

FACTORS INFLUENCING BUSINESS DEVELOPMENT IN ESTONIA¹ (the case of North Sakala Rural Municipality)

Tõnu Aavasalu²
University of Tartu (UT)
North Sakala Rural Municipality (Viljandi County)

Matti Raudjärv³
University of Tartu, Mattimar OÜ
[Georgian Technical University, Tbilisi State University]

Introduction

The regional distribution of the Estonian population is very uneven. This trend has increased during the last decades, and in addition, rural population has rapidly decreased. Continuation of these processes may lead to a situation where some areas remain without any population, businesses lack manpower, and organisation of rural life will become very expensive, even impossible, both for the state and rural governments. Business development and organisation of the activities of local governments largely depend on the national regional development policy. Regional development policy can help to avoid areas becoming peripheries by supporting business activities and rural development. The state has planned special activities which should contribute to the development of rural areas with different support measures and reduce the development gap with urban areas.

¹ This article is based on the graduation paper „Factors Influencing Business Development in Estonia: the case of North Sakala Rural Municipality“ by Tõnu Aavasalu. The paper has been successfully defended at the Pärnu College of the University of Tartu in June 2019, supervised by Associate Professor, PhD Matti Raudjärv who is also the author of this article at the consent of and with cooperation from Tõnu Aavasalu, the author of the above-mentioned graduation paper.

The study was also partly represented in the discussions conducted at the round table of Estonian local government leaders “Administrative reform – positive and negative results. Problems and unresolved issues. The future.” (on 3 July 2019 at Jänedä) in which the author Tõnu Aavasalu actively participated and made a considerable contribution during the XXVII International Conference on Economic Policy “Economic Policy in the EU Member States – 2019” held from 3 to 5 July 2019 in Estonia.

² Tõnu Aavasalu, North Sakala Rural Municipality Mayor and former student of the Pärnu College of the University of Tartu, Master student of the School of Economics and Business Administration of the University of Tartu since autumn 2019; Lembitu pst 42, Suure-Jaani, North Sakala Rural Municipality, 71502 Viljandi County, Estonia;

e-mail: tonu.aavasalu@pohja-sakala.ee; tonu@vanaoue.ee

³ Matti Raudjärv, managing director and owner of Mattimar OÜ, chief editor of the international scientific journal *Estonian Discussions on Economic Policy* in three languages; visiting professor and external head of the programme of doctoral studies of the Georgian Technical University and visiting professor and co-supervisor of doctoral students of the Tbilisi State University; at the time of supervision of the graduation paper (academic year 2018/2019), visiting lecturer of the Pärnu College of the University of Tartu on the basis of an authorisation agreement; e-mail: matti.raudjarv@ut.ee; mattir@hot.ee

Despite the large investments already made, the population of the North Sakala Rural Municipality⁴ is decreasing every year according to the information of Statistics Estonia. This has also an important impact on businesses which need manpower. Many entrepreneurs have the choice of either expanding their operations in a rural area or moving their enterprise to an area with enough labour.

Some businesses have started to support local life themselves to become better known among the community, acquire more labour, be attractive and community-friendly. Entrepreneurs have invited people to live in rural areas and offered a pleasant work environment. Contribution of different businesses to local development varies very much. The main purpose of economic activities of a business is to earn profits but to which extent a business can make its own contribution to the local area depends on the values of the business as an organisation and on its sense of responsibility before the local community.

Regional development policy, administrative reform and rural business development are very closely interrelated and have a joint impact on the integrated development of the area. EU regional development policy was started in 1957. Estonia adopted its first conception of regional development in 1994. Administrative reform and support to business activities have received considerably less attention. As a result of the review of information from Statistics Estonia and different analyses conducted by government ministries we have to state that the Estonian regional development policy has not achieved the objectives set in strategies and the situation has aggravated during the years.

The decrease in the Estonian rural population and the proportion of the gross domestic product (GDP) of rural areas in the national GDP is continuing and businesses lack labour as a consequence of all these factors. These subjects need to be addressed and fast solutions have to be found. With the continuing decrease in the rural population, local governments will not be able to provide services, since the cost of a service per individual becomes very expensive and businesses will not find labour, particularly top-level specialists, from the local area. The alternatives are – either to bring labour in from elsewhere or to move the enterprise to an area where labour is available. The trends evident in the distribution of the population, in the decreasing role of the GDP of some regions in the national GDP, and in migration should be taken seriously and solutions should be found to change them to the desired direction.

The objective of the study was to identify the positive and negative factors influencing business activities of the North Sakala Rural Municipality and to make proposals to the local Rural Municipality Government, in order to improve the competitiveness of the area and to decrease the trends of becoming a periphery, improving the local business environment for local businesses and preventing the transfer of business activities of entrepreneurs to larger centres of attraction.

⁴ The North Sakala Rural Municipality is located in Central Estonia.

