

Rural Development Plan

(European Union SAPARD 2000-2006)

Tallinn 2000

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INTRODUCTION

The Republic of Estonia is applying for full membership of the European Union. In accordance with EC Regulation 1268/99 of 21 June 1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of Central and Eastern Europe in the pre-accession period, Estonia is a country entitled to pre-accession financial aid for sustainable agriculture and sustainable rural development. The designated duration of the Programme is 2000 – 2006. Should Estonia join the European Union before the end of that period, the respective EU structural funds will be accessible to support agriculture and rural development.

This Rural Development Plan has been prepared as a basis for the implementation of the above SAPARD programme. This Programme has been prepared by the Ministry of Agriculture in co-operation with other state agencies and co-ordinated with various non-government institutions.

The objectives of implementation of this Plan are:

1. to improve the efficiency of agricultural production, bringing it into compliance with the market requirements;
2. to provide conditions for sustainable rural development, to complete land reform and administrative reform;
3. to contribute to the socio-economic and infrastructure development of rural areas;
4. to ensure the development of a competitive and efficient food processing industry.

Numerous background investigations were conducted in the course of preparation of the Plan to identify the main problems in each sector (agricultural production, food industry, rural activities, and rural infrastructure). The four main measures to be applied under this Plan were formulated on the basis of these investigations. These **measures**, which are an integral part of the agricultural and rural development policy of the Republic of Estonia cover:

- Investments in agricultural holdings
- Improving the processing and marketing of agricultural and fishery products
- Development and diversification of economic activities.
- Development and the improvement of rural infrastructure

These measures will be assisted with Technical Assistance measure.

Additional measures will also be introduced at a later phase in the Plan in following areas:

- Renovation and development of villages (from 2002)
- Agri-environment (from 2003) and
- Forestry (from 2003)

The main beneficiaries of the measures applied under the Plan will be agricultural undertakings, food industry undertakings, rural undertakings, non-profit associations, and indirectly also local government bodies and the rural population as a whole.

The Plan will be implemented under the guidance of the Ministry of Agriculture (Managing Authority) in collaboration with the SAPARD Monitoring Committee and the Agricultural Information and Register Board (SAPARD Agency). Communication with the EU Commission on financial matters will be carried out through the National Fund (Ministry of Finance).

1. GENERAL DESCRIPTION OF AREA

1.1. GEOGRAPHY

The Republic of Estonia is situated on the East Coast of the Baltic Sea, in the northwest part of the East-European platform. The total length of Estonia's land border is 663 km, including 294-km land border with the Russian Federation and 339 km with the Republic of Latvia. The coastline length is 3794 km; the scope of territorial waters is 12 miles. The area of the Republic of Estonia is 45,227 km².



1.1.1. Climate

Estonia is the northernmost of the three Baltic States. The climate in Estonia is determined by the country's location at the north-western reaches of the Eurasian continent and the proximity of the North Atlantic. For more than half of the days in the year, cyclones formed near Iceland cause cloudy, windy and rainy weather in Estonia. The climate is characterised by moderately cold winters, cool springs with frequent night frosts and little rainfall, moderately warm summers with relatively little rainfall in the first half and heavier rains in the second half, and long warm autumns. The climate is transitory from marine to continental. Coastal areas and islands have marine climate and the Southeast has continental climate. Humid marine air causes frequent cloudiness. There are an average 150-180 cloudy and 30-45 clear days in a year. Sunshine hours are 1600-1870 per year. The annual radiation balance in the Estonian territory is 3500 MJ/m².

The annual average temperature is 4-7° C. The lowest annual average temperature has been measured in Jõgeva (-0.3° C) and the highest one in Valga (8,9° C).

The relative air humidity in Estonia is 80 % on average. Winds are stronger on the islands and in coastal areas, where the average wind speed is 6 m/s¹; in inland areas 3 - 4 m/s.

The vegetation period which lasts for an average 150 days start in the beginning of May and lasts until the end of September. The average annual rainfall is 650 mm. Rainfall is generally heavier in uplands (central and south Estonia), and lighter in coastal areas.

Soil formation is influenced by the uneven distribution of rainwater between different relief elements. Surface and ground water accumulates in lower lands, causing the land to become marshy. Rainfall also distributes unevenly throughout the year. Rainfall during the vegetation period is 300-400 mm and generally covers the water needs of field crops. In May and June rainfall is insufficient for field crops and consequently the yield of grasslands is substantially reduced.

¹ M/s = metres per second

1.1.2. Relief

The average height of land is 50 m above sea level. In more than one-half of the territory of Estonia, land height is less than 50 m; in 40 % of the territory it is between 50 and 100 m; and in 10% of the territory it is more than 100 m.

The territory can be divided into two relief categories: lowlands, which remained under water after the Ice Age, and uplands, separated by the 80-metre contour. A slightly wavy moraine relief alternated by ice-created lakes of different sizes and plains of sea sediments is characteristic to north and west Estonia (lowlands).

The upland part covers slightly more than one-third of the territory of Estonia. It includes areas rising to more than 100 metres above sea level. The highest part is the Haanja upland in Southeast Estonia, which contains the highest point of Estonia, *Suur Munamägi* (318 m above sea level).

When compared to the neighbouring countries, the Estonian relief is somewhat more articulated and varied.

Internal waters cover 6.2% of the territory. Estonia has 1150 lakes (4.8% of entire area) and 420 rivers more than 10 km long. The largest lakes are Lake Peipsi (3555 km², incl. 1529 km² in Estonia), Lake Võrtsjärv (266 km²), and the Narva reservoir (191 km²). Estonian lakes are relatively shallow - approximately 75% of lakes are less than 10 m deep. The deepest lake is the Rõuge Suurjärv (38 m). The longest rivers are the Rivers Pärnu (144 km), Kasari (112 km) and Emajõgi (101 km).

Estonia owns 1521 Baltic Sea islands with a total area of 4130 km² (9.1% of entire territory). The largest islands are Saaremaa (2922 km²), Hiiumaa (1023 km²) and Muhu (206 km²). Only a small proportion of these islands is inhabited.

1.2. SYSTEM OF GOVERNMENT AND ADMINISTRATION

Estonia regained independence in 1991. The new Constitution, according to which Estonia became a country of parliamentary democracy, entered into force on 3 July 1992.

Legislative power is vested in the *Riigikogu*, the unicameral parliament. The *Riigikogu* passes laws and resolutions, decides on the organisation of referendums and solves other state issues that are not vested in the President of the Republic, the Government of the Republic, other government bodies or local governments. The 101 delegates of the *Riigikogu* are elected on the basis of a proportional system for four years. The *Riigikogu* or an electoral body elects the President of the Republic for a term of five years. The President of the Republic represents the country in international relations, is the supreme commander of national defence and performs other rights and obligations as laid down in the Constitution. All laws passed by the *Riigikogu* enter into force only after the President of the Republic has proclaimed them. The President designates the candidate for Prime Minister, on the proposal of the Prime Minister appoints and releases from office members of the Government, makes proposals to the *Riigikogu* for appointments to the office of Chief Justice of the Supreme Court. The *Riigikogu* authorises the candidate for Prime Minister to form a government. Executive power is vested in the Government of the Republic. The Government of the Republic executes the domestic and foreign policies of the state, administers the implementation of laws, resolutions of the *Riigikogu* and legislation of the President of the Republic. It also prepares the draft state budget and submits it to the *Riigikogu*, administers the implementation of the state budget and resolves other issues, which the Constitution and other laws vest in the Government of the Republic.

The Republic of Estonia is a member of the United Nations Organisation (since September 1991) and the European Council (since May 1993) and WTO (since November 1999).

The territory of the state is divided into 15 counties. Each county has a county government headed by the county governor appointed by the Government of the Republic. Local issues are decided and organised by local governments. Local government units are rural municipalities and cities. There are 206 rural municipalities and 47 cities in Estonia. The Government of the Republic is located in the capital Tallinn.

1.3. POPULATION

The population of Estonia was 1,445,580 as of 1999 ².

In the beginning of 1998, 69.3 % of population (1,006,654 people) lived in cities. Rural population density in the beginning of 1998 was similar to that in 1991 – 10.3 persons/km². As of the beginning of 1998, the ethnic constitution of the population

was as follows:
 Estonians 64.6%,
 Russians 28.5%,
 Ukrainians 2.6%,
 Byelorussians 1.5%,
 Finnish 0.9% and
 other nationalities 1.9%.

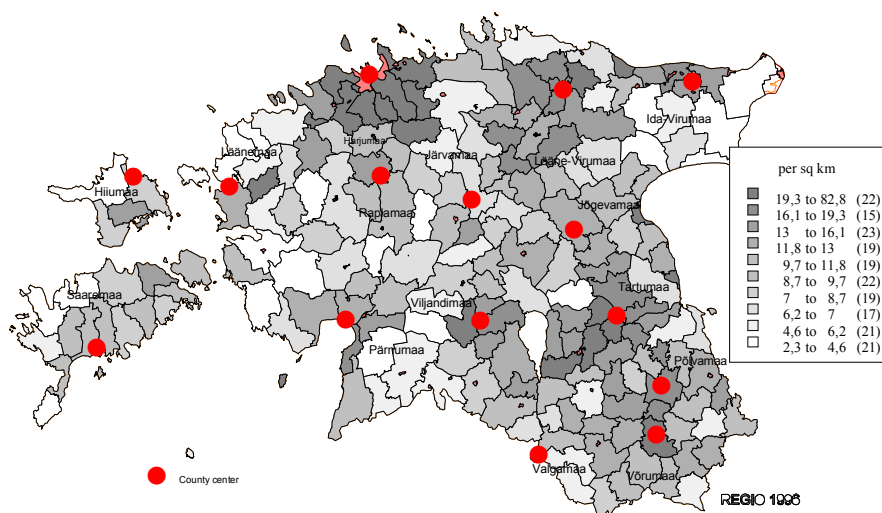


Figure 1 Rural population density

1.4. MACROECONOMIC CONTEXT

Since Estonia regained independence in 1991, economic development has gone through three stages.

1.4.1. Transition from plan- to market economy (91-92)

Drastic changes in supply and demand conditions led Estonia to serious economic shocks in the first few years after independence. Adjustment to these major external shocks, especially the increase in energy prices and the disruption of trade with countries of the former Soviet Union led to the decline of industrial output by nearly 40 % and agricultural output by about 20 % (1991/92). Consequently Estonia was forced to allocate a major share of its scarce foreign exchange to oil imports. In early 1992 there was a critical shortage of all imported goods: not just oil, but also medical supplies, fertilisers, spare parts and food for human consumption and animal feed. The international community mobilised emergency assistance for Estonia; it was used to secure essential imported inputs and to provide the foreign

² Estonian Statistical Office Yearly Report – by 01.01.1999

exchange reserves needed to stabilise the economy. This was partly done via grants but mainly via international loans from e.g. World Bank, EU etc.

1.4.2. Creating a basis for economic stabilization (92-93)

Relative stability was attained through economic policy:

- introduction of the national currency (under a currency board arrangement with a peg to the German mark at the rate 8:1);
- no external taxes or quantitative restrictions on either imports or exports and
- removal of price controls and subsidies for state enterprises.

The stabilisation reduced the inflation rate, unemployment stabilised and real wages began to recover. The decline in gross domestic product stopped in late 1993.

1.4.3. Stabilization and growth (93-99)

From late 1993 - early 1994 there were clear signs of increasing efficiency and decreasing macroeconomic imbalances, creating an environment conducive to sustainable growth. Estonian economic output fell sharply over the 1991-1994 period, in the wake of the various shocks associated with the dissolution of the Soviet Union. During this period, the government liberalised prices and trade, privatised the bulk of enterprises, and introduced a convertible currency and currency board. The benefits were recognised in the stabilisation of the economy in 1994 and strong growth in the following years. The upward trend in output became firmly established in 1995 (See Table 1). Still relatively low labour cost with good general education level of the population, imported new technology and high productivity growth led to economic growth of 10,6% in 1997. This was achieved despite the problems that occurred all over the world as well as in Estonian financial sector in the fourth quarter. Generally favourable development and high growth rates have led the Estonian economy into a new phase of development. The main problems economic agents were facing were inflexibility in the labour market, relatively high inflation and increasing current account deficit.

Table 1. Gross domestic product (GDP), 1995-1999

Year	GDP Growth %	GDP in current prices (1000 Euro)	CPI, Annual average change,%
1995	4.3	2601.53	29
1996	3.9	3351,89	23.1
1997	10.6	4111,02	11.2
1998	4.7	4686,33	8.2
1999	-1,1	4816,38	3,3

Notes: CPI - Consumer Price Index

Source: Estonian Statistical Office Situation changed in late summer 1998. Economic crises in Russia and worsening world economic environment influenced severely on the development of Estonian economy. Economic growth turned negative in the 4th quarter of 1998 mainly due to decreased foreign demand. Decreased demand for food products was the main factor behind decline in inflation rates. From the second half of 1999 economy is growing again. Although the preliminary estimates show about 5% growth in the first quarter of 2000, there are still problems in the labour market. The unemployment rate was at a record high of 14.8% in the first quarter of 2000. Inflation measured by annual average CPI is close to 3%.

2. ENVIRONMENTAL PROFILE

2.1. OVERVIEW

Agriculture has a major influence upon the rural environment and can both create and destroy the quality of natural resources and the traditional features of rural areas. Estonian agriculture is no exception to this.

Many centuries of traditional agricultural practices have contributed to the creation of varied landscapes and valuable habitats in Estonia. However, the expansion and intensification of agriculture during the Soviet period also resulted in major damage to the rural environment with the deterioration of many landscape features, damage to valuable wildlife habitats, loss of species diversity and the pollution of soil and water.

Although agriculture remains the predominant land use in Estonia, the area used for agricultural production has significantly decreased during the last 10 years due to the effects of agricultural restructuring and land reform. The resultant decline in animal and crop production has also altered the traditional patterns of land use. Weeds and shrubbery are now occupying large areas and this has caused landscapes of cultural value to further steadily disappear (according to the Statistical Office data, unused agricultural lands in 1998 included 233, 432 ha of former cultivated land).

Many farmers in Estonia will now deal with some of the environmental problems, which have been caused by agriculture, through the encouragement of “good agricultural practice”, but others will require the implementation of appropriate legal restrictions (including those contributing to Estonia's adoption of the Community Acquis). In many other cases the achievement of real environmental benefits will require farmers to significantly change their farming methods. This is likely to require the maintenance of reduced productivity combined with additional work and management undertakings by farmers. Since few farmers will be able to do this without compensation it is proposed that a public-funded national agri-environment programme is introduced to ensure that the high environmental benefits wanted from farmers are achieved. This will also further contribute to adoption of the Community Acquis.

2.2. STATE OF THE ENVIRONMENT

2.2.1. Landscape

The diversity of landscape types in Estonia is due to a number of factors, including:

- the diversity of natural conditions;
- the preservation of natural and semi-natural habitats in a relatively large number of landscape types, and;
- the presence of a large proportion of landscape types that have nearly disappeared in the rest of Europe (e.g. mires, semi-natural communities).

The preservation of bogs, wooded meadows, wetland forests and several other landscape types that mostly been destroyed in the rest of Europe has been possible due to a combination of:

- the stopping of new amelioration works before such activities had covered all areas;
- the relatively late introduction of intensive land use, and;
- the retention of manual labour in the agriculture of the country until the last quarter of last century.

However of the total area of 4,5 million hectares, agricultural land covers 1,4 million ha, the landscape has inevitably been affected by intensive agricultural usage and by amelioration works (1965-1985), including the re-parcelling of land which significantly increased the average field size. The current reform process is working against this and is splitting parcels, often in conflict with the technical requirements of drainage systems. A significant part of the former agricultural land has also remained unused, thus changing the landscape in undesirable direction, often decreasing biodiversity.

Important method of landscape management is planning and zoning, which is based on corresponding law. Unfortunately, current law is very building-centred and requires significant amendment to include landscape management conceptions.

Estonian forests cover approximately 47,4% of Estonia's land area (2 142 263 ha). The main tree species are pine, birch and spruce. The main research and development projects in forestry sector started in the 1998-1999: Biodiversity Management Strategy for Commercial (multifunctional) Forests in Estonia, Inventory of the Present and Potential Conservation Areas, Afforestation Program and Inventory Key Biotopes in Commercial Forests (the field-work for this last study will be completed by December 2000 and final reports in mid-2001).

Even if Estonia does have quite good legal basis in forestry, a problem exists with inadequate forestry management, mainly reflected in the private forestry sector.

The main **problems** are:

- the lack of knowledge of how to manage the forest in a sustainable way;
- lack of co-operation between the private forestry owners including the need for private forestry organisations who could advise forest owners and help them to manage the forest and to find contractors;
- Tax Policy, which does not favour forest management. The policy favours selling the forest as a property and not as a product.

2.2.2. Biodiversity

Natural diversity is an important guarantee of diversity and richness of culture, which is a part of the same ecosystem. In the case of biological diversity in Estonia, several internationally important aspects deserve attention.

Compared to other regions with similar areas situated to the north of the 57th northern parallel, the diversity of Estonian flora and fauna is one of the richest in the world. The reasons for it are geographically conditioned diversity of Estonian climatic conditions; the existence of both islands and continent; the influence of the sea and large number of inland waters; diversity of soils, a simultaneous incidence of Silurian limestone and Devonian sandstone as the bases for the formation of soils, and the resulting incidence of neutral, lime-rich and lime-poor soils; extension of a large number of species distribution ranging from borders to the territory of Estonia; large proportion of natural landscapes in Estonia; retention of traditional methods of land use until the middle of last century – and in many areas until

the latest decades, relatively extensive retention of semi-natural habitats (or heritage habitats) and the relatively unimportant role of alien tree species in forestry.

Estonia's rich flora includes around 5,000 varieties of plants and 3,500 varieties of mushrooms, some of which are under protection. In addition there are around 11,000 invertebrate and 500 vertebrate registered species.

The small-scale species of some Estonian habitats represents one of the richest of such habitats in the world. Such are the communities in preserved wooded meadows under long-term use in western Estonia, where the number of vascular plants may be as 74 species per square meter. One of the important reasons for the fact is the retention of traditional extensive methods of land use until the middle of last century.

Several studies and projects have been carried out to provide a reliable overview of biological diversity. An increasing amount of information is being collected on areas in respect of their biological diversity (habitats) including information on wetlands (marshes, bogs and transitional bogs), coastal lands and semi-natural areas (meadows).

Numerous of vegetation types characteristic for Estonia, among them several rare communities, have developed under intensive human activities. These semi-natural communities include all inland grasslands, wooded meadows, alvar grasslands, most of coastal meadows and floodplain grasslands. These traditional cultural landscapes have been considered to be highly valuable, the same time representing the history of evolution of human society and sustainable land use over thousands of years.

The area of species-rich semi-natural grasslands has considerably decreased during the last five decades in Estonia (from 1952 to 1994 the total area of natural grasslands has been decreased from 1,513,200 ha to 282,600 ha), but also everywhere in Europe.

Due to changes in agricultural activities, mainly for economic reasons (more intensive crop- and livestock farming) and at the same time the increased need for crop cultivation areas, there has been a noticeable decrease of floodplain grasslands. A decline in traditional management (such as grazing by sheep and cattle or the combined pasturing of both animals and mowing) of the remaining semi-natural areas has resulted in grasslands overgrown with shrubs, trees and weeds and their species richness and diversity reduced.

According to the Estonian Wetland Inventory (1997), approximately 30% of the Estonian territory is covered by wetlands. In the course of the cartographic inventory, the following wetland areas were registered: marshes - 515,000 ha; transitional bogs - 114,000 ha, bogs - 278,000 ha. Only 310,000 ha of these were in the natural condition. However more than 700,000 ha of wetlands have been drained during the last decades.

