supply and construction; tertiary sector – services.

Source: MAK... 2007.

The decrease of the share of primary sector that began at the beginning of 1990s lasted until 1999. The share of employees in primary sector has decreased by half during this time. The percentage of tertiary sector started to increase at the beginning of 1990s and reached 44.3% by 1998. The percentage of employees in the secondary sector has not grown so much during that period.

In 1999 the number of unemployed persons in rural areas was 24,100. During 1991-1999 unemployment in rural areas grew from 1.2% to 11.7% (See Fig.2).

Figure 2. The generic division of unemployment rate (%) in rural areas 1991-1999.



Source: MAK ... 2007.

Unemployment is higher among men (13.1%) as compared to women (9.9%) and this proportion has remained stable during the last five years. The duration of unemployment in rural areas has increased, which makes the situation in labour

market complicated because it is much more difficult to bring people back to labour market after long-term unemployment.

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 (Eesti Statistika 2000). The actual rate is probably even higher because not everyone registers at the employment agency.

The number of employed persons in the rural area has decreased since 1989 from 246.3 thousand to 169.1 thousand in 2004 (i.e. -31.3%). The share of primary sector (agriculture, hunting, forestry and fishing) has decreased since 1989 more than three times (from 55.9% to 17.3%). During the last five years the share of employment in the primary sector in rural areas is constantly decreasing by 1-2% per year (Reiljan 2005, p.36).

During 1992-2005 the economic situation of rural population has changed considerably. The problems include unemployment and inactivity. At the beginning of 1990 unemployment was almost nonexistent, but in 2000 there were 28,500 unemployed persons and 144,300 inactive persons, i.e. 41.2% of the working age population in the countryside. During the following years unemployment decreased to 8.1% in 2003. All in all the number of unemployed persons decreased by 13,800 during 2001-2003. In 2004 the number of unemployed increased by 1,100 persons and the rate of unemployment was 8.6%, but in 2005 there were on an average 2,700 unemployed persons less and the rate of unemployment turned out to be 7.0%.

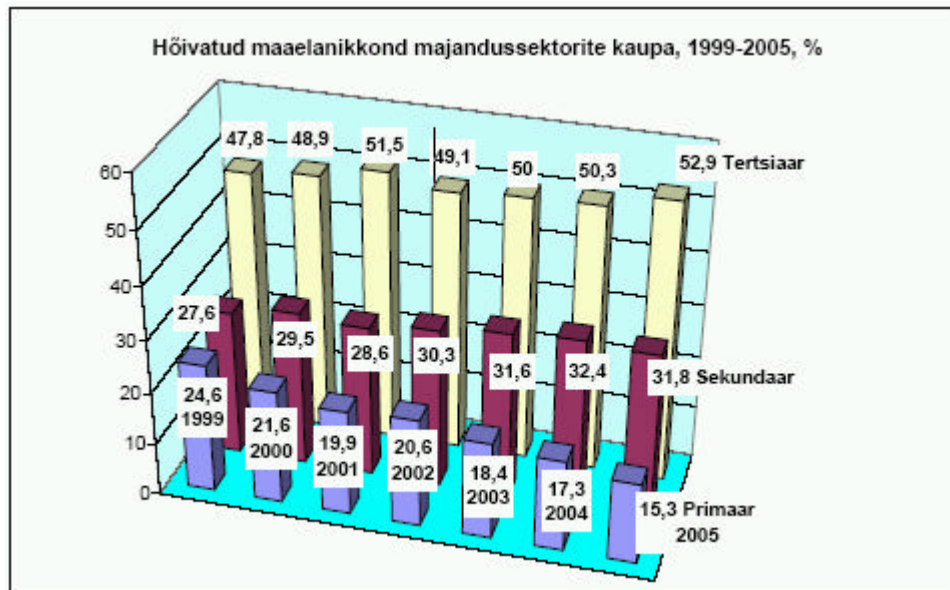
In recent years the share of rural population has stabilised – in 2001 and 2002 it was 32.6% and in 2003-2005 it was 33.4% of the whole population. In 1989 there were 446,800 rural inhabitants, in 1999 437,566 and in 2005 449,700 inhabitants. The positive demographic dynamics of recent years is directly caused by the moving of the inhabitants of Tallinn and Tartu to the neighbouring areas of towns, retaining close contacts with town (workplace, school, services) (Eesti maaelu...2007)..

