

RURAL ENTREPRENEURSHIP POLICY IN ESTONIA

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Abstract

This article seeks to provide an overview of the entrepreneurship policies targeted at rural areas and family undertakings. Agricultural undertakings, especially cattle breeders, have been almost ignored in the development of Estonia's entrepreneurship policies. Various action plans have been devised for the development of rural living environments. Unfortunately none of them supports cattle breeding. The author obtained the data used in this research from the databases of Estonian Animal Recording Centre, Estonian Agricultural Register and from questionnaires. The author conducted interviews with beef cattle breeders doing performance testing and with parish authorities. Family enterprises are extremely vulnerable; their reserves for surviving critical periods are small or nearly nonexistent. They often depend only on one area of activity. In the current economic situation owners of family enterprises need to pay particular attention to strategic management, so as to survive in difficult situations. They must take right decisions and start looking for challenges.

Keywords: Entrepreneurship policy, agricultural entrepreneurship, rural entrepreneurship, agricultural undertaking, family undertaking, family enterprise, family entrepreneur, family business, sole proprietor.

Introduction

This article seeks to provide an overview of the entrepreneurship policies targeted at rural areas and family undertakings.

The specific character of family businesses in Estonia, and the need to increase awareness of their specific problems is growing. Little attention has been focused on the role of rural undertakings in entrepreneurship policies. Until now, management and business research has been conducted primarily in Tallinn, and with the focus on larger and growing businesses. A large portion of enterprises (although not as attractive) have been excluded until recently. Estonia must be viewed more comprehensively and blanks must be filled.

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Family enterprises have been studied in countries with traditional, stable market economies, but very few researches have been conducted in former socialist countries. Family business culture and traditions have been broken in Estonia. After regaining independence in 1991, entrepreneurs started to restore former farm places and wished to continue their forefathers' traditions. Literary sources claim that family enterprises form 85% of all entrepreneurs in the European Union, 90% in the USA and 70% in Finland, for example (Miettinen, Teder 2006).

Family enterprise in the context of this article is defined as follows: family enterprise is an undertaking operating with the participation of members of the family of the entrepreneur. The interviewees regard spouses, children, parents, siblings, aunts-uncles and their spouses as family members. It is of no significance whether the conjugal relations are official or not, only cohabiting counts. At the same time, they say that when the relationship has broken down it is not possible to coexist successfully in business either – it would cause tensions and more problems.

In Estonia, many active people have established their businesses as family enterprises, mainly in services, in agricultural areas. Many funds have supported such activities in the form of start-up capital and grants. Family enterprises are first and foremost characterised by that it is the main income source for the owners, their family members and their relatives. A positive phenomenon in family enterprises is the short decision-making chain. Manager of a family enterprise has to understand: in order to make the established family enterprise more viable and stable, one must not only think of today's success and income, but has to have one's 'blue bird' – a dream to aspire towards (Päss 2005). It is no use dreaming only, we need entrepreneurship policies focused on agricultural enterprises.

One cannot draw a clear borderline between family and undertaking, because the family is constantly participating in business processes. A family deals with business outside the working time as well; success is achievable only through the participation of the whole family (Craig, Lindsay 2002). Usually it is like that in the start-up years, later they maintain only control over their business.

Enterprises operating in rural areas are usually small, producing for near markets and operating in traditional fields of activity. Many of them have a short life cycle. A significant role in this is played by the present entrepreneurship policy that does not favour cattle breeding. For the ones aspiring further, competence and cooperation with other entrepreneurs is necessary, but such cooperation starts up slowly in rural areas. Developing rural areas is a topical challenge in almost all European Union countries.

No agriculturally necessary support system was implemented in Estonia in the transition and adaptation period to market economy; a great decline thus emerged. The European Union supported agricultural producers in the extent of more than

40% of production costs. In the WTO Agreement, Estonia had agreed to maintain governmental support on the maximum level of 10% of production costs. Thus, in order to compete with EU products, the Estonian agriculture had to be more effective by at least one third. A UN Food and Agriculture Organization expert Roger Norton described the fact that Estonia left a clause out of the WTO agreement of 1999 that would have left Estonia a chance to implement regular and balancing customs duties and export supports towards free trade countries, as follows: “It is difficult to find another country that would have created such a macroeconomic and trade policy, which was a real trial for farmers in their economic survival” (Overview ...).

The author’s attention is focused on family enterprises outside Tallinn and other county centres. The author plans to research all family enterprises occupied in agriculture in rural areas and to contribute to the development of agricultural/rural life through this research paper. The paper confines itself to beef cattle breeders performing animal recording.

The author of this article interviewed 278 beef cattle breeders in 2008. The choice was made from among the beef cattle breeders performing animal recording for which the author received contact information from the electronic database of the Animal Recording Centre. 83% of the interviewees regard themselves as family entrepreneurs and their business as a family enterprise.

Agricultural entrepreneurship

Agricultural entrepreneurship has been an important area of activity and source of income for Estonian population over time. Estonia has one of the best supply of agricultural land in the European Union – 0.64 ha per capita (for example, Germany 0.21 ha, France 0.43 ha). Agriculture is playing a substantial role in supplying people with foodstuffs, in rural entrepreneurship and development of cultural landscapes. The economic position of the agricultural sector has, owing to the growth of direct aid and rural life development support, improved in recent years (Põllumajandusministeeriumi ... 2009).

Development of rural areas is a topical challenge in almost all European Union countries. Rural life in Estonia is able to work only where there is a good infrastructure and entrepreneurship. Estonians have practiced agriculture through time.