At the end of 19-th century wooded meadows covered 850 000 ha of inland territory in Estonia. According to the inventory of 1995-1996 their species-rich variants were preserved only on 500 ha in western Estonia and in other regions about 200 ha of species-poor and flooded wooded meadows were found. At the same time the Estonian wooded meadows that have remained belong to some of most species-rich communities in northern Europe.

2.2.3. Water

The supply of quality drinking water and the condition of swimming waters are important for public health reasons. Although larger settlements have central water supply and sewerage systems, problems with quality drinking water occur in several areas.

In previous decades large-scale intensive farms with their environmentally non-conforming mineral fertiliser, pesticide and liquid fuel storage facilities and insufficient facilities for storing manure were important sources of water pollution in rural areas. Excessive use of mineral fertilisers and manure caused the leaching of plant nutrients from soils, while the direct discharge of untreated wastewater into water bodies reduces the quality of surface water.

Drinking Water

The supply of quality drinking water is mainly related to three topical problems:

- ◆ in several places the water quality fails to meet drinking water standards because of natural reasons;
- ◆ the existence of ground water pollution with oil products or nitrates (mainly residual pollution);
- ◆ the high depreciation of drinking water supply systems and lack of preliminary treatment in several areas.

According to the surveillance data of the Health Protection Service, 173 or (10%) out of the total of 1732 wells/ water bodies of the central water supply systems failed to meet health protection requirements in 1996. The technical condition of these systems is unsatisfactory as shown by the large water losses typically 30-35% of water quantity and in some parts of Northeast Estonia even up to 60%.

The number of single registered water supply sources in 1996 was 2401 (mainly in rural areas). Of these, 31.4% failed to meet health protection requirements, including 53.1% of shaft wells, 21.4% of small pump wells and 37.9% of other water supply sources.

The poor quality of drinking water resources in some rural areas, especially the upper layers of ground water (shaft wells), is largely caused by pollution from earlier periods, but also by incorrect manure storage and its disposal in fields.

Surface Water Bodies

With a view to protecting the Baltic Sea, proper treatment of all wastewater from human activities prior to its discharge into watercourses or standing water bodies or into the grounds is very important. High concentrations of nitrogen, phosphorus and organic matter in the previous decades have caused the eutrophication of several water bodies important for aquatic life, and a deterioration of the water of the Baltic Sea. Although the water quality in Estonian rivers has continuously improved, research results from 1995, indicate that 10% of the anthropogenic pollution load that reached the sea environment originated from agriculture³.

While the majority (about 80%) of wastewater in larger cities is properly treated in treatment plants, the treatment of wastewater from the processing industry as well as from households

³ *Eesti looduse mitmekesisus ja selle kaitse (Diversity of Estonian Nature and Its Protection)*. Eesti Teaduste Akadeemia Looduskaitse komisjon (Nature Protection Committee of the Estonian Academy of Sciences), Tartu-Tallinn 1998 (ISBN 9985-50-193-4).

in rural areas remains largely unsolved. The pollution load of surface water bodies has, however, substantially decreased since the beginning of the 1990s as several industrial and agricultural polluters have stopped operations.

2.2.4. Air

Air surveillance is conducted at 29 monitoring stations and posts. A comparison of data over the years indicates reduced air pollution in recent years.

Air pollution problems on the local scale are mainly related to Northeast Estonia arising from the power engineering and chemical industries and to the south and west Estonian islands, where air pollution reaches from Central and Western Europe.

Due to structural changes in production, air pollution from point sources decreased by more than 50% in 1996 compared to the years 1990-91. It should be pointed out that rural air pollution volumes largely depend on the wind direction and transfers of pollutants from outside rural areas in Estonia and abroad.

According to 1996 monitoring results, acidic rains are heaviest in South Estonia (pH<4.5) and alkaline rains in Northeast Estonia (pH>8.5), which directly correlates with the level of ambient air pollution in these regions.

The pollution load level does not exceed the critical level and guarantees the maintenance of ecosystems in 95% of the Estonian territory.

2.2.5. Soil

Soil Erosion and Chemistry

Eroded soils and soils in risk of erosion account for 1.2% of Estonia's land territory and 3.1% of its total arable land resource⁴. Wind and water erosion pose serious threats to field soils in the south Estonian hilly lands and in coastal areas. In addition, land cultivation machines and technologies, which are no longer suitable for the soil type mainly, cause technogenic erosion. Up to 80% of the land cultivation machines are estimated to be older than 10 years as is also the case for towed equipment, which is often unsuitable for the soil pattern of the cultivated land, causing soil compression and creating preconditions for technogenic erosion.

According to detailed research carried out under the Estonian-Swedish co-operation project (1994-1997) the leaching of nutrients from field soils is estimated to fall within the range: nitrogen 10-32 kg N/ha and phosphorus 0.22-0.55 kg P/ha depending on the year and level of rainfall. The average characteristics for leaching of nitrogen and phosphorus were 11 kg N/ha and 0.37 kg P/ha respectively, which is on the same level with natural leaching from non-agricultural lands. This is attributable to the low use of fertilisers. At the same time, a high fertiliser deficit was identified in the preparation of fertiliser balances in some test fields.

Assessment of plant protection product residues in field soils and watercourses is not included in the state environmental monitoring results reflecting the limited use made of

⁴ . *Eesti maakate. CORINE Land Cover projekti täitmine Eestis (Estonian Land Cover. Fulfilment of CORINE Land Cover Project in Estonia). EV Keskkonnaministeeriumi Info- ja Tehnokeskus (Information and Technical Centre, Ministry of Environment of Estonia), Tallinn 1999 (ISBN 9985-881-10-9).*

plant protection products. Official monitoring of soils is mainly targeted at assessing and monitoring the levels of heavy metals (Cd, Pb, and Sr).

2.2.6. Environmental impact of Land Amelioration

The environmental impact of land amelioration systems is particularly apparent in changes in the water quality of receiving waters, where fertilising substances accelerate the overgrowth of water bodies. A water body begins to eutrophy when the NO₃-N level is above 0.3 mg/l (critical level 2,5 mg N/l) and the total phosphorus level is above 0.02...0.5 mg/l (critical level 0.1 mg P/l). A major environment polluter arises from the erosion of mineral soil particles to watercourses, where they are deposited in slow currents resulting in clogged waterways. This is harmful for aquatic life, especially fish, as it has a direct deterrent effect on life forms (deterioration of feeding conditions and destruction of spawning places) and facilitates the spread of disease agents⁵. Land amelioration sites are often prone to the formation of soil erosion.

2.2.7. Waste

Total waste output (14.3 million tonnes, including 1934 tonnes of slaughterhouse waste) has been relatively stable during recent years. The dominant waste producers are oil-shale extraction, oil-shale chemistry and power engineering industry. Household waste constitutes approximately 3.5% of total waste.

In 1997, the Estonian register of waste disposal sites contained 503 sites, including 350 sites for mixed household waste, 106 burial sites for dead animals and 80 sites for industrial waste. Only 61 of the 106 burial sites for dead animals currently operate, the rest are either closed down or their activities are terminated.

Besides the above official registered sites for garbage and waste disposal, many spontaneously created disposal sites can be found in rural areas, which ignore all environment protection requirements and sadly reflect the lack of focus of local governments on waste disposal issues.

Agricultural processing enterprises have contributed their share in waste production, as the problems concerning utilisation of animal and organic waste has not been resolved on a national scale. The main obstacle is the large amount of investment required.

2.3. ENVIRONMENTAL POLICY

2.3.1. Estonian Environmental Strategy

Nature and the environmental protection are integral parts of the Estonian culture. Regaining independence in 1991 ended the fifty-year period, which, in the unbalanced economic conditions of a closed society, there had been a failure to invest in machines and technology. A high level of waste, irrational use and pollution of natural resources characterized this period. Conflicting environmental practices developed in several parts of Estonia, especially in areas sensitive in the context of water protection and mining activities. Soviet Army

⁵ Maaparanduslikult efektiivse ja loodustsäästva maaparandustehnoloogia ja töökorralduslike aluste väljatöötamine. Lepingulise töö Nr. 9 aruanne (*Preparation of economically effective and sustainable land amelioration technology and bases for organisation of work. Report for contract work No 9*). EPMÜ Veemajanduse Instituut (*Water Management Institute of Estonian Agricultural University*), Tartu 1998.

activities had a severe impact on the environment and the correction of the damage will take many years. At the same time some nature areas remained untouched as a result of restricted access arising from military reasons. These areas included some islands, the Soomaa protection area and some other border-zone areas.

In March 1997, the Riigikogu approved the **Estonian Environmental Strategy**. This defines the broad development directions for nature use and environmental protection as well as the priority objectives and the main tasks up to the years 2000 and 2010. The main strategic goals outlined in this document are following:

- Promotion of Environmental Awareness
- Clean Technologies
- Reduction of Negative Environmental Effects of the Energy Sector
- Improvement of Air Quality
- Reduction of Waste Generation and Improvement of Waste Management
- Elimination of Past Pollution
- Better Use and Protection of Ground Water Resources
- Protection of Surface Water Bodies and Coastal Seas
- Maintenance of Landscapes and Biodiversity
- Improvement of the Quality of Built Environment

2.3.2. Environmental impact assessment of SAPARD projects

An appraisal of the likely environmental impacts of the projects will be undertaken, as will be prescribed by the County Environment Service (competent environmental authority), in all cases where any significant negative impact might reasonably be anticipated. The Service will decide whether an Environmental Impact Assessment (EIA) must be carried out or not. This screening procedure as described in Environmental Memorandum is based on threshold criteria, approved by Ministry of Environment, indicating the necessity of an EIA in accordance with the annexes I and II of the Commission Directive 97/11 (amending directive 85/337).

An acceptance of the project by the County Environment Service must be provided for those projects where any significant negative impact on the environment could reasonably be anticipated and in particular for those covered by measures 1,2,4. Information should be given on the potential negative environmental effects of the project (e.g. land use, chemical use, emissions, atmospheric, water and soil pollutants) and the method of their attenuation particularly in the environmentally sensitive areas.

2.3.3. Protected Areas

Estonia has a rich asset base of wildlife habitats, plant communities and landscape designations. There are 4 national parks and more than 300 other protected areas, which form about 12% of the entire territory; 7.8% of these comply with the IUCN classification. Special protection areas or nature reserves cover 1.7% of protected areas. There are also two special programme areas: a biosphere protection area in the west Estonian islands, and the Pandivere water protection area in central part of Estonia.

The Act on Protected Natural Objects set out the principles for the organization of protection in protected areas. In accordance with the Act, the protected areas are divided into four categories: national parks, nature reserves, landscape reserves and programme areas. The protection of these areas is managed on the basis of Protection Rules approved by the

national government (up to now more than 100 have been approved), through a system of legal restrictions and obligations, which are related to the different zones within protected areas.

The first Red Data Book was compiled in 1976-1979, the second in 1985-1988. Both releases corresponded to the international system used in IUCN Red Data Books. In 1993 was published also the Red Data Book of the Baltic Region, and the third release, published in 1998, is compiled in accordance with the categories of the Red Data Book of the Baltic Region was also published. The current release includes 1318 endangered species (*Fungi, Lichens, Algae, Bryophyta, Vascular plants, Invertebrata, Vertebrata*).

The legal basis for the maintenance of biodiversity outside protected areas is provided in the Act of Planning and Construction and the Act of Forestry.

The objective of the Coast and Shore Protection Act (RT I 1995, 31, 382) is to establish the extent of coasts and shores of water bodies, their protection and the organisation of the use of their ecosystems proceeding from the principles of sustainable development and preservation of natural diversity.

2.3.4. National Biodiversity Strategy and Action Plan

The preparation of the Estonian National Biodiversity Strategy and Action Plan was carried out from the second half of 1998 until the second half of 1999. The work was conducted in ten sectors headed by responsible experts. The sectors covered the following areas: genetic resources and biotechnology; education; landscapes; nature conservation; agriculture; forestry; fishery; transport; tourism; industry. More than hundred people participated in the work.

The strategy includes 29 objectives, for the realization of which 408 actions are planned up to the year 2005.

2.3.5. Natura 2000

Transposition of the requirements of Council Directive 92/43/EEC on the conservation of natural habitats and wild fauna and flora (Habitats Directive) and Council Directive 79/409/EEC on the conservation of wild birds (Birds Directive) into Estonian legislation will be carried out in 2001. A new Act on Nature Conservation considering all requirements of the EU directives in the field of nature protection is being drafted and will be adopted in 2001. It means that both directives will be transposed in 2001.

During the technical consultations with the European Commission it was agreed that Estonia would **submit** by accession:

- a national list of sites eligible for identification as Sites of Community Importance (under the Habitats Directive);
- a national list of Special Areas of Conservation (under the Birds Directive), and;
- NATURA 2000 database containing all relevant scientific information concerning the sites mentioned above according to Article 4 (1) of the Habitats Directive.

The Government on July 25, 2000 has approved the National Programme for the implementation of NATURA 2000 network. Preparation of the implementation of NATURA 2000 network has already begun via several prior and ongoing **projects** and inventories listed below:

- 212 sites of EU importance were selected and a database was compiled during the Estonian CORINE Biotopes project;
- the list of Important Bird Areas in Estonia, which includes 43 areas, has been prepared;
- the wetland database, which includes areas outside the currently protected territories, has been compiled;
- the inventory of old forests, coastal and floodplain meadows have been carried out. The inventories of other grasslands and forests are underway;
- the Estonian-Danish co-operation project on National Inventories of Internationally Important Species and Habitats in Relation to International Conventions and Directives in Estonia will be completed in 2000. Within the framework of this project all the sites hosting relevant species of Birds and Habitats directives will be mapped and distribution maps of the relevant habitats types will be prepared. An Interpretation Manual of EU habitats types (Annex I of the Habitats Directive) for Estonia will also be prepared in the course of the project;
- the Estonian-Danish co-operation project on Regional Implementation of the Habitats Directive (92/43/EEC) and Birds Directive (79/409) in Lääne and Rapla Counties was started in 2000. The aim of the project is to prepare a basis for implementation of the Birds and Habitats Directives in two counties, as well as create a basis for management of the proposed sites selected under the Birds and Habitats Directives in the region on a long-term basis.

All the projects and inventories mentioned above form a good basis for the designation of Special Protection Areas under the Birds Directive and for the preparation of the list of sites eligible for identification as Sites of Community Importance under the Habitats Directive. The data collected during these projects and inventories will be used for the compilation of NATURA 2000 database.

Total territory of protected areas in Estonia is 533,700 ha (12% of the total territory) and Natura areas are considered to be mostly in the existing protected areas. The Act of Protected Nature Objects determines the procedures of taking nature objects under protection and the nature of measures of protection.

2.3.6. Nitrates Directive

Preparing for implementation of the EU Nitrate Directive (91/676/EEC) is a high priority in Estonia and has been the subject of co-operation between the Ministries of Agriculture and Environment since 1999. Support for this process was also provided for the Ministry of Environment in early 2000 from the PHARE project entitled "*Support to the EU accession process in Estonia*" (ES No. 9620.01.01).

General requirements for water protection (including agricultural practice) are already defined in the Estonian Water Act and amendments to this Act will harmonise it fully with the Nitrate Directive. The Nitrate Directive will be fully transposed into Estonian legislation in 2001.

In accordance with Article 3(2) of the Nitrate Directive, it is proposed to designate two Nitrate Vulnerable Zones (NVZs) in the Pandivere Upland and Adavere karst regions. These zones will be established during 2000-2001 and will be treated as 'pilot areas' for monitoring and evaluation during the implementation of the first 4 year Action Programme. A draft Action Programme has been prepared in accordance with the requirements of the Nitrate

Directive and will impose mandatory restrictions upon the activities of farmers in the NVZs. Implementation of the Action Programme will require farmers to receive some financial assistance, notably for the renovation and construction of manure stores and the improvement of fertiliser and manure spreading equipment.

In accordance with Article 4 of the Nitrate Directive, a draft *Code of Good Agricultural Practice* has also been prepared for implementation by farmers on a voluntary basis outside of the designated NVZs. This *Code* is very comprehensive and addresses a range of environmental issues other than just nitrate pollution (see below).

2.3.7. Code of Good Agricultural Practice

A comprehensive *Code of Good Agricultural Practice* has been prepared and will be submitted for approval to producer unions, ministries and Government while draft of amendments to the Water Act (see above) will be approved by Parliament.

The *Code* contains chapters on planning in agriculture, buildings, manure handling, good crop husbandry, crop nutrition, managing fertilisers and manures, crop protection, waste water management, landscapes and biodiversity. It is an advisory document that explains to farmers the legislative restrictions on their activities and the good practice for farming in a sustainable and environmentally sensitive way.

Adoption of the *Code* is voluntary for farmers, except for those parts of the Code, which are included as part of the Action Programme implemented in the designated Nitrate Vulnerable Zones.

2.3.8. Agri-environment Programme

Estonia is planning the implementation of a national agri-environment programme (AEP) in accordance with the adoption of Regulation 1257/99, the Rural Development Regulation. Agri-environment measures are defined by Regulation 2078/92 and according to Article 43(2) of Regulation 1257/99 are the only obligatory element of the Rural Development Regulation.

The national AEP for Estonia will use a complimentary mixture of general scheme plus supplementary schemes (including an abandoned land scheme) to encourage the adoption of a variety of agricultural production methods designed to protect the environment and maintain the countryside by:

- using agricultural land in ways which are compatible with the protection and improvement of the rural environment and natural resources, including air, water, soil and genetic diversity;
- the conservation of high nature-value farmed environments which are under threat;
- the upkeep of traditional landscapes and historical features on agricultural land;
- the use of environmental planning (a ‘whole farm agri-environmental plan’) by those farmers participating in the programme.

The details of AEP are described in Chapter 6 (Strategy).

Estonia started developing proposals for AEP in 1997 with support from the Dutch-funded MATRA Programme (International Nature Management Programme) for a project entitled “*Agri-environmental Programmes in Central and Eastern European Countries*”.

Comprehensive proposals for a national AEP have completed by an international team (*Agriconsulting Temporary Association - ATA*) in December 1999 under the PHARE CBC project "*Development of an Agri-Environmental Scheme in Estonia*" (OSS No. 9507.03.01.001). An action plan for implementation of the national AEP has been prepared in September 2000 with assistance of the PHARE project entitled "*Support to the EU accession process in Estonia*" (ES No. 9620.01.01).

Estonian AEP commitments involve more than the application of good agricultural practice (GAP). As GAP is apparently still under review – some proposed AEP measures should after the approval of GAP be looked through in this light.

Financial envelope – unfortunately it is possible to include only proposals, as the actual results (allocations) will be clarified within budget procedures. Another problem lies in the fact, that the budget covers one year, while the required contracts with farmers cover five years.

Land reform

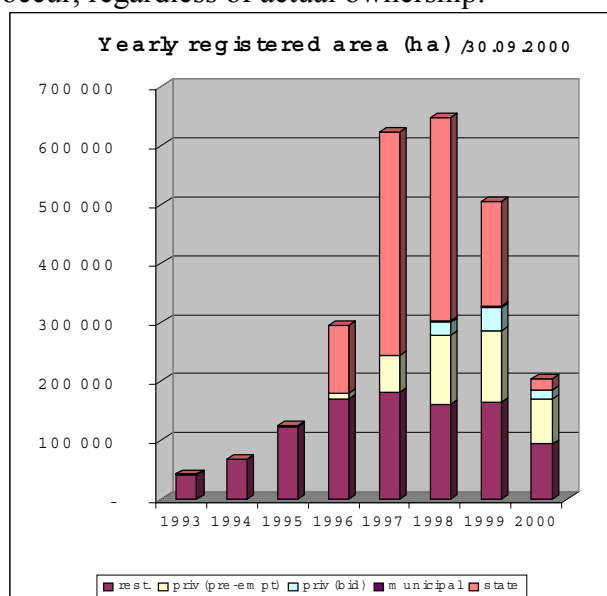
Land reform began in June 1991 with the entry into force of the Principles of Ownership Reform Act. The Land Reform Act followed in October 1991. The actual process started in February 1993 with approval of the procedure for the return of unlawfully expropriated land.