According to the data of the Estonian labour survey 38.5% of rural inhabitants worked in towns in 2004. From the viewpoint of preserving and increasing the number of rural inhabitants, the improvement of the quality of life (including infrastructure, better availability of services) is of crucial importance. Participation in lifelong learning helps to adjust to the changes in the labour market and makes the employee more competitive.

High structural unemployment and low level of services has caused the departure of the younger and more active part of the population to towns, leaving the local social environment considerably poorer. 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% (Hinnang...2006)..

According to the labour market survey 40% of rural population does not actively seek for a job. While supporting the development of human capital in rural areas, it must be taken into consideration that after receiving training the educated work force may leave due to the higher wage level of qualified workers in towns (Maaettevõtlus. 2006). Employment percentage in rural areas in 1998-2005 in different economic sectors is shown on figure 3.

Figure 3. Employed rural population according to economic sectors



Employed rural population in different economic sectors, 1999-2005 (in %)

Tertsiaar = Tertiary*, Sekundaar = Secondary, Primaar = Primary

Source: Maaettevõtlus 2006. Labour force survey by the Statistical Office of Estonia.

According to the labour force survey there were 167,000 employed people in rural areas in 2003, i.e. 28.3% of all employed people in Estonia. According to the data from 2004 the number of employed people in rural areas was 169,000 and in 2005 172,800 (28.4% of all employed people in Estonia).

A general characteristic of rural population as compared to town population is their tendency towards maintaining traditions and being less innovative. This is an important problem in a restructuring economy where the majority of the population has to adjust to the new situation, go through retraining and further education and be open to everything new. This problem becomes evident in the structural unemployment of rural areas where in spite of the high unemployment rate the enterprises cannot find enough adequately skilled employees.

During the Soviet regime many jobs were created simply to ensure complete employment in the employment market. The system was ineffective and there were many unnecessary jobs. When the transition from planned economy to market economy began, unemployment started to grow fast.

All in all, the general decrease of unemployment alongside with the stark decrease of agricultural employment, lengthening of unemployment period, the increase of persons with undefined state of employment and increase of discouraged people make the social environment of rural population unattractive.

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. (Eesti Riiklik....132). 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 (Valitsus....2006)..

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% (Matvejev 2007).

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 (Maaelu 2006).

The diversification of entrepreneurship in the country

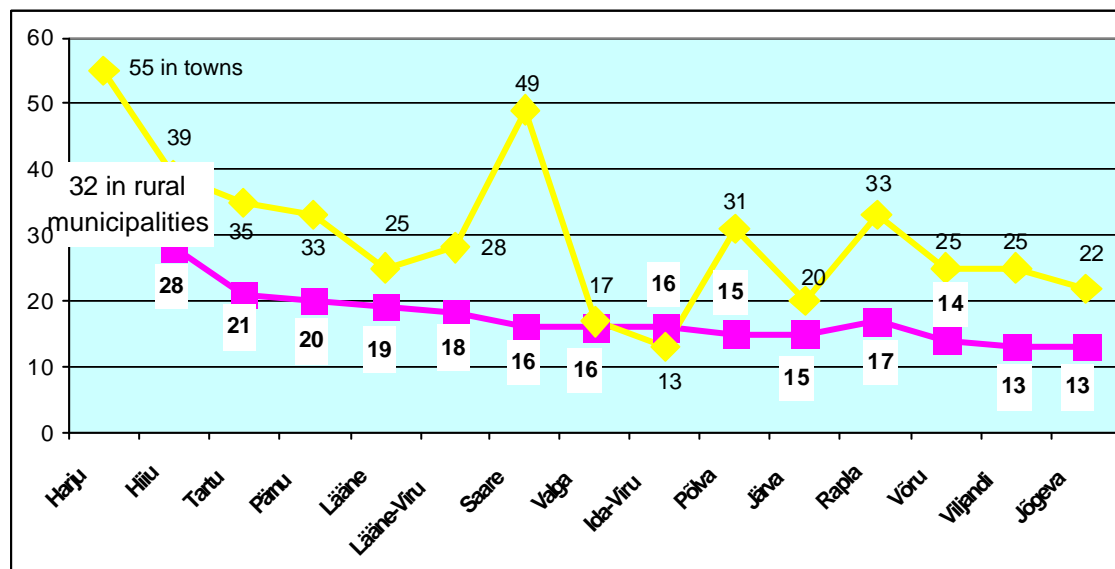
Traditionally rural life has relied on the development of very small enterprises. At the same time modern technologies from the one hand and market demand for certain minimal quantities of quality products from the other hand have created a growing need for the cooperation between entrepreneurs. The low density of population and constant decrease of the share of agriculture in enterprise have influenced the development of enterprise in rural areas. The share of agriculture as an area of activity among rural enterprises has fallen on average up to 50% in the enterprise structure of rural areas. More and more technology is used in agriculture, dismissing work force, part of which has found work elsewhere. Due to this the employment rate is lower in the rural areas as compared to towns. Among statistical