Three controversial reforms were carried out in the Estonian agricultural area during the 20th century. Their impact on agriculture was dramatic. The following agricultural reforms were carried out (Roosmaa 1998):

- land reform – the sale of manor lands to farmers in 1919;
- farm collectivisation in the years 1947-1950;
- land and agricultural reform that started in 1991, the objective of which was to dissolve collective farms, state farms and restore family farms.

Farms evolved because after regaining independence, most of the collective and state farms were dissolved and were divided between the former owners of land and workers. Many farms consisted of a couple of cows, which were bred mostly for oneself. Milk buying-in prices were low and the breeding of one or two cows was not profitable. Thus, one either had to stop operation or start thinking of finding other directions. As many farms had uncultivated land, progressive farmers got the idea to breed beef cattle who found such land acceptable.

The first place in cattle breeding in 2008 was occupied by milk production. The dairy sector has been traditionally one of the bedrocks of Estonian agriculture, producing one third of the agricultural gross output. Remarkable success has been achieved in improvement of the milk quality. The second position was occupied by production of pork. Production and processing of pork has had long traditions and consumption of pork has been the highest over years. Beef cattle breeding is a new branch of cattle breeding in Estonia; the number of beef cattle is constantly growing and the branch is growing well. Average production of meat in 2008 was ca 70 thousand tonnes, of which 60% was pork, 21% beef, 18% poultry and 1% mutton and goat meat. The annual output of eggs was ca 200 thousand (Põllumajandusministeeriumi ... 2009).

Estonia has since 2004 implemented in agriculture the common area-related aid and other direct aid schemes. Less favourable areas for agricultural production in Estonia account for approximately 50% of the agricultural land. A big problem for agricultural producers is beaches overgrown with reeds, as birds now go in search of food to the fields with crops just come up. An alternative activity suitable for coastal meadows is, for example, cattle grazing, first of all for undemanding beef cattle (*Ibid.*).

The growth of the Estonian agricultural sector continued until 2007, and small and medium-sized producers grew bigger and specialised, some of them reoriented their business to achieving greater diversity or broke up. In 2001-2007, the number of unprofessional households decreased by 31,415, or nearly threefold (Muutused ... 2008).

Today the milk buying-in price is diminutive again (one litre of milk costs 2.50 EEK); enterprises have to liquidate dairy cattle and reorient to beef cattle breeding.

Estonian businesses practise corporate social responsibility towards the environment and the society, and sustainable development of entrepreneurship. Rural people in Estonia are enterprising and creative. The community supports enterprising people with a favourable attitude and acknowledges the role of entrepreneurship as the promoter of the country's economic development and welfare. Rural firm owners have the skills. They are not able to get the necessary resources from the markets because they have no high productivity, new or improved products and services. A large proportion of rural inhabitants suffer from the lack of financial resources, fear of failure and fear of debt as the greatest obstacles to starting a company.

Considering the low competitiveness of agricultural producers and the lack of enterprise promotion plans, it is important to have ancillary activities, which enable to manage risks, to earn additional income and to move over into another field of activity, if necessary. Those enterprises which choose a secondary activity that is not connected with agriculture are more successful. They can use various sources of finance. Rural tourism attracts a lot of direct foreign investments.

For the development of Estonian entrepreneurship policy, an action plan *Estonian Enterprise Policy 2007-2013* was worked out, which was approved by the Government of the Republic of Estonia. The terms “enterprise”, “economic operator” and “company” in the policy document are used in a generalised sense, to denote both companies and self-employed persons. The Ministry of Economic Affairs and Communications has mapped the problems and identified priority fields of activity in close cooperation with business representative organizations, has consulted with the general public and taken into account the results of a number of analyses and surveys (*Development trends of Estonian small and medium-sized enterprises* conducted in 2005 by Saar Poll) on entrepreneurship. The Enterprise Policy is also related to the development of others fields, such as the Estonian Rural Development Plan (Estonian Enterprise Policy).

The Enterprise Policy and the Estonian Research and Development Strategy “Knowledge-based Estonia II” promotes development of entrepreneurship through targeted activities to achieve the following objectives: foundation and growth of new innovative enterprises and technological renewal of enterprises, growth of their development capacity and productivity (*Ibid.*).

Cattle breeding enterprises cannot be very innovative in entrepreneurship, as cattle breeding is a specific area of activity. However, the breeding value of the existing cattle can be increased. Productivity of farm animals can be improved via breeding. A lot of attention should be focused on the breeding of pedigree herds, balanced feeding of farm animals, and building of new cowsheds and introduction of modern technologies.

The history of private business in Estonia after the re-establishment of independence is not long. But the enterprises have come a long way in a fairly short time, which is evident from the faster establishment, improved competitiveness and positive economic results of Estonian companies. In 2005, there were 441,223 active companies and 50,260 active self-employed persons in Estonia, today 100,357 active companies and 72,700 active self-employed persons (Estonian Tax and Customs Board 2009 and Centre of ... 2009).

The majority of news firms are established in Tallinn where more than half of the Estonian companies are located. Tallinn has a well-developed infrastructure and it is a rapidly developing entrepreneurship centre. Business opportunities in the capital are considered to be better than in other regions. It is very important that the business environment outside the capital was equally favourable and attractive for firms so that the full business potential of all Estonian regions could be realised and

the regionally balanced development became possible. For that it is important to develop the regions as development engines. The government has supported business investment by providing start-up support to starting entrepreneurs, and guarantees on business loans and leases to operating and rapidly growing firms, but not for rural firms.