The reform strategy prescribes the determination of land retained in state ownership as the first stage. This was followed by the return of land to lawful (former) owners, taking into account the pre-emptive right of the present land users, and the privatisation of the remaining land by selling. It was initially considered possible to complete the reform in five years, but several processes have unfortunately lagged behind the planned schedule. The determination and registration of land retained in state ownership has consumed more time and resources than planned. The activity of persons applying for return of land has substantially decreased after the government decided not to cover returning expenses to distant relatives of legal owners. The slow pace of privatisation of agricultural land has certainly been caused by the extremely low profitability of the agricultural sector.

The Land Reform results, as seen from the graph show two features: on the one hand it is still necessary to register whole country coverage. On the other - the most important aspect is resolving all claims for land, wherever these occur, regardless of actual ownership.

Figure 2 Registrations in the Land Cadastre, 1993 – 2000

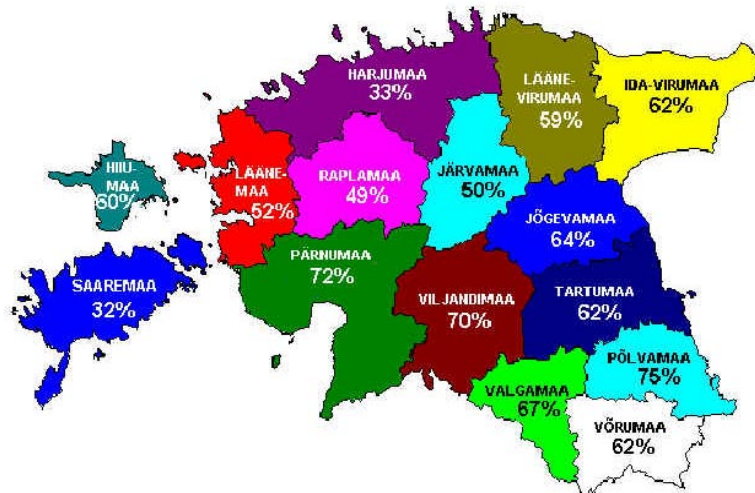
The graph also shows that the peak of land registration passed in 1998. Later the state land, mostly forestland, registration decreases sharply. However, forest registration passed its peak in 1997. The results for 1998 are deeply affected by the increase in the privatization process with levels of restitution remaining stable. Bearing in mind the need for coverage registration, as current cadastre covers 2,51 million ha (total land area being 4,32 million), and yearly registration in 1998 peaked at up to 650,000 ha, it is estimated



that the remaining 1,85 million ha would take another 3 years (2003). However, this estimate is too optimistic as there are considerable regional differences (see Figure 3), which cannot allow the yearly level to be more than 400,000 ha, in turn moving the target farther by another 2 years (2005). (It should be noted that data for 2000 covers only the result of 9 months).

The regional differences of reform process are seen from figure 3.

Figure 3 Land registration by administrative division, 30.09.2000



The most extensive registration has taken place in the southeast of the country, the lowest levels occurring in Harju and Saare counties. (*Harju County has many smallholdings, especially summerhouses and single-family houses. It should be noted that the cadastre covers both urban and rural areas but current statistics does not distinguish between them*). In Saaremaa, there is a high level of parcellization of the county. The last land re-allotment procedures were

undertaken in the nineteenth century.

Besides land restitution, the reform structure allows land privatisation through a pre-emptive right for those, who own buildings on said land, to service the buildings, up to 2 hectares for a private individual, up to 50 ha for a agricultural producer (entity). Through simplification of the reform process it became possible for agricultural producers to privatize up to 200 ha of agricultural land and up to 10 ha of forestland. This procedure is valid for parcels, where there are no claims from former owners for restitution or for pre-emptive privatization, on equal conditions with pre-emptive privatization. (The possibility exists to use privatization bonds, to pay for land within up to 50 years).

The ability of farmers to buy land is anyhow difficult due to the lack of credit resources.

Mortgage banking is developing but is mostly limited to urban areas, as the market price for agricultural land is rather low (being about 200 EUR per hectare on average, in 1998-99).

Therefore, the scheme of long-term leasehold agreements with optional further privatisation will be improved to provide active farmers certainty on long-term land use, without losing financial resources for immediate full-scale purchase of land.

3. SOCIO-ECONOMIC PROFILE OF RURAL AREAS

3.1. RURAL POPULATION AND EMPLOYMENT

The number, share and density of the rural population have not changed substantially in the recent years. Since 1990 the population in rural areas has been fairly constant whereas the urban population has declined significantly and accounts for the overall decline in Estonian population. Rural municipality population statistics provide a general overview of rural population in the 1995 to 1999 period (Table 3).

Table 2. Employment in Rural Estonia, 1995 – 1999

Indicator	1995	1996	1997	1998	1999
Total number of people in rural areas	440784	436459	438106	444616	437566
People of working age *	237959	236014	245802	249176	246501
Employed people	172565	167910	166114	167352	162268
People working outside the parish	40692	45856	52176	55372	57587
People of working age studying full time	21555	21128	23351	26145	27688
Employed people under working age	145	93	55	68	74
Employed people over the working age	13098	12516	10598	11660	12283
People of working age on maternity leave	8168	9551	9636	9789	9409
People of working age, retired and disabled	8957	10327	11201	12426	12457
Estimated shortage of job opportunities	39957	39707	46153	45192	47036
Officially registered unemployed	7379	6504	7083	6957	7395

Notes: * The definition of the people of working age population differs from that in Table 2. In this instance working age is from age 16 years to 61 for males and 56 for females. This definition was used in Soviet times.

Source: Estonian Statistical Office

The total number of people in rural areas was 437,566 as of 01.01. 1999. The working age population constituted 246,501 as of 01.01.1999, which is 1,1% less than in the beginning of 1998. The relative share of employed persons in the total working age population has reduced from 73% to 67% from 1995 to 1998. The rural birth rate has been negative in recent years, the slight growth of the rural population in 1996-97 (by 819 persons in total) resulted from reduced mortality and positive immigration.

Table 3. Employment gender analyse

Indicator	1995			1999		
	males	females	total	males	females	total
Total number of people in rural area	212563	228221	440784	212050	225516	437566
People of working age*	128973	108986	237959	133703	112798	246501
Employed people	93946	78619	172565	89135	73133	162268
People of working age studying full time	10480	11075	21555	13562	14126	27688
People of working age on maternity leave	44	8124	8168	75	9334	9409
People of working age, retired and disabled	5598	3359	8957	7790	4667	12457

Notes: * The definition of the people of working age population differs from that in Table 2. In this instance working age is from age 16 years to 61 for males and 56 for females. This definition was used in Soviet times.

Source: Estonian Statistical Office

In terms of gender comparisons, there has been little change in the ratio of males to females amongst those who are employed. In 1995, approximately 55% of employed people were male compared to 45% of females.

The age structure of rural population is slightly better than that of urban population: the share of children between 0-15 years of age as of 01.01.98 was 23.4% in rural areas and 20.5% in urban areas; the respective shares of persons of retirement age were 20.5% and 21.3%.

According to Labour Force Survey, the number of non-active persons in rural areas was 139,300 in 1998, accounting for 40.1% of the total rural population between ages of 15 and 74.

The main reason (44.5%) for non-activity is attributable to retirement age, as the non-active population is calculated from the population between ages of 15 and 74. The most significant among other reasons (illness, disability, maternity leave, studies) is the share of discouraged persons who no longer believe in finding a job – their total number is 10,600, i.e. 7.6% of the non-active population.

3.2. THE RURAL EMPLOYMENT STRUCTURE

During the Soviet times the division of labour between different member states of USSR determined the employment structure. Estonia's function was to promote agricultural production, which has led to a one-sided economy with the forced growth of the agricultural sector out of proportion to the rest of the economy.

Therefore the beginning of the 1990s with the liberalisation of markets brought substantial changes into the sectoral structure of rural employment.

Figure 4 Rural employees by sectors (1989-1999) '000

Notes: * primary sector - agriculture, hunting and fishing; secondary processing industry, power engineering, water supply and construction; tertiary service sector

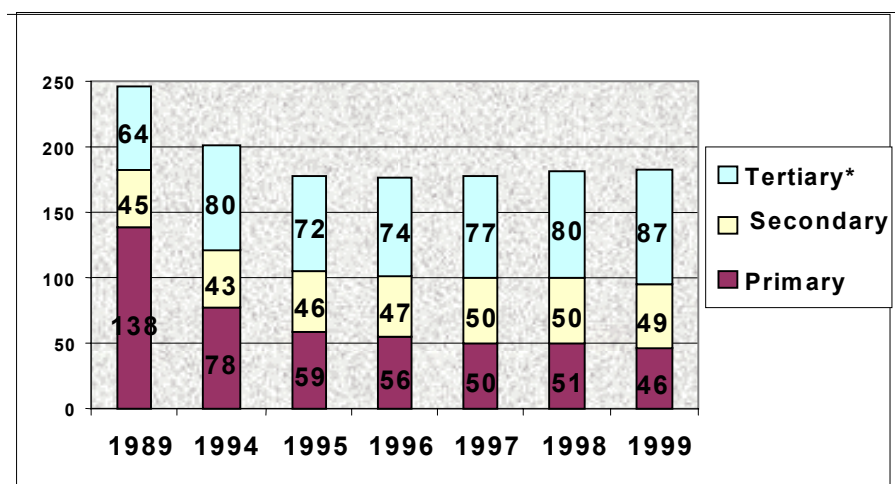


Figure 4 illustrates the changes in the employment structure of the rural population in absolute numbers.

As can be seen from the Figure 5, primary sector employment has decreased by 92,000 jobs, while the increase in the secondary and tertiary sectors has provided only 27,000 jobs.

The decrease in the share of the primary sector that started at the beginning of the 1990's continued up to 1999. The percentage of people employed in the primary sector has halved in this period. The share of the tertiary sector started to increase at the beginning of the 1990's and reached 44.3% in 1998. The change in the percentage employed in the secondary sector in the 1991 - 1999 period has not been as great.

55,372 or 33.5% were employed outside of their home rural municipality. The number of persons employed outside of their home municipality increased by 6.1% in 1997 alone. As

urban employers offer better working and salary conditions for rural people, the number of rural jobs is decreasing.

Approximately 83% of employed rural municipality inhabitants had salaried jobs, 6.4% worked producing products for home consumption, 6.2% worked in their own farm, 3.1% in their own company and 1.2% were self-employed or freelancers.

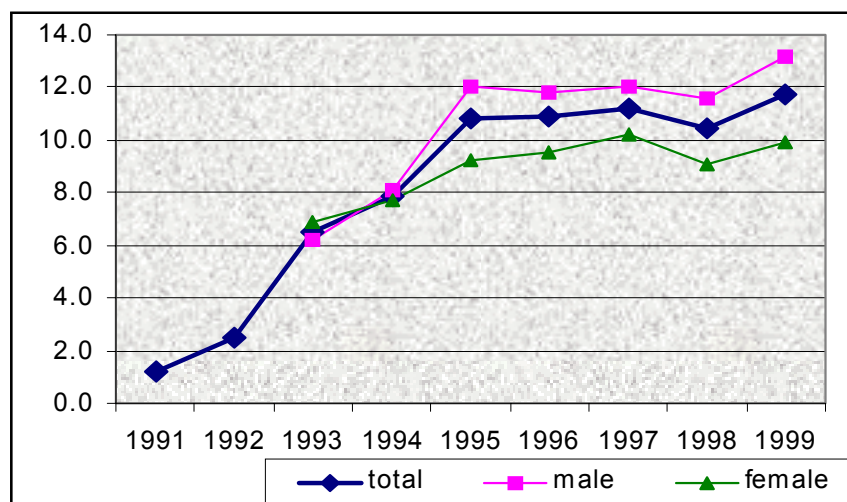
The contingent of working-age persons in an unidentified employment position has increased alarmingly. The rural municipality household statisticians have only negative information on every sixth working-age person: not employed, not a full-time student, not on maternity leave and not a recipient of disability pension.

3.3. UNEMPLOYMENT

During the Soviet times there was no unemployment as such due to the political ideology, which promoted equal rights to work for every citizen. Many jobs were just generated to reflect full employment in the labour market. The system lacked efficiency and there were many unnecessary jobs. With the beginning of the transition from a planned economy to a market economy, the unemployment rate started to increase rapidly.

According to the ILO definition, the number of unemployed people in 1999 was 24 100 in Estonian rural areas. The unemployment rate has risen during the last nine years from 1.2% to 11.7% in rural areas (figure 6).

Figure 5. Unemployment rate (%) by gender in rural areas 1991-1999

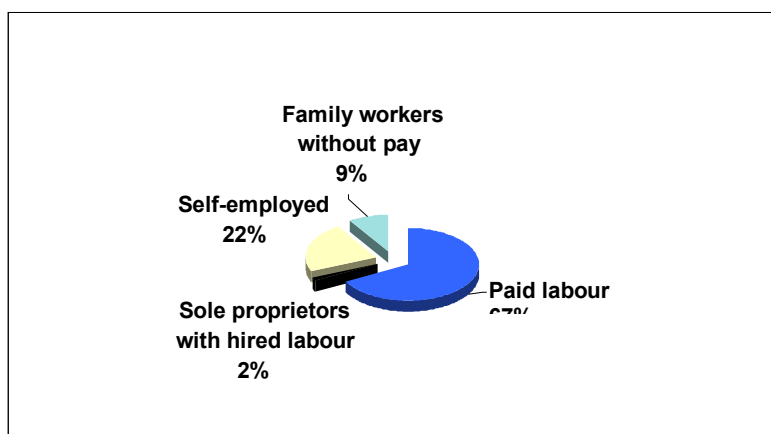


The unemployment rate is higher for men (13.1%) than for women (9.9%), and the gap has been stable during the last 5 years. The duration of the unemployment period in rural areas has increased, which complicates the situation on the labour market, as it is much more difficult to bring people back to the

labour market in case of long-term unemployment.

The creation of registered jobs continuously decreased during 1996–1999. The unemployment to vacancy ratio, which characterises structural unemployment increased from 19.9 to 30.3 during this period. The ratio was the highest for skilled labour in the agriculture and fisheries sector, where it grew from 42.4 to 91.0. In other words, 91 registered searchers for a job existed for each vacant job in these sectors in the beginning of 1999. The actual ratio is probably even higher, as by far not everyone registers at an employment service.

As the low employment rate has a negative effect on the income basis of the local government, the quality of public sector services is also poor. The high structural unemployment and the poor quality of services cause younger people to leave the rural areas, rendering the prospects of the local social environment even more desolate. It is increasingly difficult to attract purely private initiative-based investments to rural areas.



The decrease in the employment rate together with the sharp decrease in agricultural employment, the longer duration of unemployment periods, the increase in the number of

persons in unidentified employment position and increase in the share of discouraged people combine to create an unattractive social environment for the rural population.

The creation of new jobs is thus crucial, as it increases the local income basis, reduces the need for social benefits and has an indirect positive effect on the overall development of Estonia. Support for investments in alternative activities and in the diversification of rural activities, financed under the third SAPARD measure, is aimed at solving these problems.

3.4. AGRICULTURAL EMPLOYMENT

In 1989-1998 the employment in agriculture has decreased 3 times. In 1998, 47,000 people were employed in the agricultural sector, the same figure being 138,900 in 1989. While agricultural employment was 56.4% of total rural employment in 1989, the respective figure for 1998 was 26 %.

Table 4. Annual average agricultural employment, 1989-1998

	Agricultural employment	Rural employment	Share of agricultural employment in rural employment (%)
1989	138900	246300	56
1990	136800	243000	56
1991	128900	237300	54
1992	114600	226300	50
1993	91900	207500	44
1994	75900	201100	38
1995	55500	177500	31
1996	52100	176200	30
1997	47000	176200	27
1998	47000	180600	26

Figure 6 illustrates the agriculture sector by form of employment in 1998. This shows that the majority of those in employment in the sector are employees.

Figure 6. Persons engaged in the agricultural sector by status of employment, 1998

When characterising the agricultural sector by the main professions, it can be said that the relative share of positions requiring a high qualification has decreased (Table 5).

Table 5. Trend in Employment in agriculture by profession, 1989 - 1997

Main profession	1989	1997	Trend
	%	%	
Senior officials and managers	8,5	5,6	↓
Top specialists	5,9	1,2	↓

Medium-level specialists	8,1	8,1	
Officials	2,6	1,3	↓
Agricultural skilled labourers	23,5	45,4	↑
Other skilled labourers	17,7	6,3	↓
Operators and compilers	26,3	17,8	↓
Unskilled labourers	5,6	12,9	↑

With the exception of skilled and unskilled agricultural labour there has been a decrease in employment. In other words the number of “white collar” workers has decreased and “blue collar workers” increased. The category “other skilled labour” showed the greatest fall in percentage point terms.

3.4.1. Employment in Small Business

There are no data on the establishment, development and number of SMEs in rural areas. Neither the Estonian Official Statistics nor the commercial register gives the place of activity of such undertakings.

General conclusions on the situation and development of SMEs and their main problems can be drawn on the basis of research carried out by the European Union PHARE SME programme and the Ministry of Economic Affairs in preparation of the Estonian National Development Programme. The research was titled “Situation in Estonian Small Entrepreneurship (1998)”.

In general, the SME sector has made very rapid development in Estonia and contributed greatly to the economic growth in the 1990s. The number of SMEs increased continuously and reached nearly 28,500 in 1997. In 1996-1997, there were ca 20 SME-s per 1000 inhabitants in Estonia and in 1997 year 324,350 persons were employed, i.e. 55% of salary jobs were in this sector.

Table 6 provides an overview of the SME sector in different fields of economy. It contains data on undertakings registered in the commercial register by 1997 and on the number of employees for each field of activity.

Table 6. Small businesses by activities, 1997






Field of activity	Businesses		Employees	
	Number	%	Number	%
Agriculture, forestry, fishery	1933	6.9	30148	9.4
Processing industry, power engineering, water supply	4391	15.6	84808	26.4
Construction	2225	7.9	34142	10.6
Commerce, accommodation, catering, transport, communication	14075	49.9	122689	38.2
Finance and business services	3995	14.2	33650	10.5
Education, health care and other services	1567	5.6	16076	5.0
Total	27865	100	318676	100

Table 8 shows the distribution of rural working-age population by activity and employment as of 01.01. 1998.

Table 7. Distribution of rural working-age population

Employment Status & Sector	%
Agriculture, hunting, forestry, fishery	23
Outside of rural municipality	22
Students and persons on maternity leave	12
Unemployed	10
Processing industry	10
Commerce, servicing	7
Education, health care	6
Other activities	5
Retired and disable persons	5

The research carried out by the Ministry of Economic Affairs showed the following data for SME-s at 1997 including ca 2000 SME-s, located mostly in rural areas (in particular case, whole country excluding Tallinn city):

- forestry enterprises – 478 in number, employing a total 4,750 persons or an average 10 persons each and
- fishery enterprises – 159 in number, employ a total 2,123 persons or an average 13 persons each.
- In addition to the above, the following types of small agricultural processing enterprises with 1-9 employees exist in counties and small towns are ca 350
 -  meat processing enterprises located on farms – small abattoirs, meat cutting, and small-scale processing for food. The number of such enterprises is 190;
 -  primary milk processing and dairy processing enterprises – total number circa 30, main products – cheese, yoghurt, curds and other products for the local market;
 -  grain mills, which sell their production to small bakeries and farmers – total number circa 50;
 -  small bakeries – total number circa 40, main products – rye and wheat bread and
 -  enterprises producing alcoholic beverages, beer and soft drinks, potato starch and potato chips, rapeseed oil etc. – total number ca 40.