data only unemployment rate is positive (7.7%), which is constantly decreasing also in rural areas. The problem is the scarcity of non-agricultural jobs in rural areas.

According to the data of the Centre of Registers, the number of enterprises in rural areas has been relatively stable (26,000–27,000 enterprises) during recent years. Among these about 68–70% were economically active (operating) enterprises. The critical years in the life cycle of a rural enterprise are 3–5 years. The percentage of survival of the enterprises is relatively low (54%) and capacity to make additional investments from equity capital is small. Enterprises dealing with agriculture are more likely to close down than other enterprises. Less competitive salary fund also influences enterprisers, who have difficulties with recruiting skilled workers and keeping them. The fact should be taken into consideration that according to the rules of the Farm Accountancy Data Network (FADN) there are only about 7,000 so-called professional business enterprisers in Estonia, who get the main share of their income from agricultural production. Big centres and their surrounding parishes are more viable (Maaettevõtlus 2006). In parishes of the boarder areas and away from big transport routes the range of spheres of activity is small, being restricted only to public services and single business associations.

The companies of the rural area make up approximately 47% of all active companies, but yield most of the production. The entrepreneurial activeness of the rural population is characterised by the number of companies per thousand inhabitants (Figure 4). In the rural area, this number was 22 in 2005, and by counties, differences amounted to up to 2.5-fold. The lowest entrepreneurial activeness was in the rural municipalities of Jõgeva and Viljandi counties (13) and the highest in those of Harju (32), Hiiu (28) and Tartu (21) county. In the rural municipalities on the outskirts of rural areas and further from large transport roads, the number of fields of activity is small, only restricted to public services and a few companies.

Figure 4. Companies per 1,000 inhabitants, 2005



Source: Statistical Office of Estonia.

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.

It is important to find subsidiary activities. From among the approximately 37,000 agricultural enterprises 2,746, i.e. 7.5% of all agricultural enterprises, gains profit from non-agricultural activities. Thus it is very important to pay more attention to diversification, thus improving the possibilities of enterprises dropping out of agricultural production to reorientate and creating new non-agricultural occupations. Since 94.2% is employed in the secondary and tertiary sectors in rural areas (for comparison, in the EU 94.9%), then from the viewpoint of creating new jobs, specifically these sectors have a bigger potential. Through developing the tertiary sector it is possible to check the problem of moving out of services from rural areas. Already now 66% of added value is created in service sector (Hinnang... 2006).

The main tool to accelerate the introduction and development of non-agricultural areas of activities is the investment support for diversifying rural enterprise and the implementation of business ideas. Non-agricultural enterprises and the establishment of social economics create new jobs and their share in employment increases according to estimates from 17% to 23%. In agriculture, hunting, forestry and fishing the expected increase of jobs is 2%. Also forestry has an important role in the state economy. From the viewpoint of social development, forestry is a particularly important provider of employment in rural areas. In many areas forestry is the main production branch providing jobs. Tax accrual from forest management makes up a great share of the budget revenues of a local government. Relatively easily obtainable and cheap firewood is an important source of energy for rural inhabitants.

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 (Eesti metsanduse...2006:24) .

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.

Investments into agricultural entrepreneurship

In relation to the obligation taken by Estonia with the Accession Treaty to apply relevant legal instruments of the European Union, the need to invest into agricultural entrepreneurship has increased considerably. The main problems of the Estonian enterprises are the lack of financing means and qualified workforce and modest knowledge and experience in entrepreneurship. In order to facilitate entrepreneurship and the establishment of new job positions and to increase the competitiveness of companies, the Estonian entrepreneurship policy has been developed, which regulates the supporting of entrepreneurship on a single level. According to the data of the Commercial Register and the register of taxable persons, in 2005, 2,177 companies were established and 1,019 liquidated in 2005 in the rural area.