Although entrepreneurship in Estonia has developed relatively fast and its competitiveness has improved significantly, it continues to be dominated by firms that operate in the traditional sectors. For Estonia to move towards a knowledge-based economy it is important to invest in increasing the knowledge and skills of managers and employees, to focus more on the value creating processes. But rural enterprises have few employees or are owned by self-employed persons and it is not possible for them to invest in knowledge. Estonian banks have no wish to finance rural enterprises. But in order to finance investments companies must have access to external finance.

Most of the Estonian rural firms operate only in the domestic market. The small volumes of Estonian market restrict the growth of firms focused on the domestic market alone. Effective cooperation between firms is critical in the case of smaller production capacities in rural areas. Small firms still have a fairly low degree of cooperation with partners, and of other elements of strategic management. In many enterprises strategic management is not carried out consciously, and managerial knowledge and skills do not meet the requirements of the contemporary increasingly knowledge-based economy.

Estonian firms see the tax burden, legislation and bureaucracy as the biggest obstacles to development. Estonia's enterprise policy is focused on four main fields of activity: knowledge and skill development, investment promotion, promotion of internationalization and development of the legal environment (Estonian Enterprise Policy). Rural enterprises use the following ways to raise funds: using personal savings, taking a loan against security of personal or company property as guarantee, involving investors and venture capital or using the help of friends and family. Estonia's capital market does not work for animal breeding firms in rural areas. These firms who have no security or financial history to confirm their creditworthiness are facing difficulties finding additional funding.

The Estonian Rural Development Plan 2007-2013 (hereinafter the ERDP) was prepared to support the regionally balanced development of rural areas through the European Union Common Agricultural Policy (hereinafter the CAP) measures. Their priorities are:

- improving the competitiveness of the agricultural sector, training and information activities; setting up of young agricultural producers; modernization of agricultural holdings; development of new products, processes and technologies in the sectors of agriculture;

- improving the environment and the countryside; support for less-favoured areas; Natura 2000 support for agricultural land; support for the maintenance of semi-natural habitats;
- the quality of life in rural areas and diversification of the rural economy; diversification of the rural economy.

Agriculture is the sector of economy which has undergone the deepest changes during the transition period. Regardless of the decreased share of agriculture in the Estonian economy, its significant role of supplying rural population with food, in rural entrepreneurship and in shaping the cultural landscape has survived.

The development of rural areas is mostly influenced by the low population concentration and persistently decreasing share of agriculture in entrepreneurship. By now, the share of agriculture in the structure of rural entrepreneurship has decreased to approximately 50%. More machine power is used in agriculture, therefore many people have had to find occupation elsewhere (Estonian Rural ...).

Enterprise Estonia (EAS), established in 2000, promotes business and regional policy in Estonia and is one of the largest institutions of the national support system for entrepreneurship in Estonia, providing financial assistance, advisory, cooperation opportunities and training for the entrepreneurs, research establishments, public and third sector. Enterprise Estonia operates in the following domains:

- Increase of sustainability and acceleration of growth of the new companies;
- Improvement of export and product development capability of the Estonian companies;
- Attracting foreign direct investments into the Estonian economy;
- Increase of tourism export and development of domestic tourism;
- Promotion of regional development and civil society (Enterprise Estonia).

The strongest partners of EAS in counties are county development centres, i.e. independent development organisations located in all counties, which provide state financed advice to undertakings, non-profit organisations and local authorities.

Unfortunately, the priorities set out in the *Estonian Rural Development Plan 2007-2013* in order to raise the life quality in rural areas include local resource-based non-agricultural production, rural tourism, handicraft and services (hairdresser, repair shops, shoemaker etc.). Priority is given primarily to diversification of activity of smaller agricultural enterprises with other rural entrepreneurial activities than agriculture (Estonian Rural ...). The Development Plan underlines the significance of a strong local community and cooperation in rural areas. At the same time, many parishes have no information on enterprises occupied in agriculture on their administrative territory.

Life quality in rural areas is deteriorating; people need to go long distances for primary and secondary services, which is even more complicated by bad public transport facilities and not very good infrastructure. To come out of this, the

Development Plan of the Ministry of Agriculture's Area of Government 2009-2012 provides for focusing on non-agricultural entrepreneurship in rural areas. Preferred are investments that enable to use abandoned agricultural facilities for production or service providing purposes (Põllumajandusministeeriumi ... 2009).

In order to develop the rural life environment the Rural Development Foundation was founded. Its action plan 2008-2011 also supports non-agricultural secondary activities. The justifications include the low competitiveness of small agricultural producers. Non-agricultural secondary activities are seen as an opportunity for enterprises to earn additional income, manage risks and, if necessary, ease transition to a completely new area of activity. It recommends focusing more attention than so far on diversification of rural economy (Maaelu Edendamise Sihtasutus).

Action plans of all institutions unfortunately do not favour cattle breeding in rural areas. All this can be summarised unambiguously: give up cattle breeding and develop other than agricultural products! It's a pity that agricultural production including cattle breeding is no concern at all. This may lead to a situation that farm animals can be seen only in the zoo.

As agriculture is a part of rural life, the Estonian Chamber of Agriculture and Commerce (ECAC) feels responsible for what is going on. ECAC is taking part in the development of the image of Estonian rural life in cooperation with the newspaper *Maaleht*, the Rural Development Foundation and the Ministry of Agriculture. In collaboration with the *Maaleht* they have selected since 2001 the "Farmer of the Year" and in cooperation with RDF and the Ministry of Agriculture try to improve awareness of the youth of rural life opportunities through various creative projects (Estonian Chamber ...).