The estimated number of catering and entertainment enterprises is circa 600. They are usually family undertakings with 2-4 persons employed.

There are about 200 enterprises, which offer machine services to individuals and agricultural enterprises. Each of them has approximately 4- 9 employees.

Besides that there are about 200 self-employed persons who offer services with their own machines.

The main instrument for ensuring an accelerated establishment and development of non-agricultural activities is investment support for diversification of rural economic activities for the implementation of their business ideas. The objective is to provide ca 2700 new non-agricultural jobs in rural areas in the next 6 years. This would result in the following distribution of rural activities and employment of rural working-age people by 2006:

Table 8. Distribution of activities and employment

Employment Status	%
Agriculture, hunting, forestry, fishery	25
Servicing and other non-agricultural activities, including processing	23

Employed outside of home municipality	20
Retired and disabled persons, students, persons on maternity leave	17
Education, health care, local government	8
Unemployed	7

Comparing the data presented in Tables 7 and 8 it can be seen that the division of the employed population by fields of activities is expected to change considerably in the period up to 2006. First of all, unemployment is expected to decrease by 3-4%. The non-agricultural enterprises and the establishment of the social economy are continually creating new jobs, and their importance in employment is likely to increase from 17% to 23% in the period. An increase of 2% in the number of jobs in the agriculture, hunting, forestry and fishery sectors is anticipated. Although the number of jobs will decrease in agriculture, it will be offset by the increases in employment in wood processing and fish sectors.

3.5. URBAN-RURAL COMPARISON IN ESTONIA

3.5.1. Population

The urban population of Estonia has mainly decreased on account of emigration during the last ten years, while the rural population (1989 – 446,800; 1999 – 437,566) has remained quite stable.

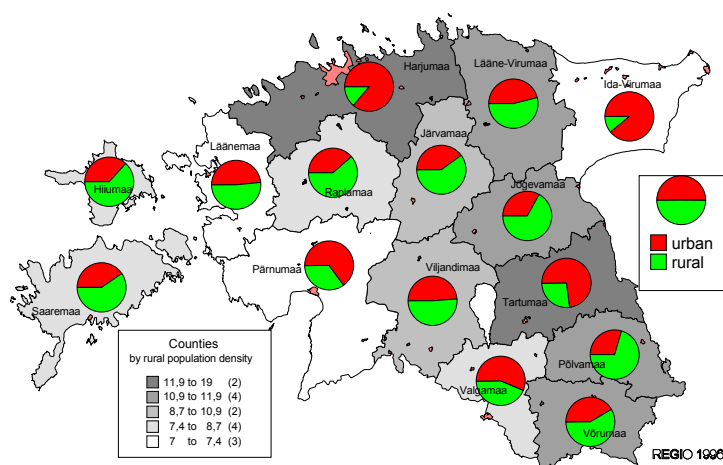


Figure 7 The rural population density and rural population share in total

Dependency Ratio

The dependency ratio shows the ratio of pre-working-age and post-working-age population to working-age population. The rate in rural areas is 54.6, which generally implies a worse demographic situation than that of the urban areas, where the respective rate is 46.7.

3.5.2. Employment

The employment in rural areas has been lower than in towns during 1990-1998, since 1993 the difference grew steadily. In 1998 the decline in the employment of the rural population stopped, and the employment of women in the countryside even increased slightly. Still, despite the small increase during last two years, the rural employment rate is lower than in urban areas.

3.5.3. Income

The disparity in the incomes of urban and rural households has continuously increased during the last two years. While the average net income of the rural population was 76.5% of that of the urban population in the fourth quarter 1997, the respective figure for the fourth of 1998 was 72.7%. In money terms, the increase in the income of the rural population was lower than that of the urban population by twofold, and the increase in the incomes of the rural population was mainly attributable to transfers (selling land and other fixed assets).

The structure of the income of urban and rural people is very different. In the fourth quarter of 1999, wages accounted for less than a half (45.8%) of the income of rural people, and 66.5% of the income of urban people. Transfers accounted for 33.3% and 22.7% and income from individual activities accounted for 15.4% and 4.2% respectively.

3.5.4. Poverty

According to an in-depth analysis of household studies (Poverty relief in Estonia in 1999), the rural-urban disparities in Estonia are the following:

- § there are much less households with more than two children in urban areas, and the average number of children in urban households is significantly smaller;
- § the frequency of households with employed persons is much higher in urban areas;
- § the frequency of household's unemployed members is higher in rural areas;
- § the consumption structure is generally rather different in urban and rural areas;
- § the volume on non-forced consumption is much lower in rural areas, despite the lower rent and communal utility expenses;
- § rent and communal utility expenses are lower (in absolute) in rural areas.

3.5.5. Services

The availability of services has deteriorated in rural areas when compared to urban areas. The former collective farm centres that used to function as the local service centres do not operate anymore and the same services are only available at a longer distance. The relative share of public transport has also decreased - it is not subsidised in the former manner, and movement has become more expensive and complicated for rural inhabitants.

3.5.6. Other

To characterise the rural population more generally, it can be said that the rural inhabitants keep more to traditions and are less innovative than urban inhabitants. This is a major problem for a restructuring economy, where most of the population have to adapt to new circumstances, undergo conversion and complementary training and be open to everything new. This problem is evident in the structural unemployment of rural areas, where an undertaking cannot find enough employees with sufficient skills despite the high unemployment level.

3.6. *THIRD SECTOR*

In Estonia, the first non-governmental (civic-voluntary) societies and associations have established during the *era of awakening* in the 1860s, mostly by Estonian peasants. These organizations emphasized mainly the development of culture, education, and the local agricultural economy, and were active until 1940, when the Soviet occupation closed down

all associations based on free initiative. During the Soviet period the communist party mainly led the people's voluntary activities.

Since the end of the 1980s a rapid development of the third sector has taken place in Estonia. The number of non-profit organizations and foundations registered by state authorities has been rapidly growing. As of September 1996, the number of registered non-profit organisations was 3200. By July 2000, there were some 13000.

The legal framework for the activities of the third sector in Estonia has developed in much the same way as the society itself. During the last seven years four different laws referring to the activities of voluntary organizations have been passed by Parliament.

Thanks to NGOs people in rural areas get new possibilities for jobs and leisure activities. The activities of NGOs in rural areas are a crucial factor for helping local people to become active participants in local development. In general, NGOs need to be more visible, enhance their credibility, and demonstrate that they are sustainable organizations.

In total, approximately two thirds of the financial assets of the Estonian civic sector is of foreign origin. The majority of foreign assistance in Estonia has come from the European Union and through various PHARE projects. Other major contributors to the sector have been the UNDP, the US Embassy, and various organizations operating in the Scandinavian countries and the Open Estonia Foundation. The Estonian State is also supporting the sector, either through the State budget directly, or through various funds.

Civil society embraces the broad range of human activity outside the market and the state, although it ultimately influences and is influenced by both. The population in the rural areas of Estonia is getting older and unemployment rates are getting higher. NGOs in rural areas express the interests and aspirations of people. They have started to provide mutual support as well as services, especially for those who are not able to do it by themselves or whom Government and markets have failed to reach. They are the ones who can create livelihoods and economic opportunities as well as promote human rights and improved justice systems to secure normal life in the countryside.

4. OVERVIEW OF AGRICULTURE AND THE RURAL ECONOMY

4.1. AGRICULTURE IN NATIONAL ECONOMY

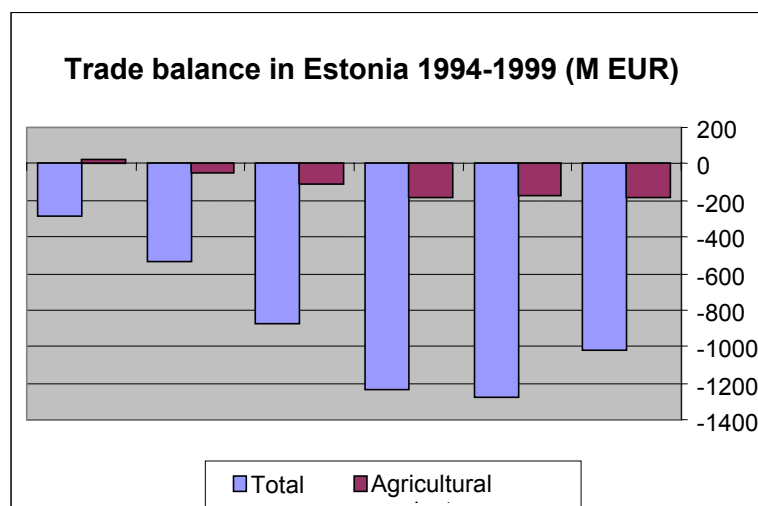
Agriculture has been one of the most important sectors in the Estonian economy. In 1996, agriculture accounted for 5.5% of GDP and employed 8.1% of the labour force. These figures were above the EU average (which were 1.8% and 5.3% respectively in 1995). By 1998, agriculture accounted for 3.8% of GDP and employed 6.9% of the labour force – still above the EU average but below the average for the 10 applicant countries. These figures contrast sharply with the period before independence where the primary sector employed 20% of the labour force. Taken together with forestry and fisheries the contribution of agriculture to GDP in 1998 was 7.3%. Despite these changes in the overall relative share of agriculture in GDP, the food industry remains the largest industry in Estonia. It accounted for 32% of total industrial output in 1997.

Table 9. Relative share of agriculture and forestry in GDP (in '000 Euro)

	1994	%	1995	%	1996	%	1997	%	1998	%
GDP in market prices	1934.1		2601.0		3351.2		4110.1		4679.2	
Gross output in agriculture and hunting	139.3	7.2	142.4	5.5	174.0	5.2	177.6	4.3	175.4	3.8
Gross output in forestry	24.3	1.3	30.3	1.2	39.0	1.2	53.8	1.3	66.8	1.4

Source: Estonian Statistical Office.

Figure 8 Trade Balance 1994-1999



Traditionally agricultural trade constituted an important element of Estonian foreign trade. Despite decreased volumes in recent years, food exports remain the second biggest group of exports after clothing, footwear and headgear. In 1997, agricultural exports accounted for 16.3% of total exports while the import share of agriculture was 16.5%. Since 1995 the foreign trade deficit of agricultural products has continuously declined.

4.2. TRENDS AND CHANGES IN AGRICULTURAL SECTOR

Between 1992 and 1996, gross agricultural output declined by 27.6%. The decrease in livestock production of 36.9% was more significant than in crop production (-14.2%). During the same period the share of crop production of gross agricultural output increased to 48.8%. The loss of markets and the reduction of producer prices had a critical effect on animal

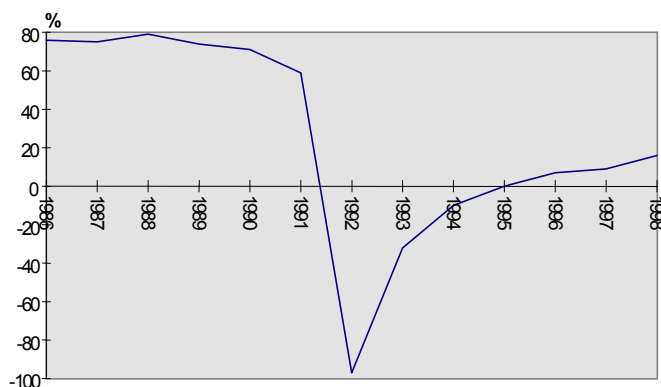
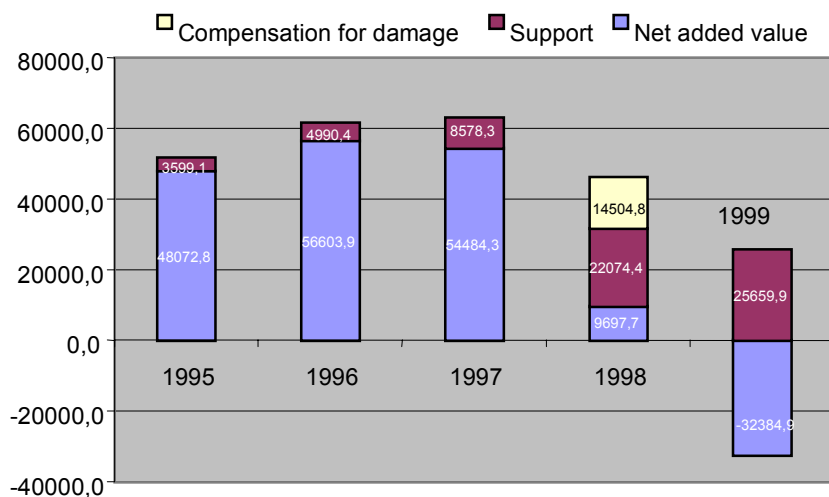
breeding. In addition arable cultivation required less investment than animal production and is easier to rebuild.

Over the period 1989 to 1999, the production of most agricultural products has decreased in Estonia reflecting a decrease in the area under crops and the number of animals. Over the last three years, production volumes have remained relatively stable reflecting improved productivity. In 1999 a decrease in production volumes meant that production has fallen below the domestic market demand level for most agricultural products.

The agricultural sector began to decline drastically in 1998 with the world market price falls for all agricultural products, especially dairy products.

As the Estonian foreign trade policy is very liberal, the price fall on the world market had a direct impact on Estonian agriculture. The disappearance of the Russian market in the second half of 1998 and unfavourable weather conditions had a further negative effect. Support has had a positive effect on the agricultural sector. Direct support and capital support are especially important for increased revenues in basic agricultural activities and the impact should extend into future years. Figure 9 shows that agricultural production in the current conditions would be rather questionable without support.

Figure 9 Net added value in agriculture, 1995 – 1999 (MEUR)



Examining trends in Estonian agriculture, it should be recalled that Soviet agricultural policy was characterised by a very high intervention level. As a consequence, the income of agricultural producers was relatively high. This policy enabled investments to be made in both capital goods and in rural infrastructure. A significant share of the

social infrastructure of rural areas was established on account of this agricultural income.

Figure 10 Producer Subsidy Equivalent 1986-1999

Figure 10 shows the sudden change, which occurred between 1991 and 1992 when all input support was eliminated together with market support for foreign trade.

As a result the relative income level in the agricultural sector decreased sharply. As the sector was not able to react quickly to the policy change, the producer support estimate became negative. A gradual increase in the producer support estimate took place between 1992 and

1996, which can be explained. Government measures (Table 10) with a direct effect on agricultural incomes were significantly increased from 1997.

Table 10 Government support to Agricultural producers – 1996-2000 (MEUR)

	1996	1997	1998	1999	2000
Direct support	-	-	26,52	15,28	12,55
Dairy cow support	-	-	4,47	5,67	7,18
Arable crop support	-	-	7,55	8,90	4,86
Sow support	-	-	-	0,19	-
Young and meat cattle support	-	-	-	0,40	-
Ewe support	-	-	-	0,13	0,13
Organic farming	-	-	-	-	0,25
Certified seed potato	-	-	-	-	0,03
Certified hey seed	-	-	-	-	0,10
Loss compensation	-	-	14,50	-	-
Input support	5,32	7,64	13,23	13,02	7,73
Interest rate	1,02	0,77	0,98	1,79	1,79
Capital grant	-	1,28	3,27	4,68	3,56
Insurance support	-	-	-	0,04	0,12
Liming support	0,26	0,28	0,89	1,10	0,95
Seed propagation support	0,06	-	-	-	-
Fuel excise tax compensation	2,46	3,78	5,69	3,80	-
Amelioration maintenance	1,52	1,53	1,63	1,41	1,31
Credit guarantee	-	-	0,77	0,20	-
General support	6,09	8,08	10,46	10,19	8,21
Research, training, consultation	0,47	0,58	0,59	0,62	0,43
Breeding	0,70	0,78	0,72	0,63	0,77
Control of epidemics	0,13	0,15	0,15	0,15	0,15
Infrastructure support	3,83	5,11	7,49	7,30	3,54
Market research	0,08	0,19	0,17	0,17	0,03
Other state programmes	0,89	1,29	1,34	1,32	1,99
Support for co-operation	-	-	-	-	1,31
Other support (tax exempt.)	3,83	1,98	1,92	2,11	2,11
TOTAL	15,25	17,71	52,13	40,59	30,59

The share of agricultural support was 3.9% of the state budget in 1997 rising to 5.1% in 1998, though this increase was due to additional compensation for weather related damage paid out to farmers at the end of the year. Excluding these compensations, agricultural support amounted to 3.7% of the state budget rising only to 3.9% designated for 1999.

4.2.1. Agricultural Credit

In 1993, the Government established the Agriculture and Rural Life Credit Fund (ARLCF), which has been the main source of credit for agriculture, and rural life. The highest interest rate is 10 %. The loan portfolio of the Fund is 30 million EUR and every year the state has given 16 million EUR to the budget. In 1998, long term loans worth 6 million EUR and short term loans worth 4,4 million were given, of which 71,5 % were given to the agricultural sector, 7,7 % to the industrial sector and 8,5 % to the forestry sector.

The Rural Credit Guarantee Fund was established in 1997. This institution concluded co-operation agreements with 7 banks. The institution is entitled to secure loans by up to 60 % of the total amount of the loan. Today the amount of collateral is 9 million EUR if necessary; this number can be increased to nearly 30 million EUR. A half can be used for securing

agricultural loans; the other half will be for the support to rural entrepreneurs. The amount of the collateral per entrepreneur can be up to 160,000 EUR at present. With the help of the Rural Credit Guarantee Fund, loans worth 2,7 million EUR were given in 1998 and additional loans worth 332,000 EUR have also been approved.

In 1996, interest rate subsidy payments were started in co-operation with ARLCF. Interest support has been paid to the interest calculated on agricultural sector investment loans of the previous year. Estonia's territory has been divided into three zones, taking into account the soil quality grade and the principle of regional approach. In the most underprivileged zone, interests on loans are up to 7% but not more than 9 percentage points are compensated. On the other hand, in the most privileged zone, interests on loans are up to 9% but not more than 7 percentage points are compensated.