The amount of investments into agricultural production has been lower than the actual need for years now. Most of the fixed assets used have depreciated both physically and morally. Thus, production has greatly taken place on the account of using old resources and there is a great need in the agricultural sector for making investments into new machines and devices instead of the depreciated ones.

In recent years, however, the situation has got better to some extent as the investment aids distributed within the frames of the SAPARD-programme launched in 2001 and the Estonian National Development Plan for the years 2004-2006 launched in 2004 have alleviated the situation. For a hectare of agricultural land, an average of 1,716 kroons of direct aid was given in 2005.

With respect to the development of entrepreneurship in rural areas and the implementation of the Structural Funds of the EU, the Estonian Agricultural Information and Registers Board (ARIB) has an important role, providing the agricultural producers, processors and alternative companies of the rural area with various investment aids. To a restricted extent, the environmental projects of the entrepreneurs are funded by the Environmental Investment Centre (EIC). The aids to rural life and agriculture are funded from the European Agricultural Fund for Rural Development (EAFRD).

Enterprise Estonia has formed into one of the main intermediate bodies of the Structural Funds of the EU with respect to programmes directed at entrepreneurship, economic development, innovation and local development. KredEx offers a loan guarantee in three fields: guarantee to the investment loans of small enterprises, guarantee of export and guarantee of housing loans. The KredEx surety is meant for small and medium-sized enterprises who do not have sufficient surety to get a loan from the bank or who are just starting their business.

There are three dominant production types among the Estonian agricultural producers: plant production, milk production and mixed production. In 2005, the plant, milk and mixed production used an average of 111.4 hectares of agricultural land (table 1). The producers who did not invest and those who invested up to 100,000 kroons had 50.0 ha and 59.0 ha of land, respectively. The efficiency of the use of workforce differed significantly by the amounts of investments made. The agricultural producers who had invested 500,000 to 1 million kroons used their workforce the

most efficiently and the producers who did not invest at all used the workforce the most inefficiently (Matvejev.... 2007).

Table 1. Economic indicators for plant, milk and mixed producers in 2005

	Amount of investment						Total
	0 EEK	up to 100 thousand	100 to 500 thousand	500 thousand to 1 mln	1 – 3 mln	more than 3 mln	
Economic size, ESU	5,1	6,4	13,2	28,9	75,1	214,5	14,3
Use of workforce, annual work units	1,6	1,8	2,4	3,4	9,7	32,0	2,7
Importance of paid labour, %	12,2	9,5	33,0	49,8	89,1	99,3	45,1
Agricultural land used, ha	50,0	59,0	117,1	245,3	521,4	1,186,2	111,4
Importance of leased land, %	54,0	44,3	48,9	65,1	70,6	81,7	60,5
Total number of animals, meat units	8,4	12,4	26,8	47,0	171,3	538,7	30,1
Dairy cows, meat units	2,8	4,9	13,0	26,9	76,4	257,4	13,6
Supply of workforce, labour unit/100 ha	3,2	3,0	2,1	1,4	1,9	2,7	2,4
Cereals yield, kg/ha	2,210	2,381	2,761	2,979	2,875	3,198	2,756
Milk production per cow, kg	4,989	5,144	5,935	5,546	6,080	6,498	5,941
Remuneration to paid labour, EEK/hr	20.11	22.08	31.74	30.07	37.98	43.90	37.47
Total production, EEK/ha	4,620	5,268	6,407	6,529	8,471	12,813	7,430
Total expenses, EEK/ha	4,266	4,697	5,977	5,971	8,531	13,001	7,180
Aids (excl. to investments), EEK/ha	1,530	1,640	1,887	1,772	1,660	1,825	1,716

Source: Matvejev, 2007.