Family Undertakings in Rural Areas

Since 2001, the Commercial Register has registered the data of the sole proprietors in agriculture who are liable to value added tax. The sole proprietors have registered themselves as farms and as at 01.01.2009 they constituted (see Table) 74.4% of all undertakings in rural areas.

As at 01.01.2009, the number of sole proprietors had decreased by 15.0% in comparison with the year 2004; the decrease was caused by that since 01.01.2004 the sole proprietors may change their legal form without a tax liability occurring.

Since 2009, all sole proprietors who have registered their business with the Tax and Customs Board must also register themselves with the Commercial Register. This is the only right decision that provides for the openness of the entrepreneurship information. Since 2010, information of all enterprises will be public. So far only the information of those sole proprietors who have registered themselves in the Commercial Register is public.

Table. Agricultural, hunting and forest management undertakings registered in the commercial register according to their legal form in 2004 and 2009

Legal form	Number of undertakings 01.01.2004	Number of undertakings 01.01.2009
Number of registered undertakings including:	14 798	13 648
Sole proprietors	11 961	10 156
General partnerships	11	13
Limited partnerships	355	328
Private limited companies	2106	2852
Public limited companies	172	139
Commercial associations	192	159
Branches of foreign companies	1	1

Source: Centre of Registers and Information Systems 2009.

As at 01.01.2009, 74.3% of the sole proprietors engaged in agriculture (including forestry and fishing) were registered in the Commercial Register (Figure 1).

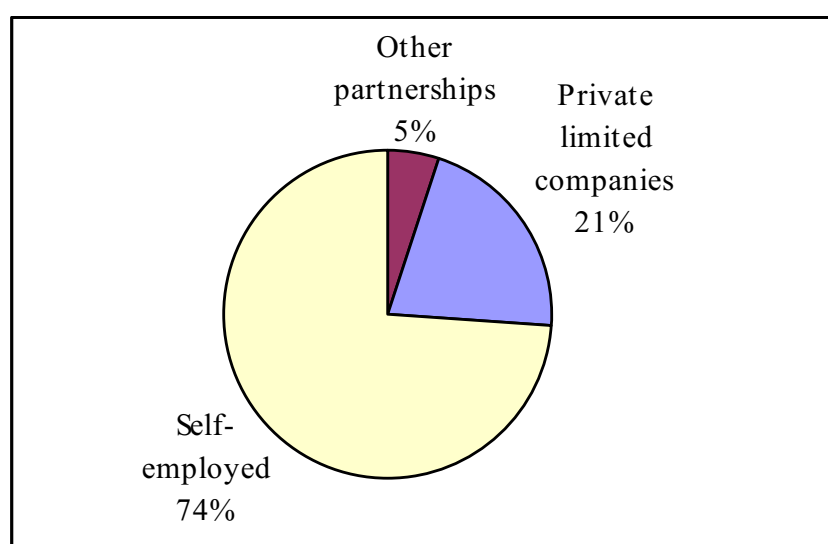


Figure 1. Distribution of undertakings across agriculture as at 01.01.2009. (Centre of Registers and Information Systems)

As of 01.01.2009 there were 118,145 enterprises registered in the Commercial Register of Estonia and only 11.6% of them were operating in agriculture (including forestry and fishing) (Centre of ... 2009).

A function of the Estonian Agricultural Registers and Information Board (ARIB) is to maintain the register of farm animals as well as the register of agricultural refunds and agricultural parcels and to allocate various agricultural, fishing and rural development aids. ARIB also implements the EU agricultural market regulation measures and the milk quota system.

Entered into the Register are cattle breeders who are breeding bovine animals, pigs, sheep, goats, horses, fowl, bees, fur animals and fish. As of 01.02.2009 there were 19,435 cattle breeders entered into the Register, 21% of them are family undertakings. And 6% of the latter are beef breeding family undertakings (Estonian Agricultural ...).

Performance testing is performed by 278 beef animal breeders, 79% of which are sole proprietors, including 98% of whom use the assistance of their family in business (Figure 2). 83% of the beef animal breeders consider themselves to be family businesses, since the entire family participates in the business.

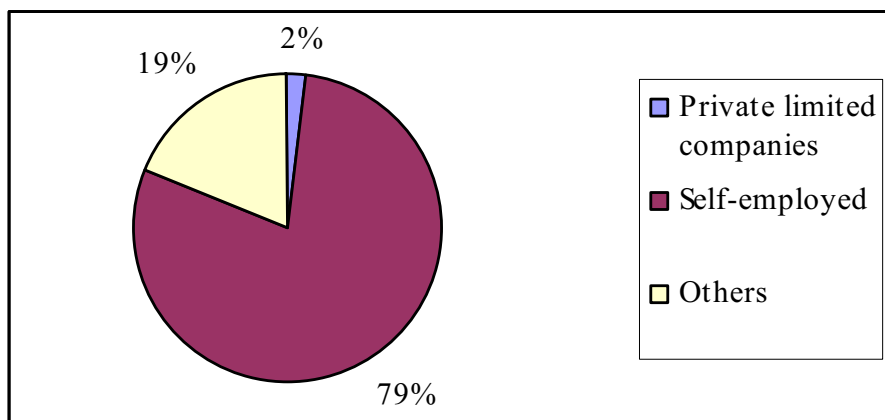


Figure 2. Beef cattle breeders by form of enterprise in 2008. (Compiled by the author)

Islands (24%) have the most beef cattle breeders who perform performance testing and Ida-Virumaa (2%) the least (Figure 3). Islands have a lot of natural pastures and some of them are uncultivated, which is an advantage in beef cattle breeding. Some small islands belong only to beef cattle; the beef cattle are driven to the islands in the spring and back to the farm in autumn. In the summer period, additional feed is brought, when necessary, and the animals are attended to in order to keep the cattle from turning wild. Many entrepreneurs keep a direct contact with the animals every day. Most of the people questioned attended to their animals actively every day.