4.3. LAND USE

4.3.1. Land resources and soil fertility

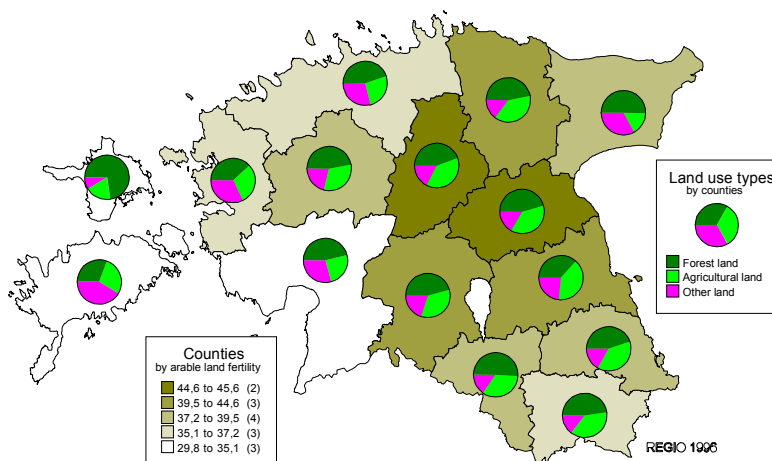


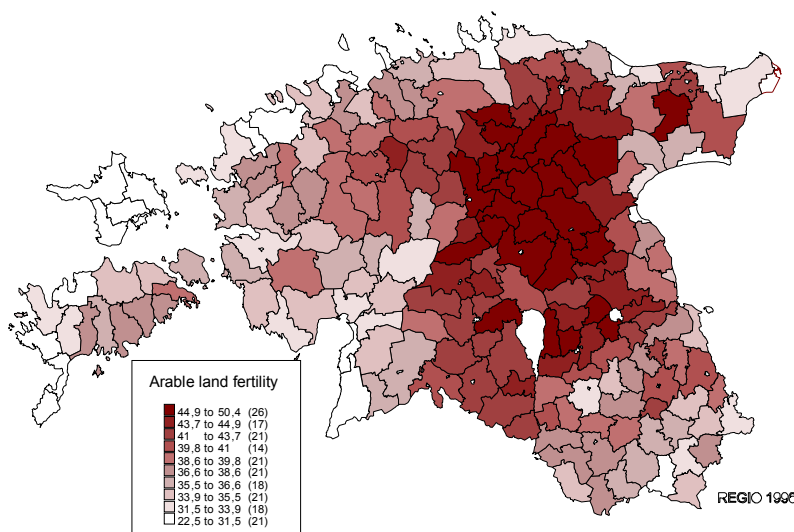
Figure 11 The distribution of land resources by counties

The agricultural land area comprises 1.433 million hectares ie 32% of the total land area. Arable land accounts for 1.120 million hectares representing 78% of total agricultural land. Approximately 0.26 million hectares or 26% of the total arable land in 1997 was unused. When compared with the respective figures

for 1992, a decrease in land use is revealed, as only 1% of field area was unused in 1992.

The low use of agricultural lands is caused mostly by economic reasons – low profitability of plant production and difficult access for financial markets. The slow pace of Land Reform is considered as result of economic factors, being itself only indirectly reason for low land use.

Estonian soils are extremely varied with differences especially sharp in the qualities of



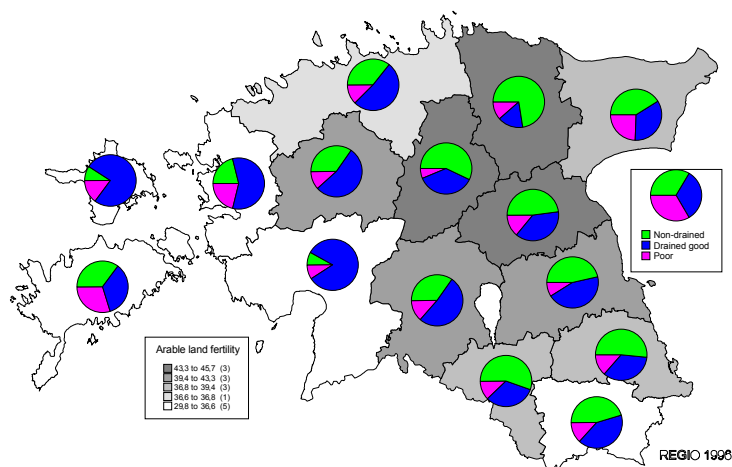
lowland and upland soils. Soils are mostly fertile in the Järva, Jõgeva, Lääne-Viru and Tartu counties (Central Estonia). The least fertile soils are in the Hiiumaa, Pärnu, Saaremaa and Lääne counties.

Figure 12 Arable land quality by municipalities

4.3.2. Drainage

Nearly two-thirds of the arable land was drained over the past 40 years but as collective farms were dismantled after 1991, the drainage system has not been well maintained. It is estimated that around 60% of Estonia's most fertile lands are excessively moist. As a consequence, drainage systems are an essential need. Moreover over 50% of the drainage systems were built more than 20 to 25 years ago and therefore

Figure 13 The share of drained agricultural lands



need reconstruction. They have not been maintained during the last 10 years in respect of the cleaning of drainage outlets, wells and ditches. Assistance was provided from the World Bank Loan for the rehabilitation and maintenance of the drainage systems. However it is estimated that nearly 400,000 hectares of land still require drainage rehabilitation.

A related problem in this context is the ability of the private sector to co-finance these works. Experience from the assistance received from the World Bank towards land amelioration suggests that a public sector contribution of 60-80% is required for such projects.

In the context of the need for drainage rehabilitation, Estonia makes use of polders, which were built near lakes and the sea, where the high level of receiving waters required excess water to be pumped off the area under drainage. Currently 12 pumping stations are technically in order but their continued operation is necessary. Taking account of on environmental protection and landscape maintenance considerations, and reflecting the need to continue agricultural production in the area, around 14 polders covering around 6500 hectares (from a total of over 10,000 ha) should be kept in use.

4.4. PLANT PRODUCTION

Trends and Investment Needs

Between 1989 and 1999, there has been a 30% decline in the area under crops (Table 11). This decline has varied by crop. For example, the largest reduction took place in the area under potatoes (over 40%) while the area under rapeseed increased 5.5 times. The area of unused land has increased nearly 18 times to around 267,500 hectares.

Table 11. Area under crops in Estonia, 1989-1999 ('000 ha)

	Grains and legumes	Potatoes	Open field vegetables	Rapeseed	Fodder crops	Area under crops	Unused field lands
1989	395.9	52.0	5.5	4.4	468.0	1100.0	15.0
1990	397.1	45.5	5.2	3.2	468.5	1116.3	15.7

1991	418.2	52.2	5.7	1.1	635.2	1114.3	14.0
1992	423.5	46.3	5.1	2.9	627.0	1106.6	12.7
1993	375.5	42.6	4.6	1.3	632.3	1057.0	62.9
1994	320.2	39.9	4.4	2.6	566.9	935.0	179.1
1995	308.0	36.9	4.6	6.0	493.8	850.7	254
1996	294.6	35.3	4.2	8.6	515.5	859.1	243.5
1997	335.2	35.2	3.9	7.9	480.8	864.2	231.1
1998	360.5	32.5	4.2	17.5	446.0	861.1	133.4
1999	327.2	31.1	4.3	24.2	421.7	809.0	267.5

Grain cultivation is an activity with the largest impact on the Estonian rural landscape next to grasslands and pastures. Fodder grains such as barley and fodder wheat were the most common crop in the Soviet period; more attention has now been paid on the improvement in the quality of food grains such as oats, wheat and malting barley. Large production units of over 100 hectares produce the bulk of grain.

As part of the preparations for the RDP, research was conducted to identify the current situation and the main problems facing this sector. This work showed that a major problem in current grain cultivation was the weakness of the seed cultivation system. This requires modernization and new equipment. In addition, major investment needs have been identified for new plant cultivation technology including investments in land cultivation technology, fodder harvesting technology and grain cultivation technology in order to reduce production costs. Since 1991 there has been a gradual decline in the purchasing of new tractors grain harvesters and other agricultural machines. There is also a need to ensure that plant protection machinery (such as pesticide sprayers, manure and fertilizer spreaders as well as combined sowing machines are consistent with EU requirements. Expert assessment show that there is an estimated annual financing need of 30 million Euros required to modernize Estonia's agricultural machinery and technologies in order to reduce agricultural production costs and to improve the overall quality and competitiveness of the country's agricultural products.

4.4.1. Oil crops

The main oil crops in Estonia are rapeseed and turnip rape. The area under these crops and their total output is small, but owing to the relatively better market situation, the area under these crops has substantially increased in the recent years. The strength of the sector is the development of co-operative activities. This contributes to the faster spread of new knowledge, optimisation of production and sale of ready products. Seed cultivation and technology are in need of development. A new food oil processing plant was launched in Estonia in 1999, which considerably extends the marketing possibilities for rapeseed and turnip rape and the area under these crops can therefore be expected to continue to increase.

4.4.2. Organic farming

The organic farming movement in Estonia started in 1989 with the establishment of Estonian Biodynamic Association (EBA). During the first years advice, training and control was organised with the help of foreign experts. During the middle 1990s the development of this movement slowed down including its training activities. The next development occurred in 1997 when an Act on Organic Farming came into force. A year later a standards and certification label "MAHEMÄRK" was introduced. Certification was delegated to two private organisations: EBA and Kagu-Eesti Bios. State supervision was undertaken by Estonian Plant Production Inspectorate. In 1999 there were 89 farms, 2 processors and 1

catering company, which were certified according to the requirements of the State label. There were also 25 additional farms (with 600 ha of agricultural land) that were certified in accordance with the EBA standards label “ÖKO”, (used since 1990). In total there was around 4000 hectares of controlled agricultural land in 1999 accounting for 0,4% of agricultural land in production.

In the year 2000 there are more than 238 farmers (including converting) with around 10 000 ha who have applied for the state label “MAHEMÄRK”. This increase in applications is mainly due to the intensive promotion work by organic producers’ organisations in 1999, the increased interest of the state in developing organic farming (including area support payments from 2000) and better training possibilities in the spring 2000.

Most of the organic farms including those converting to organic farming are concentrated into three regions - South-East Estonia (Võru, Põlva and Valga counties), Saaremaa island (Saare county) and West-Estonia (Lääne county). These areas have had traditionally extensive agriculture because of the natural conditions and therefore the conversion into organic farming is relatively easy. Recently there are several larger farms and agricultural enterprises in the regions of intensive agriculture that have shown interest as well.

The marketing of organic products is rather weakly developed. Consumers have difficulties in finding organic products in the shops. The most common methods of marketing are on-farm sales, selling to the hospitals, schools, kindergartens and local shops. There are some organisations dealing with the development of marketing: Urtica Ltd and recently established NGO Organic Producers Union.

There are relatively few farms selling processed products, although there is potential for development in this respect. A relatively high share of organic products is not being sold as organic (such as for the large dairies and is therefore mixed up with conventional milk) or is sold without using the organic label (even if the farm is certified and has the right to use the label).

Most of the training for farmers has been organised by non-governmental organisations (EBA, Kagu-Eesti Bios, Centre for Ecological Engineering, Räpina Training Union) and there is much need for this training. As there are only three accredited advisors on organic farming in Estonia there is a need for training additional advisors specialised in organic farming, conventional farm advisers could also be introduced to the general principles of organic farming. There is also a lack of appropriate information materials with only a few booklets published to-date.

Relatively little organic farming research has been done but the importance of research is clearly recognised by several institutions dealing with organic farming. Interest in developing research in organic farming exists, but finding the necessary financing is problematic. Up to now there are few projects implemented by the Institute of Plant Protection of the Estonian Agricultural University and the Centre for Ecological Engineering, but also by some organic farmers.

From the year 2001 the present system where the “MAHEMÄRK” label is granted by two non-governmental private bodies, will be changed since these private bodies are not accredited according to EN45011 standards. The present Organic Farming Act (passed in 1997) is not fully in accordance with EU regulation 2092/91. By January of 2001 this act and accompanying regulations will be harmonised with EU legislation in organic farming (including 1804/99).

Taking into account the present agricultural situation and the developments, which have already taken place, there is a great potential for the rapid development of the sector in the future. It is estimated that there will be an increase of between 50 to 100% in organic production per year over the next few years.

4.4.3. Potato farming

During the Soviet period, the area under potatoes was 70,000 - 100,000 ha and the production volume was 700,000 - 1,300,000 tonnes, which is much more than at the present time. The area under potatoes was also substantially larger in 1989 when compared to recent years. Estonian potatoes were used to supply St. Petersburg (former Leningrad), Moscow and other cities of the Soviet Union. Potatoes were also used as animal feed. In recent years the area under potatoes has been from 31,000 to 35,000 ha and total output has been in the range of 317,000 - 500,000 tons. Around 2.5% of total agricultural land is under potatoes. To improve the competitiveness of potato farming, the seed cultivation system needs fundamental improvement. Investments are also needed for storage facilities and for the modernisation of potato cultivation technology.

4.4.4. Horticulture

Horticulture includes vegetable, medical and spice herb, fruit and berry cultivation, decorative gardening, cultivation of young plants, and apiculture. Nearly one half of the vegetables and all of the fruits and berries consumed in Estonia are produced in small gardens. The suitable soils, relatively favourable climate, cheap labour and energy enable the production of quality gardening products at a low cost. Fruit, vegetable and berry cultivation provide good development potential for small farms (under 20 ha) in regions where local conditions do not favour large-scale production (South and South-East Estonia, the vicinity of Lake Peipsi).

In order to extend as far as possible the period of domestic vegetable supply, investments in new storage facilities are required. Investments are also needed to establish new greenhouses, as horticulture in the Estonian latitude requires pre-sowing cultivation. Investments are also needed for the reconstruction of old and the establishment of new more economic hotbeds (together with wetting and ventilation systems). It has been estimated that up to 8 million Euros are required for greenhouse reconstruction by the year 2006. New methods of fruit cultivation also require additional investments including the reconstruction of fruit storage facilities.

An important source of additional income besides traditional agricultural production is the cultivation of medical and spice herbs. The production volumes for these products have increased in the recent years, but the supply is still not enough to satisfy domestic demand, which is about 22-30 tonnes of different herbs. The need for herbal teas may even be 4-5 times more than that. The cultivation of medical and spice herbs is the least mechanised production process in the horticulture sector. The high proportion of manual work required does not allow the increase in planted or production volume. Small machines suitable for 1-2 ha plantations have to be found. A problem to be solved is the development of a cheap, quick, clean and energy efficient drying device. In addition, product development through packaging is essential for adding value to medical and spices herb products. Undertakings need to purchase packaging machines and/ or lines, extend the assortment of products and launch the production of tea fixes, tinctures and oil-based extracts.

The potential for floriculture lies in fast-growing blossoming potted flowers, annual and bulbous flowers, which are in demand in both the domestic and foreign markets. Estonia has more than 40 nursery gardens that cultivate young flower plants.

Fruit and berry production and the appearance of the living environment in the forthcoming years will depend on the product quality of these nursery gardens. In respect of berry cultivation, the low level of marketing and the lack of a propagation system for high quality parent material have prevented berry cultivation. However, local market demand for fresh berries and fruits is developing for direct consumption, frozen food and for the food processing industry (juices, ice-creams etc). The demand for berries is clearly higher than local production levels.

There are currently 3,000 beekeepers and about 30,000 bee-families in Estonia. The total honey yield is 500-600 tonnes, beeswax output 12-18 tonnes, pollen output 10-12 tonnes and propolis output 1-1.5 tonnes. The recent years' average honey yield per bee-family has been 18-20 kg and peak yields are 35-50 kg. An exception was the year 1998 when only 25% of average honey yields were achieved.

Finally the problems facing Estonian apiculture have also been identified. These include poor organisation of the Estonian honey market; the lack of an effective system for control, prevention and treatment of bee diseases and the low technological and technical level of the industry. The clean environment has provided ideal conditions for bee keeping and enables production of very high quality honey and by-products.

The overall investment needs in Estonian horticulture are estimated at 491 million EEK over the period 2000 to 2006 (Table 12).

Table 12. Estimated investment needs in horticulture, 2000- 2006 ('000 EUR)

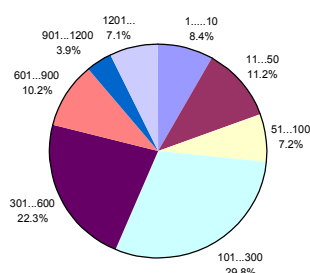
	2000	2001	2002	2003	2004	2005	2006	Total
Berry gardens	1 661	1 674	1 789	2 045	2 045	2 045	2 045	13 304
Fruit gardens	383	447	447	575	639	639	639	3 770
Vegetable storage rec.	64	83	96	115	128	147	160	792
Fruit storage rec.	32	-	64	-	45	-	153	294
Medical and spice herbs	19	19	26	26	19	45	147	300
Hotbeds	511	639	1 150	1 278	1 278	1 406	1 406	7 668
Incl. vegetables	256	383	639	639	639	639	639	3 834
Incl. Flowers and decorative plants	256	256	511	639	639	767	767	3 834
Apiculture	741	741	741	748	748	760	760	5 240
TOTAL	3 923	4 243	5 463	6 064	6 179	6 447	6 716	39 035

4.5. LIVESTOCK SECTOR

4.5.1. Dairy farming and pig breeding

During the last decades, dairy farming has been the most important branch of agricultural production in Estonia. In the Soviet period, the farm structure was largely based on herds of 100-400 cows and this size range continues to influence the current structure of dairy herds (Figure 14).

Figure 14 Distribution of milk output in Estonia by herd size, 1998



Farms with more than 50 cows still produce the bulk (80%) of milk output. In recent years the number of dairy cows has substantially decreased but this is offset by the large improvement in productivity. The quality of raw milk has also significantly improved while still only slightly more than 70% of milk meets the EU minimum quality standards.

Background research was carried

out during the preparation of this Plan to identify the main problems in milk production. The research-covered herds subjected to performance testing, i.e. 75% of the total number of cows. The research aimed to find out what were the needs of Estonian dairy farms to enable them to comply with the EU environmental, sanitary and animal welfare requirements and which would improve raw milk quality and the competitiveness of production. The research concluded that a wide approach was required in respect of the modernisation of dairy farms. It identified that improvements are needed for barn structures, microclimate (air, temperature, ventilation and lighting indicator complex), milking equipment, manure management, milk cooling and other electrical equipment as well as water supply, etc. Other issues such as the improvement of feeding methods, pedigree breeding, milking methods etc. should also be tackled. Besides contributing to the competitiveness of the milk sector, these investments and any reorganisations of facilities would contribute to the appearance of production facilities and this would help to promote farm tourism, etc. Results of the research also show that investment needs per cow depend on the size of herd. Per cow investment needs are much larger in small farms than in large farms (Table 13).

Investments of ca 150 million Euro have been identified in order to improve the condition of dairy farms and adjust them to the required level. It is estimated that farmers are themselves able to invest approx. 37% of this amount.

Dairy farms need the largest financial investments (approximately 65 million Euro) for the improvement of manure management, as many manure storage facilities are outdated and in need of renovation. The next largest investments needed are in production buildings (43 million Euro), equipment (35 million Euro) and sewerage buildings and reconstruction (25 million Euro). The latter reflects the requirement that waste and sewerage discharge must be adjusted to meet at least the minimum environment protection requirements.

Table 13. Investment needs of dairy farms by herd size, 2000-2006 ('000 EUR)

	1-20	21-50	51-100	101-300	More than 300	Total
Water supply	1349	1929	1287	5649	6856	17070
Sewerage	1980	2831	1889	8291	10063	25054
Lighting and ventilation	796	1139	760	3335	4048	10078
Manure management	5111	7310	4876	21406	25982	64685
Equipment	5390	6676	3074	8332	11709	35181
Buildings	6772	7902	4665	11030	12415	42783
Number of livestock	9268	13255	8842	38817	47114	117296
Total investments	21397	27786	16550	58043	71073	194851

Pig breeding

Pig breeding is the second most important branch of animal breeding in Estonia after dairy farming. It is also an important outlet for the Estonian grain production. Between 1991 and 1998, both the number of pigs and the total pork output declined in Estonia. In addition in the last five years the relative share of pork in overall meat consumption was 44-50%. Forecasts suggest that farms with at least 1000 pigs will remain competitive.

Such a concentration of production creates a need for investments, especially in the establishment or reconstruction of animal husbandry buildings or facilities that meet the environmental, veterinary, animal welfare and hygiene requirements. Last year's price falls in the pork sector have rendered pork production unprofitable. The state has supported the sector in the improvement of pedigree stock and intends to continue such support in future years. Nearly 200,000 Euro was paid as sow premiums in 1999. Despite these state measures, the Estonian pork producer is in a difficult situation in competing with cheap imports. To improve the uncertain market situation and to address the investment needs, the next planned steps are customs tariffs for agricultural products from third countries from 1 January 2000 and a development support scheme, which is extended to pork producers.