The acquisition of new machines and devices is too difficult for small producers, which is why they are forced to find new ways for renewing their machine park. One of the possibilities is to purchase used machines and devices for joint use. This, however, is not very common yet. Such a method can be applied again at developing the Estonian rural entrepreneurship via machine cooperatives, the establishment and activities of which need to be promoted in the countryside. As a new investment, we propose the inclusion of credit unions into this. For example, when several farmers have the need for taking a loan for the acquisition of agricultural machinery, the credit union should set a precondition for these farmers to establish a machine co-operative. The loan for purchasing machinery would not be given to single farmers but via the machine co-operative they have founded together. The credit union also has to calculate the efficiency of the agriculture of the region. For example, it should be calculated together with the farmers whether it is more sensible to take their milk and meat to private dairies and slaughterhouses or whether it would be more profitable to establish their own dairy society or slaughterhouse. Also, the organization and financing of the joint activities of the consumers of the parish should be initiated by the credit unions. In the contemporary context it is also necessary to render consultation services concerning the agricultural subsidies of the government and the European Union. With the help of the means applied within the Estonian

Rural Development Plan for 2007-2013, it is also planned to support the purchase of used machines and devices. The age structure of machines and devices is reflected in table 2. The principle of the grants distributed within the frames of the development plan can probably be integrated with the scheme offered by us.

Table 2. Age structure of machines and devices in 2005

Amount of investment	Less than 6 yrs	6 - 10 yrs	11-20 yrs	21-50 yrs	More than 50 yrs
0 EEK	6.9%	8.2%	56.4%	27.7%	0.8%
up to 100 thousand	12.8%	7.9%	49.9%	29.2%	0.1%
100 to 500 thousand	22.1%	17.6%	41.4%	18.8%	0.1%
500 thousand to 1 mln	28.2%	13.6%	45.5%	12.8%	0.0%
1 to 3 mln	39.0%	14.8%	32.3%	13.9%	0.0%
more than 3 mln	38.7%	13.3%	34.9%	13.1%	0.0%
Total	17.8%	11.3%	47.4%	23.2%	0.3%

Source: Matvejev, 2007.

In some rural areas, especially on the outskirts, which mainly depend on agriculture, difficulties are predicted for the following years with respect to economic growth, jobs and sustainability. These difficulties are caused by insufficient incomes, low level of employment, higher level of unemployment, deficiencies related to skills and human capital and the lack of necessary skills in the agricultural sector. In the conditions of toughening competition, state aid is important for developing companies.

Alternative financing of rural economy

According to a generally accepted definition the aim of union banking is to unite the small financial recourses of its members and give them out as loans to its members for making larger investments and to promote their consuming capability. Co-operative financial enterprises are in principle non-profit organizations rendering services to their members at cost value. The members (clients) of union banks have a vote over decisions concerning the course of action. These two main aspects distinguish co-operative financial enterprises from commercial banks.

Union banks and credit unions can nowadays be useful mainly for the development of enterprise and agriculture in rural areas. At least two important reasons for this can be brought out. First, in the countryside the network of commercial banks is sparse, making the availability of even the most elementary bank services difficult to obtain for countryside people. Second, commercial banks are more interested in serving clients from urban areas because they are more solvent. Thus the founding of a system of financial co-operatives would fill an empty niche and would help to spur rural life in Estonia.

The union banking, i.e. the system of credit unions in rural areas is the basis for the effective financing of farms and agricultural co-operatives. The reason why the system of rural entrepreneurship based on commercial banking cannot be considered as effective, lies in the ambition of commercial banks to gain profit. This in turn means up to 50 times smaller interest rate in depositing (in credit unions 6-10% per year, in commercial banks 0.2% per year) and more inflexible conditions on taking a loan. Thus the aim of commercial banks is not to circulate money for the benefit of a certain area, but to gain as big profit from equity earnings as possible for the owners.

In 2005, the owners of commercial banks took 533 million Euros of revenue out of Estonia in dividends (Krediidiasutuste koondbilanss 2006). In case the whole Estonian banking was based on unions, it would mean considerable increase in the interests of time deposits and more favourable loans. Estonia has positive historical experience in this sphere from the economic arrangement of the 1930s, when more than 50% of banking was union based. At that time credit unions operated in every parish of Estonia – altogether 216, and these were the main sources for financing rural economy (Sörg 2006).

We propose that the contemporary credit union system in Estonia should concentrate on the following questions:

- Collecting deposits of farmers and agricultural enterprisers by paying at least 6% of interest per year.
- On the account of collected deposits and other resources giving out favourable loans to farms and agricultural enterprises.
- Counselling on agricultural enterprises and business activities.
- Assisting in establishing agricultural co-operatives and financing them.
- Promoting collective activities of its region in every way.