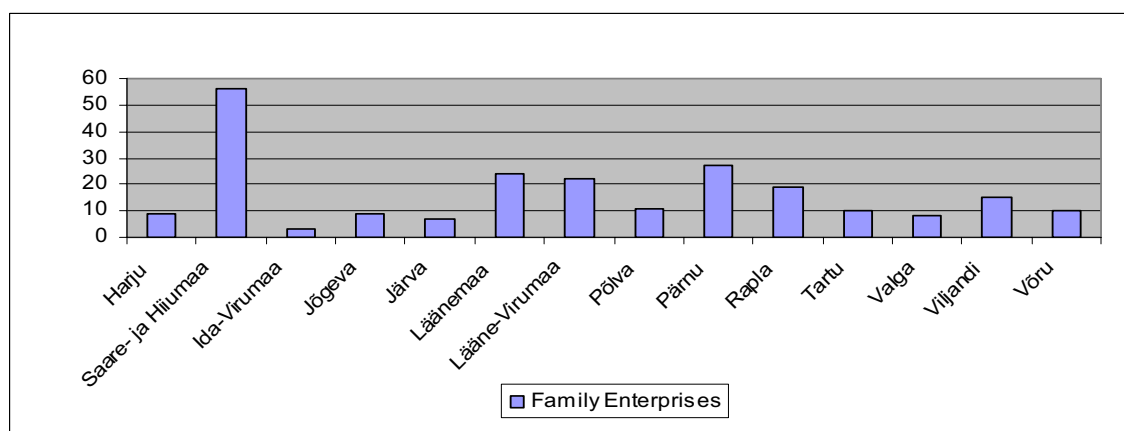


Figure 3. Distribution of beef cattle breeding family enterprises across counties in 2008. (Compiled by the author)

In comparison with dairy cattle, the breeding of beef cattle is less laborious and gives the owners enough free time. The free time-planning has been the reason for choosing beef cattle in many cases.

In 2008, the Estonian University of Life Sciences by order of the Ministry of Agriculture conducted a questionnaire survey “Outlooks of Agricultural Producers and Future Trends of Agricultural Policy”. 284 agricultural producers completed the questionnaire. The survey identified that most of the producers are using the workforce of their family (Estonian University ... 2008).

83% of the beef cattle breeders performing animal recording use the help of their family in business (Figure 4). Many family enterprises are family-focused; they like their family members being dedicated to the business.

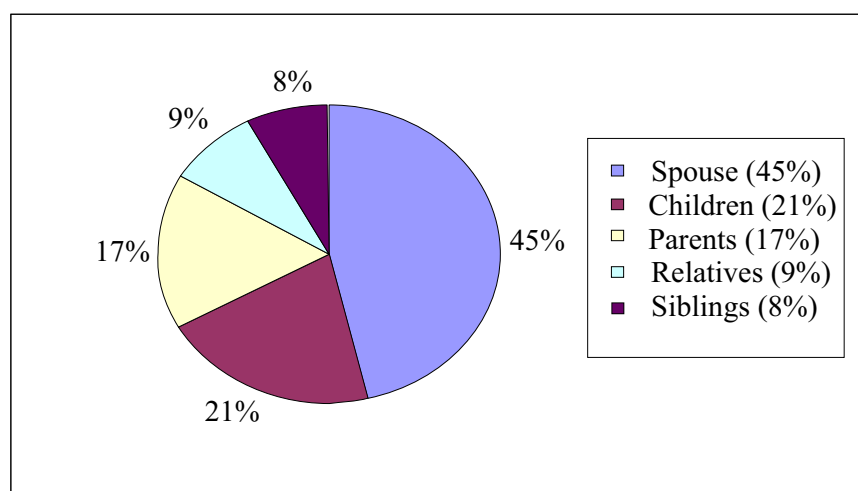


Figure 4. Participation of family members in family business. (Compiled by the author)

The Estonian Farmers Confederation (EFC) is standing most for the farms. They are developing the farmers’ alternative service, which is vitally important for farmers who do not use other workforce than their family members. Thanks to this service family members can have a vacation together. Farmers hope that the alternative service will work. The best farm in Estonia has been selected at the initiative of EFC for 16 years already. In 2008, the member organisations of EFC nominated 13 farms for the competition, which had proved the best in their county. The farms were evaluated in three different categories. Three best farms were identified from among production farms, farms pursuing alternative activities and young farmers. The title “Farm of the Year 2008” was awarded to Kalle Hamburg’s farm, the second place among production farms to Priit Soosalu’s Luha farm and the third place to Põllemaa-Saare farm. Additionally worth mentioning were Uue-Nõmme farm; Jüri Nurk’s farm and Kivi-Lillemäe farm in the category of production farms. The best among alternative farms were Ellisson’s Veskitalu Ltd; Koplimäe organic farm and Raja-Jaani farm. The best among young farmers were Tohuri-Andrese farm; Lepiku farm; Siimu farm and Taivo Kokk’s farm (Eestimaa ... 2009).