The following research tasks were set for the achievement of this objective:

- to study and provide an overview of the impact of regional development policy, administrative reform and rural business activities on the development of the local business environment;
- to study and assess the current business situation of the North Sakala Rural Municipality;
- to conduct a survey among heads of businesses of the North Sakala Rural Municipality and to analyse the results obtained;
- proceeding from the results of the survey, to make suggestions for the improvement of the business situation.

A survey was prepared in order to identify factors influencing business activities, to obtain information directly from entrepreneurs about the general performance, developments of the businesses, their use of different support measures and suggestions for the improvement of the business environment with measures of the state and the local government. The survey was conducted in a web-based survey environment and the link was sent to entrepreneurs by e-mail.

The survey questionnaire was sent to 96 entrepreneurs and 36 of them, i.e. 38% responded to the survey. The businesses selected had at least one employee, positive sales results and an e-mail address. The selection was made from among businesses operating in 2017.

Conclusions and proposals

Factors arising from both the micro-environment and macro-environment have an impact on business activities in rural areas. In many EU countries and regions where regional development policy has been pursued for decades, support of business activities is considerably more effective and regional disparities are smaller than in Estonia. As a result of the administrative reform, local governments have more capacity for making the business environment more attractive. The sense of responsibility of a business itself is very important in the organisation of local life and the activities of the whole community. It has been found as a result of different surveys that in addition to earning profits, the social responsibility of businesses for local development has increased.

Analysis of the information obtained from the survey showed that businesses are generally doing well in the rural municipality. The situation is better in manufacturing, agriculture and construction. Accommodation and food service businesses have a more difficult situation and operated with a loss. It is particularly positive that the export volumes of businesses operating in the rural municipality are high compared to those of businesses of neighbouring local governments. According to total results of four years, the sales and profits of businesses increased. Many businesses have modernised their technology which has somewhat decreased the number of employees in the recent years.

The main assessments, problems, conclusions and suggestions from the survey conducted among heads of businesses of the North Sakala Rural Municipality were as follows:

- the roads of the municipality are in a poor condition;
Suggestion: the state has to keep its roads in good order and find resources also for increasing the road maintenance funds allocated to local governments. The local government has to contribute more to road maintenance or investments.
- inadequate coverage with fast internet connections;
Suggestion: the state should support internet access of scattered businesses and population through different measures of regional development policy. The rural municipality government should map the situation – which areas are covered with fast internet connections and which areas have problems. This study was not able to clarify the situation. The local government has to continue searching for solutions in areas where service providers are not willing to make investments.
- inadequate mobile network coverage;
Suggestion: the state should establish minimum requirements for service providers and inspect their conformity with requirements, in order to provide high-quality mobile service also in areas with scattered population, supporting them from regional development funds, if appropriate.
- businesses expect preference of local businesses in the consumption of services;
Suggestion: the local government should review its purchasing procedures and make proposals to the local council for changing them, if necessary, to enable also smaller businesses to participate in tenders.
- businesses lack own resources for investments;
Suggestion: the respective government ministries responsible for rural life should take care of these problems. Above all the Ministry of Rural Affairs which is responsible for the support activities of Leader areas and diversification of rural life, but also the Ministry of Economic Affairs and Communications which is responsible for tourism activities. This is a direct measure of regional development policy activities which can be used to support both starting and operating businesses.

Proceeding from the results and conclusions of the analysis of the quantitative survey conducted among heads of businesses, the respective proposals have been made to the North Sakala Rural Municipality Government.

Conclusion

As a result of assessment of regional development policy of different Estonian regions we have to state that several indicators of regional development have aggravated within Estonia and the gaps have become deeper. Despite different regional support measures, regional socio-economic variation is too high. Population is decreasing in peripheries and concentrating mainly to the Harju County and the Tartu region.

The research took into account very many different studies on the impact of business activities in rural areas. Several subjects are overlapping – for instance, support requirements for the creation or expansion of businesses; finding new activities instead of traditional ones; more innovative and more modern approaches.

The article discussed three very interrelated subject areas:

- firstly – regional development policy which should support the development of the region and reduce inequalities both within the EU and within Estonia;
- secondly – administrative reform which should result in sufficiently large municipalities which are capable of organising regional development;
- thirdly – rural business activities and business environment which allows making contributions to the area to make it sufficiently attractive to businesses.

All these subjects are very closely interrelated. The measures prepared through regional development policy can be used both local governments and businesses. Local governments have become capable enough as a result of mergers and are able to develop the business and living environment. We hope that the environment created for entrepreneurs provides sufficient labour and is considerate to businesses.

The survey conducted brought out the main business problems in the region, the three most important of which are the poor condition of roads, lack of fast internet connection opportunities and poor mobile network quality. The local government has to take care of these issues, some problems should be solved in cooperation with service providers, others require assistance from the state to increase the funds.

Shortage or lack of own funds is a serious obstacle for companies to make investments for business development. Regional development measures from the state should surely be required here to find sufficient funds for the support of rural SME during the new support period.