4.6. *MARKETING*

Loss of markets for agricultural products in the East and the liberal trade policy of Estonia have had a considerable effect on the development of the entire agricultural sector. Today the domestic supply of several products has fallen below 100 %, and the decline has been particularly dramatic in meat production, where the level of domestic supply is currently only 65%.

The free access of cheap imported goods to the Estonian market and the low purchase power of consumers has restricted sale of local food products on the domestic market. The level of consumption of food products has generally stabilised after the rather big decline at the beginning of 1990s. The share of expenses on food is relatively high in the income of the population – 37.4% in 1999, whereas the expenses made on food account for 17-56 % in different deciles. Consumers prefer domestic food products primarily for their customary taste, low additives content and healthiness.

Decreases in domestic production and the free access of imported goods to the Estonian market led to such developments in export turnover that starting from 1995 the balance of foreign trade in agricultural products became negative.

The percentage of food products in total exports was 16.2% in 1995, but decreased to 7.5 % by 1999. In 1995, food products were exported for EUR 200 million; in 1999 the volume of exports was EUR 170 million.

The economic crisis that started in Russia during the second half of 1998 considerably decreased exports to the Eastern market and while in 1995 the share of Russia in exports was still 36.9 %, it accounted for just 9.7% by 1999.

Estonia has made a number of free trade agreements, which have not remarkably improved the access of Estonian businesses to foreign markets in the food sector, with the exception of Latvia, Lithuania and Ukraine, where the trade restrictions were removed 100%.

Exports of agricultural products to the EU market have been obstructed by the non-conformity of Estonian businesses with the EU requirements and the insufficient marketing efforts, which has caused by the failure to use up the trade quota of certain products.

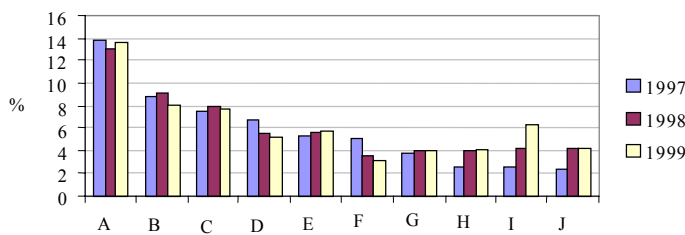
In contrary to the decrease in exports, the import of food products has substantially increased and constituted EUR 345 million in 1999, which was an increase of 1.4 times compared to 1995. Food products are most of all imported from EU countries (ca 60%). The import of

food products with respect to which Estonia is vulnerable has grown from year to year, with the exception of 1999, when the general economic decline also slowed down the growth of demand for imports.

The foreign trade balance for agricultural products was negative in 1998- imports exceeded exports 1.8 fold (see Figure 15). Foreign trade in foodstuffs continued to be dominated by two major groups of products, for which the trade balance was positive: fish and dairy products. The relative share of these groups accounted for 32% of the total foreign trade in agricultural products.

Figure 15. Export destinations of agricultural products from Estonia, 1997 - 1999

Source: Ministry of Agriculture



Fish and fish products held the first position in the exports of food products (35.6% of the total exports of foodstuffs) with a 23.6% increase compared to 1997. Milk and dairy products (25.7% of the total exports of foodstuffs) held the second position, although the exports of milk products had

decreased by 28.4% when compared to 1997. The exports of meat and meat products has increased significantly – by 44.8% as expressed in money terms compared to the previous year.

The major export partners in 1998 were Latvia, Ukraine and Lithuania with an increase in their share of total export in recent years (Figure 16). The importance of exports to Russia has decreased from 28% to 9% between 1997 and 1999.

The major import partners (Figure 16) in 1998 were Finland (13%), Germany (9%) and the Netherlands (8%). The import of foodstuffs from Poland has significantly increased: from 2.6% to 6.3% in the 1st half of 1999.

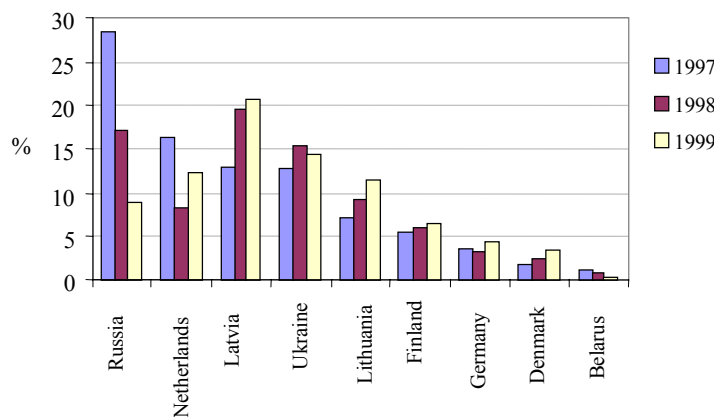


Figure 16. Country of origin of imports of agricultural products to Estonia, 1997 - 1999

Notes: A- Finland, B- Germany, C- Netherlands, D- Sweden, E-Denmark, F-USA, G- Latvia, H-Russia, I- Poland, J- Lithuania

4.7. FOOD INDUSTRY

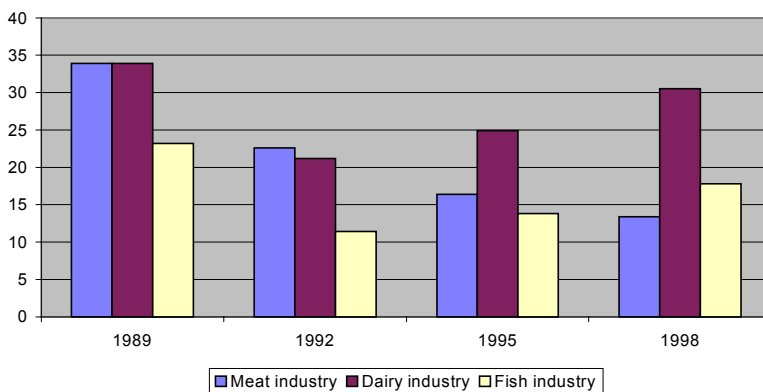
The food industry represents a leading branch of industry in Estonia, yielding 33.4% of Estonia's total industrial output.

The main food industry sectors in 1998, according to output volume, were the dairy industry (30.5%), the meat industry (13.4%) and the fish industry (17.8%).

Source: Ministry of Agriculture

Figure 17 shows that the share of total food industry output by the meat sector has declined the most from 25.2% in 1993 to 13.8% in 1998.

Figure 17 The share of meat, dairy and fish industry (food industry = 100%)



Large investments have been made in the recent years to modernise the production process and improve the competitive situation. By end of 1999, 16 fish processing enterprises and 2 milk-processing enterprises of the 524 food enterprises registered in Estonia were approved by the European

Union. There are presently no enterprises approved in the meat sector

Trends in the Estonian Food Industry

The standard of the Estonian food industry was relatively high during Estonia's first independence period (1918-1940) and Estonian butter and bacon were appreciated on the European market. During the Soviet period (1941-1990), the food industry was targeted at the Eastern market and the production capacity exceeded the domestic market demand approximately 1.4 times. After Estonia regained independence in 1991, drastic changes took place in the food industry through privatisation and major reorganisation. The volume of domestic agricultural produce, which used to be the main source of raw material, has begun to decrease in recent years and caused an increased share of subsidised imports on the Estonian market. Since 1995 Estonian meat production has failed to cover reduced consumption and the gap has had to be filled by a higher consumption of import products. In addition the annual per capita consumption of dairy products has increased and the product assortment has become more diverse with the production of yoghurts, spreads, puddings, cottage cheese, creams and UHT milk. Milk production and processing has been in deep crisis since the second half of 1998 as the loss of export markets has caused a downward influence on prices.

The Estonian fish industry was formed as a part of the enormous fish industry of the Soviet Union and served as a main supplier of canned fish to the USSR market. The bulk of the raw material of the Estonian canning plants was supplied by the offshore trawler fleet fishing near West Africa and South America and on the North Atlantic.

After Estonia regained independence, the fish industry has gone through a very difficult period caused by the collapse of the former offshore supply system and the main markets (Russia, the Ukraine and Belarus). Only 23% of the capacity of the sector was used and the bulk of products had to be sold on the domestic market.

Problems and constraints facing the food industry

Examining the overall structure and performance of the food industry to date in Estonia, a number of features can be identified which act together to constrain its development.

Firstly the Estonian domestic market is small and as a consequence, success in exports is essential. Foreign markets for agricultural products are usually well protected and as a consequence market penetration costs are high. Recognizing the small size of Estonia, the efforts should be made to develop collective marketing initiatives to lay the basis for improving its share and position in such markets.

Secondly the fall in the purchasing power of the Eastern market has meant that the production volume, profit and exports of all food sectors have decreased from the third quarter of 1998. Though this situation has begun to change from the start of 1999, it highlights the fluctuations, which can affect the industry.

Thirdly, the liquidity of the meat and fish enterprises is rather low. In dairy and meat sector, especially small enterprises have problems with financial leverage, which results in a high ratio of loan capital to equity. Additional financing from credit institutions is practically impossible to obtain. For a certain share of small enterprises, the outlook for them is bleak. In contrast larger enterprises may comply more favourably with their production requirements and their possibilities for self-financing and for obtaining loans are much better.

Finally a range of other problems has been highlighted. These include the failure of enterprises to comply with EU hygiene, structural, environmental and animal protection requirements; the difficulties faced by enterprises in paying for raw materials and making investments and the low levels of added value from net turnover.

4.7.1. Milk Sector

In the Soviet era milk was a key element of Estonian agriculture with high export volumes. This situation has not changed despite the fact that production volumes have decreased remarkably. The production volume of the milk industry is between 900,000 and 1million tons per year. The estimated market demand is around 400,000 tons of milk products. Approximately 733000 tons of milk was produced in Estonia in 1998, of which 72% was purchased by the country's milk processing enterprises. There are 41 milk-processing enterprises in Estonia. Between 35 to 40% of the milk produced in Estonia was processed by one enterprise

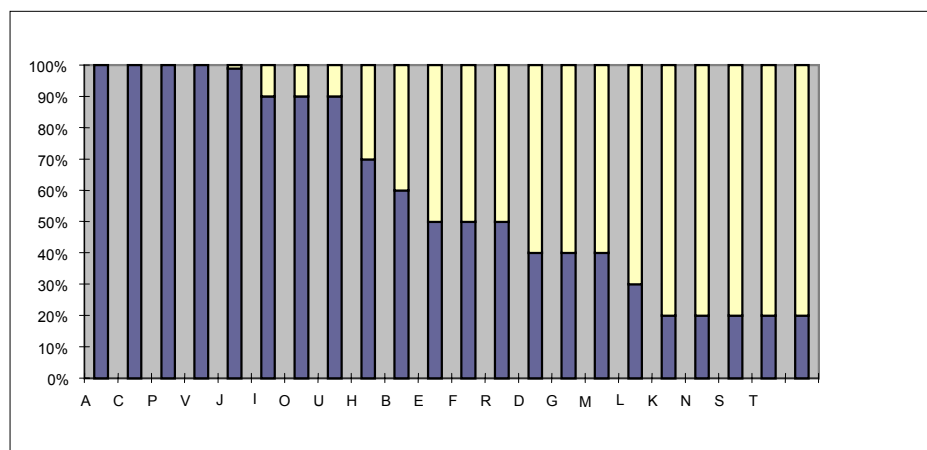
As part of the preparations for the RDP, a questionnaire was sent to each milk processing enterprise. The aim was to identify problems and investment needs. The survey showed the degree of compliance with EU requirements of Estonian milk enterprises. The Figure 18 shows; that four large capacity enterprises met 90 to 100% of EU requirements, with the rest complying with between 20 to 80% of requirements.

Assessment of compliance of both large and small capacity milk processing enterprises⁶ is presented in Figure 18. (Source: Veterinary and Food Inspectorate)

⁶ Names of enterprises disclosed for confidentiality

This shows that four large capacity enterprises meet 90-100% of EU requirements, the rest comply with 20-80% of requirements.

Figure 18 Degree of compliance with EU requirements of milk enterprises* 1999



The main shortcomings are related to ensuring the correct structural standards of production and processing facilities, such as the existence of suitable working facilities, storage facilities, dressing rooms, the compliance of the walls, floors, ceilings and doors with the construction requirements, and the use of suitable interior finishing materials.

Many enterprises lack sufficient cold stores for storage of products and facilities for storing auxiliary materials. Water supply and sewerage also need renovation. A major problem concerns ventilation systems and the lack of air treatment equipment.

Taking account of the potential reduction in the number of milk enterprises in Estonia, an estimation has been made of their investment needs for both large and small enterprises (Table 14).

Table 14 Investment needs in milk processing 2000-2003

	Enterprises				Investment needs, million EUR				Total
	2000	2001*	2002*	2003*	2000	2001*	2002*	2003*	
Total enterprises	41	24	20	16					
compliance with EU requirements	7	12	14	16	22,44				22,44
non-compliance with EU requirements	34	12	6	0	6,09	8,65	11,22	9,30	35,26
									57,70
EU requirements									
general and specific requirements for approval (structure)					3,21	4,49	5,77	3,21	16,67
hygiene requirements					0,32	0,32	0,32	0,32	1,28
staff training					0,32	0,64	0,32	0,32	1,60
in-house control (HACCP)					0,32	0,64	0,32	0,32	1,60
technological equipment					1,92	2,56	5,13	4,49	14,10

expert estimation

In sum the **main problems** of the milk-processing sector are:

- (i) ensuring compliance with EU standards in respect of production and processing facilities
- (ii) an excess supply of milk products on the domestic market

- (iii) seasonal fluctuations in the supply of raw material
- (iv) excess production capacity and low specialisation.

Looking to the future, it is likely that there will be a decrease in the number of enterprises as the domestic market demand could be met by the full utilisation of a few enterprises. There is potential for greater specialisation (eg into new quality cheeses). The production of higher added value products would improve economic efficiency. There is a need to develop new markets and greater efficiency in the use of existing resources.

4.7.2. Meat Sector

According to the data of the Veterinary and Food Board, a total 284 meat processing enterprises are registered in Estonia. They are divided into small and large enterprises by production activities and volumes. The majority of Estonian meat enterprises (94%) are small capacity enterprises. They are characterised by a relatively wide scope of activities and a relatively smaller total output when compared to the large capacity enterprises. Approximately 90-95% of total output is produced by large capacity enterprises.

Table 15. Structure of meat processing enterprises by size, 1999

Type of enterprise	Large capacity	Small capacity ^{7*}
Cold store	1	-
Slaughterhouse	-	184
Slaughterhouse + meat products	12	20
Meat products	3	37
Poultry slaughterhouse + products	1	-
Poultry slaughterhouse	-	8
Red meat cutting	-	4
Poultry products	-	8
Poultry cutting	-	3
Total	17	264

Beef production in Estonia is currently a by-product of dairy farming. As a result of intensive feeding, dairy breed bovines show rapid growth, but their meat productivity is low. The large fat content of carcasses and the low meat content is a problem. The carcasses yield relatively little red meat and the proportion of bones is too large.

Current situation in the meat sector

In the course of preparation of the Rural Development Plan, a questionnaire was sent to meat processing enterprises. As with the milk sector, the aim was to identify problems and investment needs.

The main problems of the meat industry concern

- (i) the non-compliance of production facilities and conditions with EU hygiene, environmental and animal protection requirements
- (ii) large excess slaughtering capacity

⁷ A small capacity enterprise is:

a slaughterhouse where up to 20 animals are slaughtered per week and up to 1000 animal are slaughtered per year

a meat cutting enterprise where up to 5,000 kg of boneless meat is cut per week or

a meat processing enterprise where up to 7,500 kg of meat products are made per week

- (iii) a lack of specialisation
- (iv) limited use of by-products
- (v) a large number of small capacity enterprises

As in the case of the milk sector, the main shortcomings are related to ensuring the correct structural standards of production and processing facilities. Many enterprises lack sufficient cold stores for the storage of products and facilities for storing auxiliary materials. Water supply and sewerage also need renovation. Most production buildings were built 20 to 30 years ago and many enterprises are located in facilities where the layout does not ensure the prevention of cross-contamination.

Estonia also lacks a waste processing system that meets EU requirements. Some enterprises have a waste-processing department but often only a limited amount of raw material is processed and a relatively large proportion of waste is disposed in a manner that pollutes the environment.

Table 16 Investment needs in meat sector 2000-2006

	Enterprises					Investment needs, million EUR					
	2000	2001*	2002*	2003*	2006*	2000	2001*	2002*	2003*	2006*	Total
Total enterprises	281	219	126	122	111						
compliance with EU requirements	0	13	20	25	111	21,2					21,2
non-compliance with EU requirements	281	206	106	97	0	13,1	37,2	30,5	16,9	5,5	103,3
											124,4
EU requirements											
general and specific requirements for approval (structure)						8,7	22,9	20,6	11,2	5,5	68,9
hygiene requirements						1,2	3,1	2,4	1,1		7,8
staff training						0,4	1,1	0,6	0,3		2,4
in-house control (HACCP)						0,2	0,3	0,3	0,2		0,9
Technological equipment						2,4	10,1	6,9	3,8		23,2

* expert estimation

It is expected that the number of enterprises will decrease due to economic reasons (eg small use of capacity) as well as due to their non-conformity with hygiene and environmental requirements.

Looking to the future, it is possible to classify enterprises into:

- (i) those with good prospects which comply with requirements and which have a substantial market share
- (ii) “survivors” – i.e. those enterprises that will be able to restructure and
- (iii) those enterprises with limited or no prospects.

4.7.3. Fish sector

Fish processing enterprises

According to the data of the Veterinary and Food Inspectorate; there were 120 fish processing enterprises registered in Estonia as of November 1999. These can be divided into

three groups according to the nature of their products, source of raw material and market orientation as follows:

- canned fish producers - raw material consists of Baltic Sea and ocean fish and the products are marketed on the Eastern market
- fast food oriented enterprises - raw material consists of imported prefabs (pre-processed fish-products) and the products are marketed on the Eastern market
- fillet and delicacy producers - raw material consists of imported inland water fish, local fish and delicacy raw material (shrimps, salmon). The products are marketed on the Western market.

The products of all three groups are represented on the local market and the domestic demand is fully met.

The first group of producers has been the most conservative. Having acquired technologically and physically outdated production means in the course of privatisation, they continued to operate them at maximum capacity. Product development was neglected, the market orientation was not changed, and marketing was impaired by difficulties on the Eastern market. The Russian crisis brought about a series of bankruptcies.

Producers of the second group own modern production buildings, technology and equipment that can compete well in any market.

Enterprises of the third group have targeted their products at the Western market and suffered little from Eastern market shocks. Their production buildings have been built within the last 10 years and they meet EU requirements.

Ownership

It should be noted that most Estonian fish processing industries are indigenous. The enterprises are registered in the commercial register as public limited companies, private limited companies, profit associations and sole proprietors. New owners have been rather conservative in making investments and there has been no substantial foreign investments or shareholders, though most major processing enterprises largely depend on bank loans where Swedish capital has played an essential role.

Current situation in fish processing sector

In the course of preparation of the Rural Development Plan, a questionnaire was sent to fish processing enterprises in order to assess the main problems and investment needs facing them. Though the response rate of 9% was very low, additional information from the Veterinary and Food Inspectorate highlighted a number of problems facing the fish-processing sector.