The farms which were worth recognition are all family enterprises. For example, in Priit Soosalu's Luha farm all fields are under the care of the head of household and cattle-breeding is his spouse's responsibility. There are 60 bovine animals in the farm, including 28 milk cows. The milk yield is 9,500 kg per cow. In 2005, the farm was awarded the title of the best dairy cattle breeder. Four years they have been with their cows in the election of "the best moo-cow in Estonia" and three years they have brought home the first place and one year the third place. The farm fortunately has a successor – their son is studying agriculture (Eestimaa ... 2009).

Things are the same also in Põllemaa-Saare farm where the number of cattle and arable land has been growing continuously. 50 cows are milking annually and their milk yield is 8,600 kg per cow. A reason for good production is good grasslands, as much emphasis is laid on their renewal. Cattle live in a free-range cowshed which was built a couple of years ago and they hope to buy a milking robot for this cowshed. It is a family farm where all four children help to the best of their ability and power (*Ibid.*).

In most of the farms engaged in both cattle breeding and cultivation of land, the latter is the task of the head of household and cattle breeding is the domain of housewives. Many undertakings have in addition to farms established also a private limited company. For example, Uue-Nõmme farm, which has 250 ha of arable land, has established a private limited company employing four people. The company has 200 hectares of arable land and additionally they offer transportation services and snow clearing in winter (*Ibid.*).

Many farms are small and can manage with the help of their family members (mother, father and children), while many have a bigger household where also siblings, parents and other relatives are involved in the business. For example, Jüri Nurga farm, where the brothers are engaged in the business. The brothers have 2000 hectares of arable land, and additionally they are breeding beef cattle and horses. They have built a meat processing plant where they provide game and beef animal chopping and packaging services. They have four employees all year round (*Ibid.*).

Rural life is diversified and rural entrepreneurship outside agriculture developed by alternative farms. For example, Ellisson's Veskitalu Ltd provides catamaran services on the Lake Kuremaa. The first generation family undertaking is the household of Koplímäe Organic Farm – they have been engaged in organic production for 12 years (*Ibid.*).

Farm culture in Estonia was interrupted and after Estonia regained independence they started to rebuild farms again. Some restored farms were returned to the family ownership, for example, Raja-Jaani farm. It is a hereditary farm, which belongs to their family for seventh generation already. In the spring of 2008 they still had 20 milk cows, but as AS Maag ceased to receive milk, they had to sell most of the cows and are now beef cattle breeders. It is sad that milk processors stop milk transport, or the purchase price offered by them is so small that farmers have to liquidate the

dairy cattle. They make plans to launch farm tourism and organise walking tours to the bog and surrounding forests (Eestimaa ... 2009).

Many family undertakings in rural areas have problems with offspring. Young people want to leave for town to lead easier life and to the world to obtain knowledge. Fortunately there are farms where a change of generation has already occurred and succession is no problem. Examples are a young head of Siimu family farm; and two siblings in Taivo Kokk's farm (*Ibid.*).

Members of farm households are also working as alternative farmers. For example, the housewife of Tohuri-Andrese farm is working in addition to her own farm also as a replacement farmer, thus giving rest days to other milk cattle breeders (*Ibid.*).

97% of the owners take part in the management of their family business and 45% are engaged only in the principal activity (beef cattle breeding including marketing of beef); the others are occupied for the purpose of risk diversification also in other activities (Figure 5). Secondary activity for 24% is other than agriculture or beef selling.

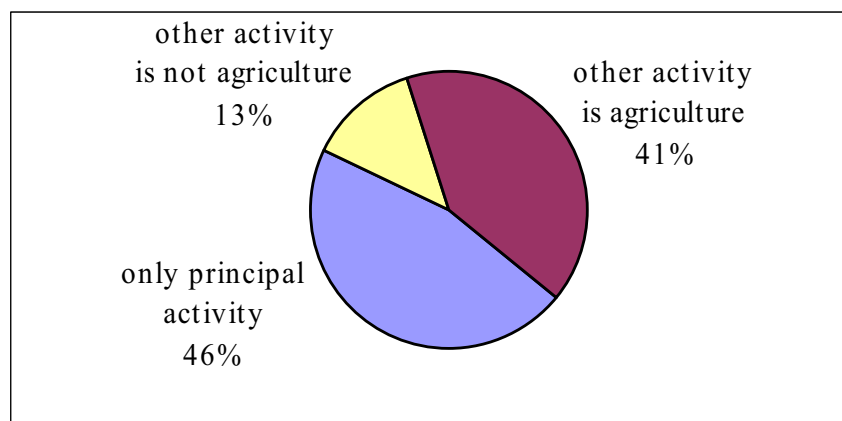


Figure 5. Participation in family business. (Compiled by the author)

The number of rural population has been stable in recent years – 35.4% of total population (Statistic ... 2009).

The Estonian Rural Development Plan 2007-2013 underlines that a strong local community and cooperation are very important in rural areas. Still, many parishes have no information on enterprises operating in agriculture. They have a complete picture of those undertakings which have to register their activity with the Register of Economic Activities.

If there are no people living in rural areas, rural life cannot develop there either. So as rural life could evolve, good living and working conditions need to be created for people there, including infrastructure (schools, kindergartens, internet etc.). Agricultural specialties must be made attractive for young people so that they would come to study rural economic specialities. When the number of students is declining, the entrepreneurs in rural areas have no successors.

For development of rural life it is essential to establish a dense cooperation network with parishes. The parishes should themselves develop the image of rural life and improve the living environment there.