The role of credit unions is to manage co-operative money circulation in their region. For starting such money circulation it is first of all necessary to bring in the deposits of the inhabitants and enterprisers of the parish as main sources of loan resources. Favourable possibilities for this were established by interest rate of 6-10% offered by Estonian credit unions. In 2005, 109,000 Estonian families (19%) kept their savings at home (F-monitor, 2005). The majority of such families live in the countryside. Therefore it is important to develop trust in country people towards the credit union operating in their parish or region. The main work in this field must be done by the credit unions themselves through presentations and advertising. Also, the standards of deposit insurance of credit unions established by law need to be reviewed because these do not protect deposits kept in credit unions, leaving them unprotected and thus diminishing the liquidity of credit unions as a whole.

On the account of the deposits involved in the credit union of the region it is possible to start to finance the activities of the enterprisers of the parish. In the first place it is necessary to give loans to farmers for spring sowing, obtaining and renewing livestock, building and repairing farm buildings, etc. Nevertheless, a contemporary credit union should desirably be the ideological centre of the co-operative activities of the region. For example, when several farmers have the need for taking a loan for the acquisition of agricultural machinery, the credit union should set a precondition for these farmers to establish a machine co-operative. The loan for purchasing machinery would not be given to single farmers but via the machine co-operative they have founded together. The credit union also has to calculate the efficiency of the agriculture of the region. For example, it should be calculated together with the farmers whether it is more sensible to take their milk and meat to private dairies and slaughterhouses or whether it would be more profitable to establish their own dairy society or slaughterhouse. Also, the organization and financing of the joint activities of the consumers of the parish should be initiated by the credit unions.

The development of joint activity and the cooperative financing of rural entrepreneurship is not in contravention of the investment aids distributed within SAPARD or the National Development Plan. Via the joint activity of farmers and rural entrepreneurs, it is probably possible to increase the ability of the rural entrepreneurs to write projects for grants and receive resources for supporting their activities. Such cooperation also decreases the competition between rural

entrepreneurs at applying for grants. In addition to this, it is also possible to gain an additional effect when using the received investment aids, by establishing joint enterprises, for example, for the joint use of machines and devices and the launch of joint production and marketing. The local credit unions can help the rural entrepreneurs and farmers with writing projects, mediating and administering project funds and with investment advising.

Summary

Next to the modernisation of traditional agriculture, diversification of agricultural production, improvement of the quality of products, restoration and development of villages and the establishment of new agricultural companies and job positions in the country need to be contributed to. It is very important to find an ancillary activity. The agricultural entrepreneurship helps to implement the potential of the local natural environment. The main criterion when developing an alternative economic activity to agriculture is the creation of job positions to provide employment opportunities for the workforce that has or will be freed from agriculture. Of about 37,000 agricultural entrepreneurs of Estonia, 2,746 households get their profit from non-agricultural activities, which make 7.5% of all agricultural entrepreneurs. Thus it is very important to pay more attention to diversification than so far, by improving the possibilities of the entrepreneurs withdrawing from agricultural production to reorientate and by creating more non-agricultural job positions.

According to the data of the registration centre, the number of companies located in the rural area has been relatively stable over the past few years. The development of entrepreneurship in rural areas is affected by low population concentration and the decrease of the importance of agriculture in entrepreneurship. The critical years of activity of rural companies are 3-5 years. The farmers engaged in agriculture terminate their activities more often than other companies. The importance of agriculture as a field of business among rural entrepreneurs has decreased to an average of 50% by now in the entrepreneurship structure of the rural area.

In agriculture, machine labour is becoming more popular, which is why workforce has been freed and a part of them have found work elsewhere. Due to this, the level of employment is lower than in towns. From statistical indicators, only the level of unemployment is positive (7.7%), and this is constantly decreasing in rural areas. The problem here is the lack of non-agricultural job positions in the rural area.

Labour force is a resource of primary importance in present day economy and work should provide a person with recognition and position not only in the company, but also in the society as a whole. The economic conditions of rural inhabitants of Estonia have changed significantly over the years. Unemployment and inactivity have become problems. This in turn has generated a specific situation in the labour market of rural areas: highly qualified labour can be employed while paying low wages.

In addition to the renewal of traditional agriculture, it is necessary to support the diversification of agricultural production, increase of the quality of products, recovery and development of villages and the establishment of new non-agricultural enterprises and jobs in the countryside. Through non-agricultural enterprises the potential of local natural environment is taken into use. The most important criterion for agriculture in developing alternative economic activities is generating jobs to create employment opportunities for work force dismissed or about to be dismissed from agriculture.

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