Table 17. Investment needs in fish sector 2000-2003

	Enterprises				Investment needs				
	2000	2001*	2002*	2003*	2000	2001*	2002*	2003*	Total
Total enterprises	120	80	60	40					
compliance with EU requirements	18	25	32	40	5,2				5,2
non-compliance with EU requirements	102	55	28	0	6,5	13,9	14,3	7,0	41,7
EU requirements									46,8
general and specific requirements for approval (structure)					3,8	8,3	9,6	3,8	25,6

hygiene requirements	0,6	1,9	1,3	1,3	5,2
staff training	0,3	0,2	0,2	0,1	0,8
In-house control (HACCP)	0,5	0,5	0,3	0,2	1,5
technological equipment	1,3	2,9	2,9	1,5	8,6

expert estimation

Main problems

Canned fish and fish preserves constitute the bulk of fish products. As the majority of the processing industry targets its products to a single CIS market, the Estonian processing sector is rather vulnerable. An example of this was the recent banking crisis in Russia and its negative impact on Estonian fish processors.

The main problems are:

- non-compliance with EU requirements in respect of the production hygiene and structural conditions, especially for canned fish producers;
- the outdated technology and equipment;
- low productivity;
- the production structure do not meet the Western consumer preferences and that can only be sold on the Eastern market and
- inefficient production and a large quantity of waste

Recognising that the market of the European Union is opening up, the quality of the products and sanitary requirements of the factories have to be improved.

Overall the fish industry is in a complicated situation. New investment is needed to ensure compliance with EU requirements and to upgrade production processes and improve equipment levels. The sector lacks co-ordinated management. It belongs to the field of administration of several Ministries. Fish processing is closely related to the level of fish resources and fishing quotas and the future of the industry therefore directly depends on developments in the above areas.

4.8. FISHERY

4.8.1. Fishing and ports

Estonian fishing activities are located in three geographical regions:

- the Baltic Sea;
- inland fisheries covering the two largest lakes of Lake Peipsi and Lake Võrtsjärv;
- offshore fishing, which takes place in the Atlantic Ocean.

Estonia has 37 ports, which are equipped for receiving trawlers, 46 coastal fishing ports and 17 lake ports. While the total number and location of ports in Estonia are satisfactory with no need for the construction of additional ports, the infrastructure of these ports is in most cases insufficient for the landing of fish. It is important to determine the network of ports, which are strategically located on the coast. In addition, the ports have to be brought into conformity with all the requirements for the rapid landing of catch in compliance with all sanitary conditions.

4.8.2. Fish hatcheries

Finally in terms of fish hatcheries, Estonia has a total of 20 fish hatcheries belonging to 16 different companies. Total output from hatcheries has fallen from a peak level of 1700 tonnes in 1989 to 308 tonnes in 1998. Fish farms in Estonia are generally small with limited

infrastructure. The Estonian Fish Farmers Association (EEFA), which was established in 1989, has performed the task of educating fish farmers and representing their interests before the government and parliament.

4.9. FORESTRY SECTOR

Forestry is recognised as a crucial part of the Estonian economy given that it covers over 47% of the total land area (Forest Yearbook 1999). In 1995, forestry accounted for 1.3% of GDP, which rose to 1.7% by 1998. Approximately 26% of forestland is in private ownership. Taking as a basis the ownership of land in force in 1940, it is expected that at the end of the land and property reform private forests will make up around half of all forests. The average size of private forest is around 12 hectares.

The forestry industry is export-oriented. Exports of timber and timber products have grown since 1992. They constitute around 17% (1999) of Estonia's total exports. Timber is mainly exported to Sweden, Finland, Norway, the UK and Ireland, Germany and the Netherlands.



Annual felling has increased from 2.4 million cbm in 1993 to 6.7 million cbm in 1999.

Taking as a basis the ownership of land in force in 1940 it is expected that at the end of the land and property reform private forests in the possession of farmstead will make up half of all the forests. The process of returning the land property and privatising is continuing, but slowly. While felling of state forests has remained stable, the cutting volumes of private forest holdings have remarkably increased in recent years. During the first half of 1999 the timber cutting volume exceeded the whole 1994 volume. At the same time, the volume of private reforestation has remained low when compared to state forests.


In addition there is a large number of small, low-fertility agricultural land plots, overgrown grasslands and scrub areas in Estonia which could be developed into valuable forest areas through forest planting, partial improvement cutting and road construction. Potentially up to 100,000 hectares of former agricultural land could be developed into valuable forests with financial assistance. Such a development would require the formation of an able private forestry organisation whose specialists could advise forest owners in choosing lands and finding contractors, develop nursery management and ensure the proper performance and quality works. Currently two organisations are dealing partly with these issues, without significant state support


4.9.1. Estonian Forestry Policy


Responsibility for the preparation of environmental and forestry policies and plans falls mainly within the competence of the Ministry of Environment. In June 1997, the Riigikogu approved the Estonian Forest Policy. This policy has two general aims:

-  sustainable forestry - is considered to require the management and utilization of forests and forest land in a manner and at a rate that maintains their biological diversity, productivity, capacity for regeneration and vitality, as well as their potential at present and in the future to fulfill ecological, economic and social functions at local, national and global levels without damaging other ecosystems;
-  efficient forest management - which entails achieving an efficient production and effective utilization of valuable forest-based products and services for the present and future generations.

In support of these aims, Estonian forests are divided into 3 categories as follows:

 Protected forests (in nature reserves of protected areas and in special management zones of protected areas) – where cutting is prohibited.

 Protection forests (for the protection of the environment) – where cutting is limited.

 Commercial forests - designated for profitable business where cuttings are permitted.


The forest policy determines that in order to protect Eco-systems and to maintain the biological diversity of forests, the area of strictly protected forests will gradually be increased from the 3% as of 1997 to at least 4%, with increases occurring particularly in the area of protected primeval forests and the existing protected areas. It was also decided that the share of protection forests would be maintained at 15% of the total forest area.


The general principles of Estonian forest policy have been stated in the Forestry Act 1998. Detailed measures will be worked out as part of the Estonian Forestry Development Plan which will cover the period 2001 to 2010.


4.9.2. Estonian Forestry Development Plan.


The Estonian Forest Development Plan derives from the Sustainable Development Act and the Forestry Act. The objective of the Development Plan is to maximise the forestry sector's contribution to national economic and social well-being on a sustainable basis. The Development Plan shall contain a balanced expression of the interests of forest management, the forest industry and environment protection.


The Development Plan is based on the Estonian Forest Policy (referred to earlier), which was formulated during the Estonian Forestry Development Program 1995 to 1997. This program was one of the first projects, which was also open for the public. During this program the work of Estonian National Forestry Board was re-organized including the separation of state's forestry duties between different institutions. In this Program private forestry got less attention. The emphasis of the Development Plan 2001 to 2010 is largely focused on the promotion of sustainable forest management in private forestry. The aim of the FDP is to set the framework for forest management activities. To implement the process five workgroups have been established dealing with:

 Sustainable forest management and protection of forests – This group is addressing the problem of imbalance between final felling and re-forestation. Key actions here include: improvement of the tax system and institutional capacity building in hand with the development of information systems.

 Property questions – These derive mostly from the process of land reform. Key elements of policy in this regard include: the strengthening of forestry related institutions, clarifying obligations between state and owner, increasing the interest of owners in long term forest management through favourable tax system, advisory system and different support measures.

 Forest industry – This group examines the problems of the illegal timber trade and poor public relations. Its objective is to improve the production of high value added wood products.

 Public relations and information systems – The aim of this group is to identify in co-operation with other workgroups the information needed at a national and international level and to combine existing information systems with those that are soon to be established.

 Education and science issues – This working group aims to specify the needs of society in terms of forestry-related knowledge and training, offering suggestions on how to address these issues.

4.9.3. Pan-European Process

One of the steps on the way towards sustainable development was the elaboration of the National Environmental Strategy (hereinafter NES) approved by Parliament on 12 March 1997. Implementation of the NES involves the restoration and preservation of a living and cultural environment which ensures:

- 🌲 an environmentally sustainable use of the natural resources of Estonia;
- 🌲 the conservation of biological and landscape diversity;
- 🌲 the consideration of requirements of nature conservation in the privatization process during the land reform.

In respect of forestry the objectives of Estonia's efforts to implement its commitments in respect of the Resolutions of the Pan-European Ministerial Conference on the Protection of Forests in Europe, (especially H1 - General guidelines for the sustainable management of forests in Europe) in Helsinki in 1993 were as follows:

- 🌲 to analyze the Estonian forest policy and the main principles of forest management in the context of international resolutions and agreements
- 🌲 to draw up the criteria and quantitative indicators for an Estonian-oriented evaluation system.
- 🌲 to draw up an action plan and a system for the application of the principles of sustainable forest management in strategic planning and in decision making in the forestry sector.

Based on the agreements and resolutions of the Pan-European Ministerial Conference the Estonian Government has undertaken a reformulation of forest policy and forest legislation and its relevant institutional functions and frameworks. As part of these efforts, the Estonian Forestry Development Program was launched with the principal task of formulating a National Forest Policy laying down the basic principles of development in the forestry sector. Measures taken for the implementation of sustainable management of forests based on the Pan-European Conference were prepared in Estonia. In 1997 Parliament approved the Estonian Forest Policy. The new Forest Act (1998) implements the new principles of forest policy developed in Helsinki and Lisbon follow-up process and the IFF process. In addition, the extension of the national network of permanent sample plots for monitoring of forest ecosystems has continued.

Finally ranges of research and development projects were started in 1998 and 1999. These included:

- 🌲 the development of a biodiversity management strategy for commercial (multifunctional) forests in Estonia;
- 🌲 an inventory of the present and potential conservation areas;
- 🌲 an afforestation program and an inventory of key biotopes in commercial forests

4.10. RURAL TOURISM

Despite its small size Estonia's has a remarkable variety in landscape, climate, ethnicity, cultural heritage and traditions. Given these features and its position, there is considerable potential for the further development and diversification of the country's rural tourism sector.

4.10.1. Existing structures and situation

Estonia's formal tourism sector consists of professionally operated hotels, restaurants, travel agencies etc, which are almost exclusively located in the larger cities. On a year round basis, they host and serve the mainstream tourists, i.e. business travellers and sightseeing, shopping and urban entertainment motivated visitors. The formal sector is well organised, guided by branch organisations and (financially) supported by the Government through marketing and

other services provided by the Estonian Tourist Board. Although it generates around 15% of Estonia's GDP, the formal sector is relatively small. For example, the number of hotels and other accommodation providers in the formal sector is around 180. Overall the tourism sector employs 16% of total employees.

4.10.2. Structure of Rural Tourism






Apart from the formal accommodation sector, which is concentrated largely in Tallinn, Estonia has also a much larger number (estimated at around 410) of rural accommodation providers, spread throughout the country. They are mostly small (often family) enterprises, owned and managed by non-professionals. They cater largely for the domestic holiday market and generally operate only during holiday periods. The average standard of facilities is low, rates are at budget level and for many of these providers yearly income from tourism does not make a living. This, so-called informal tourism sector comprises small rural hotels, B&Bs, guesthouses, self-catering bungalows, tourism farms and camping sites. When using the definition of rural accommodation introduced by the World Tourism Organization they are located in rural municipalities with less than 10 000 inhabitants. On this basis it can be calculated that almost 70% of all of the year round 600 tourism accommodation establishments in Estonia, and half of the tourism beds have a rural location.

The rural tourism contrasts sharply with tourism based on large urban areas where the latter operates at a different scale and is generally managed by professionals. In the rural areas, non-professionals need much more guidance, support and mutual co-operation. In addition rural providers use different marketing and distribution channels.

4.10.3. Advantages of rural Estonia as a tourist destination

Despite its small size Estonia's has a remarkable variety in landscape, climate, ethnicity, cultural heritage and traditions. Given these features and its position, there is considerable potential for the further development and diversification of the country's rural tourism sector. Recognising the potential for the development of tourism, it is acceptable that the demand for demand for visiting natural and rural areas will continue to increase. With growing income and prosperity, domestic rural tourism is bound to expand. Rural areas have unique attractions and characteristics with appeal for "special interest" market groups.

In the context of the rural areas of Estonia, they have a number of features, which contribute to their potential for the promotion, and development of tourism. These include:

-  relatively short distances to and excellent access from NW and Central Europe.
-  highly attractive countryside with low population density coupled with a clean non-polluted environment with a large number of tourist attractions and activities to undertake.
-  an ideal summer climate for both active and passive holidays
-  an extensive network of good quality roads and waterways, making every part of the country easily accessible for all modes of transport
-  a basic but well distributed system of tourism facilities and services including a network of Tourism Information Centres all over Estonia, each of which has a homepage on the Internet.

In this context, a number of benefits can be derived from the promotion and further development of rural tourism in Estonia. These include for example: the distribution effects on income and employment across the country; employment benefits for women; employment effects both direct and indirect (it is estimated that each tourist bed provides one job if account is taken of indirect jobs created). A prerequisite of rural tourism is an attractive and well cared for countryside, implying that tourism encourages environmental control,

landscape maintenance and good nature management. Dedicated efforts to spread tourism will not only increase export earnings and distribute income and employment more equitably across the country, but will also alleviate increasing pressure on Tallinn.

Problems with rural tourism product

Despite rural Estonia's definite potential for tourism development, there are a number of problems to be addressed if this potential is to be realized. These can be identified as follows:

- (i) Many rural accommodation and other tourist facilities offer low standards and little product differentiation and specialisation. Many entrepreneurs do not provide the level and variety of services needed to make rural Estonia an attractive destination for prolonged holidays.
- (ii) Estonia's rural tourism product is still relatively young and most of the operators have limited skills and experience in the tourism sector. Many farmers and other rural entrepreneurs have opted for tourism as an economic necessity rather than from the motivation of having a real interest in providing hospitality services to meet the demands of most international markets.
- (iii) Estonia's rural tourism needs more effective marketing and promotion. Many tourism providers lack the know-how and financial resources. In addition, many tourism organisations are small and have no common platform for mutual cooperation.









4.10.4. Rural Tourism Organization

In order to address these weaknesses and to ensure an objective national basis for the allocation of loans, grants and subsidies, there is a need for a dedicated organisational structure to develop horizontal and vertical co-operation and co-ordination at local, county and national levels. Over the last few years, efforts have been made to achieve better co-ordination and co-operation among rural accommodation providers.

Several organisations were set up, either as a service to its members (e.g. the Estonian Farmers Union, which runs a network of B&B accommodation based around farms in Estonia) or to strengthen the sector in particular regions (e.g. "Mere" in Saaremaa and the SETDA in South Estonia) or to promote particular types of tourism such as ecotourism which is a growing phenomenon (e.g. the Estonian Eco-tourism Association).

Despite these developments, the need still existed for a single national rural tourism umbrella organisation. At the beginning of 2000, a non-profit organisation, Estonian Rural Tourism was established. Its objective is to provide services to its members on a non-commercial basis, serving primarily accommodation providers, representing the largest and most important group of tourism facilitators in the sector. Other types of tourism business may join as associated members. Although to a varying extent, the existing organisations mentioned above, are all providing useful services for their members and should continue to do so, they could become, as has already happened in some cases associated members of Estonian Rural Tourism where they have a common platform for dialogue and concerted action.

One of the key issues in developing rural tourism is to guarantee that tourists will make additional expenditures and will buy more than essential accommodation, food and transport. To achieve that minimum quality standards are necessary, otherwise the future of tourism in the region is doubtful. Training, which teaches different entrepreneurs to unite their services and thereby develop more complete tourism products, is necessary. The improvement of the overall image and quality of the Estonian rural tourism product requires central co-ordination, planning, priority-setting, regulation and control. In particular the proper and sustained promotion and marketing of Estonia's rural product, both domestically and abroad, needs a central, unified, professional and autonomous organisation. The tasks that need to be carried out by the organisation include:

-  the establishment of the necessary platforms and communication networks for consultation and strategic co-operation (horizontal and vertical communication),
-  the implementation of the major provisions of the Rural Tourism strategy (draft, to be formalized by end of year, 2000)
-  the operation and maintenance of a data bank of rural accommodation providers,
-  product improvement and quality control: implementation including the operation of the rural tourism grading and labelling system,
-  institution of a rural tourism training programme and its implementation,
-  implementation of a common booking system,
-  execution of various rural tourism marketing and tour operating actions
-  assisting with identification and budgeting of priority rural tourism projects for funding by SAPARD and other donors.

4.11. RURAL PHYSICAL INFRASTRUCTURE

4.11.1. Road network

The Estonian road network consists of state roads, municipal roads and private roads. The state network is maintained by the central government. Municipal road maintenance is funded from the local budget and suffers from insufficient state support. The current private road network has been established over the centuries and was maintained up to 1990 by large agricultural and forestry holdings (state farms and collective farms). Within the last 10 years the maintenance of these gravel roads has been insufficient due to the lack of owners, but now mostly due to the lack of funds. The private road network includes small farm roads, necessary to provide access from farm to public road network. The particular road length may vary from a few hundred metres to a few kilometres. Mostly the private roads provide access to more than one farmer, thus being free roads with no trespass restrictions.

4.11.2. Electricity and telecommunications

The electrification of the countryside was almost completed in 1970-1975. During the land reform, however, there are few re-established farms without electricity. However, the power lines are mostly in need of renovation as today's farms consume much more electricity than 30 years ago. In addition, the requirements of modern technology are much higher on the electricity quality (low voltage and voltage deviation). In most cases, problems lie in low-voltage network, however, if the node length exceeds 600 metres, the intermediate sub-stations may be required. The equipment of sub-stations is expensive and established power lines may be in need of renovation.

During the last decade, the mobile communication sector has rapidly developed, covering by now almost the whole territory of the country. However, the wire-network remains a bottleneck for the rural population and especially restricts entrepreneurship as the telecommunication costs are about ten times higher using wireless network. In respect of data communications, the wireless network today provides very low connection speeds. In Estonia, especially in urban areas, the Internet has been very widely used, as shown also on latest international comparative studies. The problem is, that the rural areas are seriously behind in this development and thus need significant support to establish sustainable conditions for information exchange. This will enable improvements in the marketing of agricultural products, especially on niche-products. On-line internet connections are also important for the development of the rural tourism sector.

4.11.3. Water supply and sewage

Estonian villages are characterised by very low population density – resulting in distances from one holding to another falling in the range of 500 m to 2 km, what makes questionable the investment in common systems. On densely populated areas of former large holding centres common water supply and sewage systems exist, however, many are in need of renovation as these were built for different economic conditions and often are outdated.

Concerning drinking water, its quality is poor if it is taken from high water layers. However, the layers with excellent water quality and capacity lie often beyond 100 meter depth and thus the investment for dwellings is quite high. On other hand, the water and sewage supply is essential for modern farming, as well as for public health.

4.12. AGRICULTURAL EDUCATION AND RESEARCH

4.12.1. Provision of academic and vocational education

The Estonian Agricultural University provides academic education in the field of agriculture and rural economy. The state allocation for this purpose is 4 million EUR. In 1999, 184 students graduated from the Estonian Agricultural University with a Bachelor's degree, 45 with a Master's degree and 8 with a Doctor's. This year, 134 students were admitted to Master's studies and 36 to Doctoral studies. The Agricultural University is involved in high-level educational, research and development activities in all fields of agriculture and the rural economy, and disseminates research results to practitioners. The scientific staff of the Agricultural University consists of 266 researchers with Doctoral degrees and 125 researchers with a Master's degree.

Vocational training is provided by 18 vocational schools teaching specialities related to agriculture and other areas of the rural economy. Originally administered by the Ministry of Agriculture, they were recently transferred to the administration of the Ministry of Education by a resolution of the Government of Estonia. Popular specialities, which are taught, include courses in: computers and computer networks, information technology, land survey, trade and business, organisation of tourism and repair of vehicles and machines. Students who obtain qualification in these subjects have better chances to find jobs in the future, because the decrease of employment in purely agricultural production is continuously high. In this regard, the decrease of employment in rural areas has had a significant impact on the admission of student to vocational schools for courses in agricultural specialities. There has been a particularly large decrease in such admissions in the last two years. In 1999, only 146 students were admitted to specialities of agricultural and farming, including 42 students of special needs in the speciality of farm work.