According to the Ministry of Agriculture's *Estonian Rural Life Development Strategy 2007-2013* (Eesti maaelu arengu strateegia 2007-2013), development of entrepreneurship in rural areas is influenced by low concentration of population and continuously declining share of agriculture in entrepreneurship. Another indicator that characterises entrepreneurial activity in parishes is diversity of entrepreneurship measured by number of companies and sole proprietors registered on the territory of local government and areas of activity represented by institutions of state and local government. There is a big difference between rural municipalities (parishes) and towns. Compared to Estonia's average (19.9 areas of activity), there is a big difference between the average of parishes (17.8) and towns (30.4). The difference in the average number of companies between parishes (32) and towns (61) is also big compared to the average for Estonia (52 companies per thousand population). Only the closest parishes to Tallinn are dominating among parishes in this respect. In the parishes located in the borderlands or away from major transport routes the areas of activity are few, at worst limited only to public services and a few companies. Hence, economic activity in most of the rural areas is narrow and people have therefore less chance to find suitable employment there (*Ibid.*).

Considering the low competitiveness of small agricultural producers and lack of entrepreneurship promotion plans, the presence of secondary activity is still important, as it helps to manage risks and earn additional income. 2746 agricultural households out of approximately 37 thousand in Estonia earn income from non-agricultural activity, which account for 7.5% of all agricultural households (*Ibid.*).

During the past decades, service providers have moved their activity away from rural areas because of the lack of critical mass of consumers. This in turn has led to deterioration of the living environment, as rural people have to go much longer distances to get primary and support services. Bad accessibility of various services in rural areas is a complicated problem. They miss most a bank, sauna, shoemaker, manufactured goods shops and equipment repair shops. One possibility to maintain and improve the life quality is to find new solutions in providing services: Accessibility of services can be improved by providing them in one multifunctional building and by enabling mobile services (*Ibid.*).

The strengths, weaknesses and potentials of rural entrepreneurship and life quality are as follows (*Ibid.*):

- the risk that the share of agricultural sector might fall; many entrepreneurs have moved services away from rural areas;
- a weakness of economic activity is revealed in the small diversity;
- a risk to rural areas is shuttle migration, as rural people don't find appropriate job for themselves or the wages offered are not competitive;

- rural resources: facilities, nature and increasingly stronger local community provide possibilities for finding innovative solutions and by supporting community activities it would be possible to smooth down differences between town and country.

The strength of local community lies in the consolidation of rural population: nearly one fourth out of over 4000 villages have elected village elders to coordinate local activity, nearly 700 societies are busy with village development. Agricultural enterprises have to improve their competitiveness to be able after the end of the support programme period (after 2013) to cope under the diminishing market support and direct aids (Eesti maaelu arengu strateegia 2007-2013).

The specific aims in regard to rural life quality and diversification of rural economic activity until the year 2013 are as follows:

- to focus on local resource based non-agricultural production;
- to promote diversification of the activity of smaller agricultural enterprises with other rural entrepreneurship than agriculture;
- to prefer investments that would enable to use abandoned facilities and buildings, including manor houses, in production or services, thus contributing to creating employment opportunities and development of the services sector;
- to promote implementation of major investment projects (*Ibid.*).

The author sent a questionnaire to parishes. The questionnaire was simple and focused on cattle breeding farms/undertakings. In the questions the author asked information what have been the problems the entrepreneurs have referred to parish authorities and whether the parish administration knows all entrepreneurs located on its territory. The questionnaire attempted to get information on how the parish administration is informed of the cattle breeding undertakings operating on its territory. What is the awareness of the parish administration of the cattle breeding farms, what is their attitude towards the entrepreneurs and whether the parish authorities are interested in the development of cattle breeding.

Since Estonia regained independence and re-establishment of local governments professional local government leaders have developed – every eighth parish elder has been at the head of one and the same parish for more than 15 years. There are 193 parishes in Estonia today and 24 of them have the elder who has been re-elected in all local government elections, i.e. since 1993. The longest employed as parish elder is Lenhard Ermel, the elder of Sõmerpalu parish, who has been in the office for 27 years. The same parish elders for 15 years have been in the following parishes: Sõmerpalu, Padise, Antsla, Võnnu, Peipsiääre, Noarootsi, Surju Laheda, Hanila, Laekvere, Kolga-Jaani, Imavere, Albu, Kõo, Kernu, Paikuse, Kanepi, Tootsi, Häädemeeste, Vändra, Haljala, Pärtsi, Orissaare and Puka (Rozenal 2009).

This allows assuming that parish elders know very well what is going on in their parish. However, from the above-mentioned parishes only the parish elders of Orissaare, Paikuse, Peipsiääre, Surju, Tootsi, Võnnu and Vändra parishes answered

the questionnaire. The others either did not consider it necessary or really were not aware of the activity of entrepreneurs in their parish.

In the meeting the head of development department of the parish of Ülenurme said that he knows people in his parish and their activity, including everything about entrepreneurship, but did not answer the questionnaire. Hence it seems that the information is still missing.

A very thorough answer was made by the development specialist from the parish of Jõelähtme. If all parishes had such employees, then entrepreneurship would definitely start growing in rural areas. If already the parish administration is interested in entrepreneurs and communicates with them, then entrepreneurs also want to show up innovativeness.

The author sent to all parishes a request for information and the response rate was 25% (Figures 6). Hence a conclusion that parish authorities are actually not interested in cattle breeding undertakings.

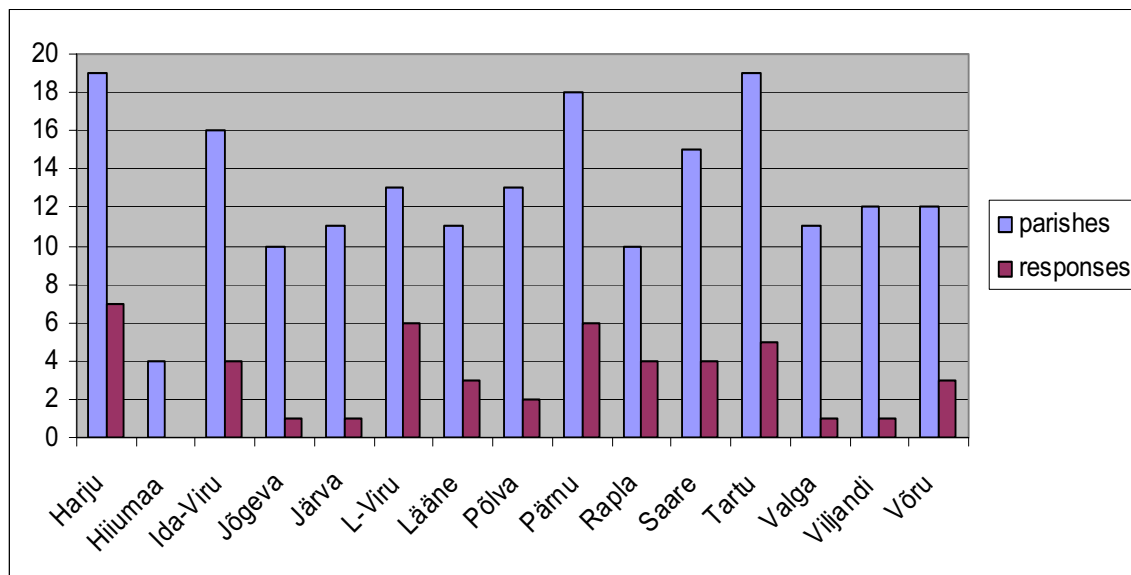


Figure 6. Parishes and responses from them across counties (Compiled by the author)

The parish elder of Põlva answered that “they have no answers to the questions. Enterprises in Estonia are operating on the basis of so-called free-market principles and local governments don’t assist them”.

All the respondent parishes which knew their undertakings could name the employers as well as the number of employees. They also mentioned the best entrepreneurs. The respondent parish elders are interested in development of entrepreneurship in their region and help entrepreneurs in every way.

Some parishes answered that “we don’t provide assistance and therefore cannot help entrepreneurs”. Entrepreneurs think the obligingness of parish administration is important in order to rapidly solve the problems that might arise.

The author is of the opinion that the parish administrations should cooperate with all entrepreneurs and have a complete picture of entrepreneurship in the parish. What are the parishes there for?

Entrepreneurs approached the parish administration with the following problems:

- land related issues;
- drinking and waste water;
- slurry storage;
- building and digging permits;
- bad infrastructure;
- driveways;
- registry controls;
- employment problems;
- buying-in prices;
- realisation of products.

Parish administrations in turn mentioned that they promote entrepreneurship development as follows:

- assist entrepreneurs communicating with Estonian Agricultural Registers and Information Board;
- where possible, support business start-up;
- keep driveways to cattle breeding facilities accessible;
- organise various information days;
- disclose information on available aids in local press.

Conclusions

Due to the changes that have taken place in agriculture within the last decades, there are many buildings in rural areas which are unoccupied, underutilised and useless. To save resources it would be important to find a new function for those buildings either in production and services or as residential buildings.

Development of rural areas is a topical challenge in almost all European Union countries. The key issues of development in the near future might be:

- combining agriculture and paid employment from outside the farm;
- joint activity and networking;
- development of local economy;
- sustainability;
- the skills should grow better and more effective;
- development of secondary activities;
- rehabilitation of cattle breeding.

Most of the cattle breeding undertakings in rural areas are family enterprisers. All family entrepreneurs:

- were positively-minded and wished to continue their business;
- had future plans and sound visions to enlarge and improve their business;
- were certain that their business is profitable.

Unexceptionally all family undertakings wished for direct support and higher meat prices. A common network is wanted to take products to the European market. People have realised that cooperation is the key.

The main problems are:

- lack of financial instruments;
- lack of cooperation between breeders;
- lack of qualified work force on vacation periods;
- lack of business-related knowledge;
- lack of experience;
- low competition;
- bad infrastructure in rural areas;
- bad quality of Internet communications.

In order to increase competition, family entrepreneurs wish for governmental financial support instruments, so they could operate sustainably.

The database of the Estonian Agricultural Registers and Information Boards includes 4,043 family entrepreneurs. 6% of them are cattle breeding family undertakings which are doing also performance testing.

Most of the entrepreneurs are convinced that the objectives will be achieved as well as profits made with the help of a strong and quick-witted family and good purposeful management.

Family enterprises are extremely vulnerable; their reserves for surviving critical periods are small or nearly nonexistent. They often depend only on one area of activity. In the current economic situation owners of family enterprises need to pay particular attention to strategic management, so as to survive in difficult situations. They must take right decisions and start looking for challenges.

The specific character of family enterprises and the need to be aware of their specific problems is growing in Estonia. The lack of younger generation is also a serious problem. The following issues become topical with the aging of the “first round” entrepreneurs: what happens after they stand off; whether the successor comes from the family and how to hand the management over. Presently, half of the rural entrepreneurs are middle-aged. Therefore, it is important to implement measures for increasing management potential in rural areas.

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