Chapter 4 indicated that around 6.7% of those working in rural municipalities (just under 11,000 people) hold regular jobs on farms. Considering that farm ownership changes at an average every 25 years, approximately 500 new students should be admitted to the speciality of agriculture in vocational schools every year. It should also be considered that people living in rural areas do not only work on farms, It is estimated that around 45000 work in the agricultural sector. Approximately 1800 new students should be admitted every year. The situation has now been reached in Estonia where the admission of new students does not guarantee the necessary new generation of educated farmers. Measures have to be taken in many areas in order to address this issue, which are essential to promote sustainable rural life. Actions could be taken to improve the popularity of specialities related to agriculture and rural life such as the inclusion of new specialities in schools; making school life more attractive; early vocational counselling; improved advertising and awareness.

A further problem in this regard concerns the absence of vocational standards and state approved curricula in many specialities. This has hindered the activities of vocational schools in the development of new curricula. In addition it is extremely important for students to experience a practical production course in the curriculum of the speciality of agriculture that takes place in farms and in other agricultural enterprises both in Estonia and in other states.

4.12.2. Agricultural extension and advisory service

The Ministry of Agriculture launched the state agricultural advisory services programme in 1995. Subsidies for these services allow farmers to hire the most efficient and suitable advisers, using state funding. This funding has been continually increased from 1996 to 1999 when 2689 agricultural producers availed of the service and approximately 400.000 EUR was paid through subsidies. The advisory services programme includes individual advice and group activities.

Individual advice

In order to extend personal advice, producers have to be assisted to purchase advice. One of the preconditions for getting the subsidy is that the producer must pay part of the price. The scheme obliges the beneficiary to accept responsibility when choosing an adviser and defining his or her tasks. The price of advice is determined by agreement between the producer and advisor depending on the scale and quality of advice needed. The maximum amount of subsidy per producer was 200 EUR (in 1999), while the producer had to pay 15% of the price of the advisory service, and the amount of additional subsidy was 400 EUR, with 50% of the price paid by the producer. Animal breeding, plant cultivation and the economics of agriculture accounted for most (ie 86%) of the topics on which advice was sought.

The precondition for eligibility to receive subsidised advice is that the farmer must be registered and engaged in agricultural production for at least the legal working time standard. Subsidies are also provided for persons engaged in undertakings other than traditional agriculture and for the establishment of production. The maximum annual amount of subsidy for an undertaking is fixed. County government agricultural specialists review and register the advisory contracts and reports, and pay out the subsidies to advisers.

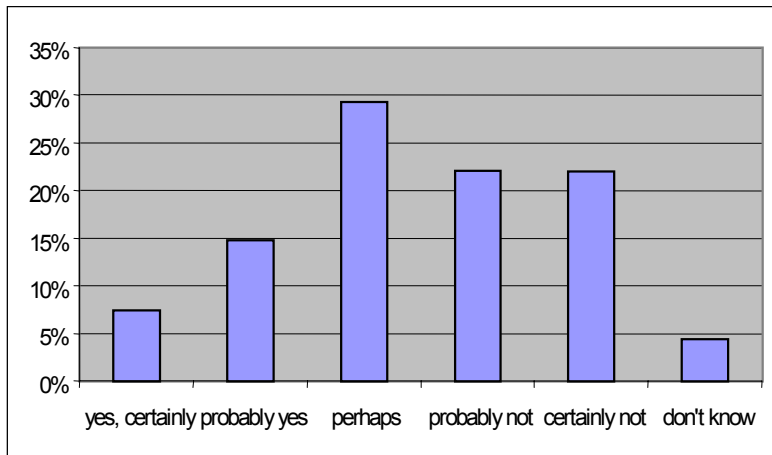
Group activities

The advisory service is not sufficient to provide individual advice for all rural undertakings. Knowledge and understanding can also be gained from training sessions, courses, literature and publications. Such events have also received state support. More than 850 training events have taken place on both county and national level, with an average of 30-35 participants. The topics introduced were the efficient production of quality plant and animal products, legislation, and alternative lines of business.

Feedback questionnaire

For several years a company called Rural Life Development Centre has been organising an advisory questionnaire commissioned by the Ministry of Agriculture. The purpose of the questionnaire is to clarify the results of the advisory service – the level of producer satisfaction, improved knowledge and the impact on economic results. The information is used to increase the quality of the advisory service and as feedback on the privatisation of the service. The questionnaire is sent to all producers who participated in the advisory subsidy scheme. The main results of the 1998 questionnaire are presented below.

Figure 19 Farmers willingness to pay for advice 50%



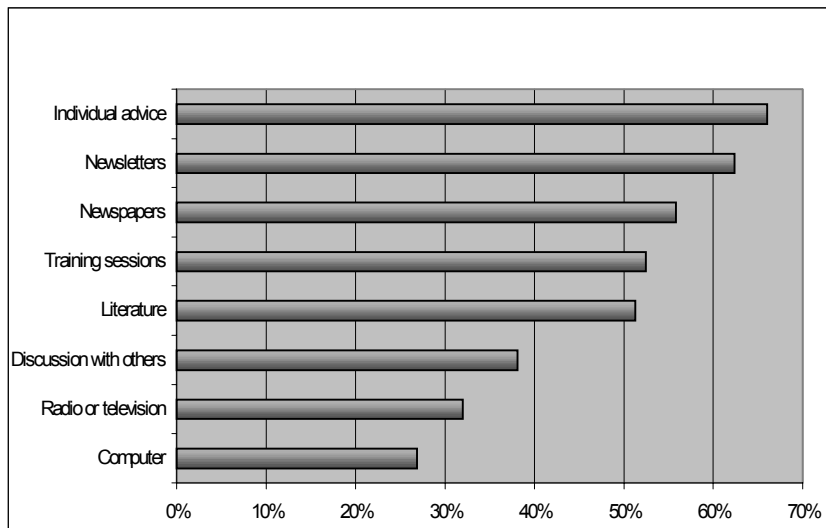
A high level of satisfaction (89%) was expressed with the level of advice provided.

Eighty percent considered the advice given was value for money. However only 25% said they would have paid for the service if they had to contribute 50%.

In order that the advice is most suitable for agricultural producers, different advising methods and information channels have to be combined.

- The farmers' preferred ways of receiving advice are presented in the following diagram.

Figure 20 Preferred way of receiving advice



One to one advisory sessions are the preferred method for most of the farmers. Group methods through training sessions or discussion with others are less favoured. Technology based training is least favoured. Such feedback is significant as it is important that producers and advisors communicate on product development so that the advisory market can

quickly develop and operate without state funding. The farmer is a key figure on the market where advice is sold for money as a commodity.

4.12.3. Training and Support for Advisors

In order to ensure that the advice given is of a high standard and meets the farmers' requirements, all advisors must have received sufficient preparation both in professional knowledge and advisory skills.

By the end of 1996, the list of registered agricultural advisers included 94 companies with 411 advisers and 125 sole proprietors. In order to improve the quality of advisory services, the certification of advisers was initiated in 1997. A commission, including representatives of the Estonian Farmers' Central Union, the Agricultural Producers' Central Union, The

Association of Rural Advisors, and the Ministry of Agriculture review the applications and use the help of experts to assess advisory skills, holding an interview with each candidate. 183 advisers have been certified during two years, including 43 who were awarded the position of senior advisor. Although only certified advisors may participate in the subsidy scheme, there are many other competent advisors in Estonia.

To raise the professional level of advisors, a continuous development plan is implemented in the form of courses, training sessions and information days, where the advisors can state their wishes and information needs. This task is partly fulfilled by the Estonian Association of Rural Advisors, which unites advisors and those interested in the development of advisory services. It has also been a significant partner for the Ministry of Agriculture in representing the interests of rural advisors. The advisory activities of farm unions are directed to those farmers who are entitled to use advisory subsidies, and to small producers. Advisory contracts are being made and training and consultations are provided in all counties.

The Estonian Farmers' Central Union has also taken the trouble to work out computer software for farmers and advisors. The first parts of the integrated system 'Talutark' are already in use. The Estonian Agricultural Producers' Central Union provides training and complementary education on two levels. It trains chairmen of county unions and councils. County unions in their turn provide training for their local members. The Jäneda Training and Advisory Centre organises courses and information days each year. This year's participants included around a thousand agricultural producers, advisors and teachers of agricultural schools and other interested people. It has been partnered in several international projects with Denmark, Sweden and Germany.

4.12.4. Agricultural research

Scientific research in the six faculties of the Estonian Agricultural University and the seven related research and development institutions is based on specifically financed research topics. In 1998, there were 36 specifically financed research topics in the Estonian Agricultural University. 119 research projects (grants) were financed by the Estonian Science Fund. Research grants for the field of agriculture formed the largest share of the total (78.9%). Within the Agricultural University, agricultural sciences accounted for 61.8% and natural sciences accounted for 30.3% of the total research grants. Approximately EUR 1,4 million has been allocated for 1999 for the specific research topics of the Agricultural University and grants from the Estonian Science Fund for 107 research topics amount to approximately 10million EEK.

Agricultural research for the development of the Estonian agriculture is also carried out in the following research institutions (in the field of administration of the Ministry of Agriculture):

1. Estonian Institute of Agrarian Economics;
2. Estonian Institute of Agricultural Engineering;
3. Estonian Research Institute of Agriculture;
4. Jõgeva Plant Breeding Institute;
5. Estonian Agrobiocentre.

The total amount spent in Estonia in 1998 on scientific research and development activities in all areas of agriculture amounted to approximately EUR 3,3 million. The above research institutes are mainly involved in applied research in the field of administration of the Ministry of Agriculture. Knowledge intensive production methods have become a cornerstone of their activities. Each institute has its own area of expertise. The Jõgeva Plant

Breeding Institute undertakes basic research on seeds. The Estonian Research Institute of Agriculture is involved in examining changing production technologies. The Estonian Institute of Agrarian Economics specializes in agricultural economy research, while the Estonian Institute of Agricultural Engineering develops research to improve machine technologies. In the last few years, the Estonian Agro-biocentre has developed vaccines for pigs and bovines.

4.12.5. Conclusions on education and research

Academic and vocational training is provided in Estonia through the Estonian Agricultural University and some 18 vocational schools. A decrease of employment opportunities in rural areas has had a significant impact on the admission of students to vocational schools in agricultural specialities. In order to be ready to apply the unified agricultural policies of the European Union and reorganise Estonian agricultural production in accordance with European requirements additional training of active farmers is required. Greater efforts are required to improve the popularity of specialist courses related to agriculture and rural life. Actions are needed to build on the existing experience of the development of competence-based training program for farmers by the Ministry of Agriculture and the Estonian Confederation of Farmers at the Võrumaa Vocational Education Centre.

In order to slow down the continuous increase of unemployment in rural areas and to decrease internal migration to cities, the training and re-skilling of people associated with agriculture and rural life should be included among the national priorities of adult education. Estonia has developed an agricultural advisory services programme, which has been well received by agricultural producers. Further efforts are required to develop the programme so that it can operate without state funding. Evidence suggests that farmers prefer to receive advice on an individual basis and least prefer technology-based training.

Finally Estonia has a network of agricultural research establishments under the administration of the Ministry of Agriculture as well as the Estonian Agricultural University, which provides academic education in the field of agriculture and rural economy. These are mainly involved in undertaking applied research.

5. OVERVIEW AND EVALUATION OF PREVIOUS KEY ACTIONS

Earlier activities supported by the foreign assistance:

- * European Union: Phare programme 1996-1999 - covers activities, which involved following EU Phare Programmes: ES9610, ES9611, ES9621 and ES 9803
- * European Union – SPP programme
- * World Bank Agriculture Loan Project
- * DPP – other donor-funded programmes described in Annex 1

Actions, taken fully by the local funds, are not covered in this overview.

5.1. EUROPEAN UNION: PHARE PROGRAMME

Agriculture - Programme No ES 9610

Budget 1 mill. EUR, of which 999,427 EUR is covered with contracts and 89%, is used.

- * Assistance to accession planning and policy advice – 133,245 EUR – completed.
- * Food quality and control network – 76,300 EUR – completed.
- * Development of Food and Veterinary Inspectorate – 399,905 EUR – completed, last invoices are being paid.
- * IT procurement for food quality and control network – 390,550 EUR – completed.

Land Reform - Programme No ES 9611

Budget 2 mill. EUR, of which 1,883,200 EUR is covered with contracts and 81%, has been used.

- * Information system for and reform and land use monitoring – 246,935 EUR – completed.
- * Strategy and design of land information system – 266,750 EUR – completed.
- * Support for acceleration of land reform – 430,000 EUR – completed.
- * IT procurement for land information system – 856,315 EUR – completed.

Regional development: agriculture - Programme ES 9621

Budget 2 mill. EUR, of which 1,610,306 EUR is covered with contracts and 47%, has been used.

- * Agricultural grants scheme – 150,000 Euro – completed.
- * Institutional strengthening of Ministry of Agriculture – 02/2000.
- * Micro credit scheme – 08/2000.
- * Policy advisor – completed.
- * IT procurement for agricultural register – contracts are being concluded.
- * Food quality and control information network – contracts are being concluded.
- * Rural tourism, alternative activities and land use policy – 4/2000.
- * Investigation of agricultural buildings – contract is being concluded.

Modernisation of agriculture sector - Programme ES 9803

Budget 2.857 mill. EUR, of which 1,092,936 EUR is covered with contracts and 3%, has been used.

- * Agricultural information system – contract concluded.

- * Phytosanitary control service.
- * Preparations of fisheries sector for accession.

5.1.1. Selected activities from earlier EU Phare Programmes

Strengthening of Ministry of Agriculture and its subdivisions

Assistance under this component has mainly consisted of expert foreign assistance in general policy and specific issues. The projects include *Project Management Unit and other support to the Ministry of Agriculture* (ES-9506.02.01 – end October 1998), *Policy advice to the Ministry of Agriculture* (ES-9403.03.03, ES-9610.01.01 – end December 1998), *Support to the Ministry of Agriculture in institutional strengthening and accession related activities* (ES-9621.02), and *Senior policy adviser to the Ministry of Agriculture* (ES-9621.02). Assistance has been extended to PHARE project co-ordination and the World Bank agriculture loan administration. The objective of the institutional strengthening project was improvement of the Ministry's administrative systems, to train staff and provide expertise in various areas (the project lasted until February 2000). Expert assistance in EU accession issues was provided for the Ministry.

Main results: Valuable advice has been given in EU accession matters, also institutional capability has increased in the Ministry of Agriculture

Advisory service

The project "Development of Advisory Services" (ES 9302.01.02, ES-9402.02, ES-9403.03, ES-9506.02) was carried out between October 1995 and March 1998. A relevant support unit was established at the Ministry of Agriculture immediately prior to project commencement. The project laid a basis for the agricultural advisory system and an advice fund that covers part of the farmers' costs of receiving advice. The British Know How Fund also supported the project: preparations were made for the advisory component of the World Bank loan, and subsidised private advisory service was launched. Large-scale publicity and several training courses were organised in 1996-1997. Agricultural advisors, employees of the Jäneda Training and Advisory Centre and members of the support unit at the Ministry of Agriculture were trained in various relevant skills throughout the project.

In the subsidised private advisory system, the farmer pays a part of the individual advisory contract price. The farmer's contribution rate is increased each year, from the initial 10% to 100% in 2005.

Agricultural advisers are joined together under an umbrella organisation – Estonian Association of Rural Consultants – being the link between the Ministry of Agriculture and the agricultural producers. On the initiative of the organisation, in 1996 the certification of advisers was started, resulting in a national scheme for financing advice only provided by certified advisers. The organisation also participates in development of national advisory strategies.

Main results: Agricultural advisory system and system for covering farmers costs on received advice was developed.

Agri-environment

The Project "Development of an Agri-Environmental Scheme in Estonia" (ES 9507.03.01.001) was carried out in August-December 1999.

The general aim of this project was to assist the Estonian Ministry of Agriculture (MoA) in the development of an agri-environment programme (AEP) for Estonia.

The specific objectives of the project were to make detailed proposals for:

A national AEP for Estonia that is compatible with the requirements of EU legislation, notably the forthcoming Rural Development Regulation, including proposals for:

- general programme structure;
- detailed agri-environmental measures;
- associated training and information programme;
- administrative arrangements, including control, monitoring and evaluation;
- financial and legal considerations;

A Pilot AEP Project that can be implemented in two contrasting regions of Estonia.

All activities were conducted in partnership between the local and foreign experts. Common working practice included broad consultations with the Ministry of Agriculture (MoA).

Wider consultation beyond the MoA was also very important in developing the proposals for the National AEP as well as helping to raise general awareness of agri-environmental policy and practice in Estonia. Over 150 additional stakeholders were consulted during the project.

5.1.2. Programme ES 9610

- *Development of Veterinary and Food Inspectorate* (ES-9610.01.01). The project included advising the Inspectorate on issues of internal procedures and improving the efficiency of border control, and training of inspectors in the field of veterinary and food inspection. The other project beneficiaries are the Veterinary and Food Department of the MoA and the Veterinary and Food Laboratory.
- *Design of integrated food quality and safety information network* (ES-9610.01.01), under which system analysis was performed for all institutions involved in food inspection, and as a second stage of the project, the necessary hardware was procured for these units. The third stage of the project includes development of software for exchange of information on food safety emergency situations between all institutions concerned.

5.1.3. Programme ES 9611

Acceleration of land reform

Three PHARE expert assistance projects under the 1996 Country Operational Programme were targeted at the Land Board with the general objective to accelerate the land reform and improve the structures and information systems of the Land Board. The projects were titled *Acceleration of land reform and preparation of land sector for the accession to the EU* (ES-9611.01.01), *Development of land information system*, (ES-9611.01.01), and *Development of information system for monitoring land reform and land use* (ES-9611.01.01). All projects commenced in late autumn 1997 and ended in the first half of 1999. The results of the projects were

- a strategy for land information systems;
- a list and descriptions of technical equipment;
- a municipal information system with data on the specific purposes of land and the related tax rates;
- analysis of the course of and obstacles to the land reform, proposals to overcome these obstacles;

- an improvement plan and training programme for the Land Board;
- analysis of the compliance of Estonian land legislation with the EU requirements.

Information technology equipment for the implementation of the land information system was procured for the Land Board under a separate project in 1998-1999.

Main results: As a result main problems of land reform were identified and proposals for acceleration suggested. Also the information systems were developed, which helped to accelerate the reform process.

5.1.4. Programme ES 9621

Rural financing

Three projects have been implemented in this area, the first of which was titled *Training for rural banks' loan officers* (ES-94.02.01). The project commenced in autumn 1997 and concluded in July 1998. The target group for this project were the loan officers of commercial banks, staff of the Rural Loan Guarantee Foundation and the Agricultural and Rural Credit Fund, and agricultural advisors. Training was carried out from February to July 1998 in 6 different modules.

Main results: Officers of commercial banks and staff of RLGf and ARCF are able to better manage the allocated funds.

The second project was titled *Implementation of an agricultural grant scheme* (ES-9506.02.01, ES9621.02.01). The project commenced in summer 1997 and lasted for 1.5 years. During this time, agricultural advisers and independent experts were trained in preparation of capital support applications and business plans, and county officials were trained in evaluation of applications. Assistance was extended to the preparation of the 1998 capital support documentation.

Main results: As a result government adopted agricultural grant scheme. In 1998 3.3 MEUR and in 1999 4.7 MEUR were allocated from state budget.

The third project, *Development of a micro credit scheme* (ES9621.02) commenced in February 1999 and lasted until July 2000. The task of the project is to work out an innovative system of micro credit by using the existing savings and loan associations. The micro credit scheme is established to provide alternative loan sources for rural areas where the requirements for commercial bank loans cannot usually be met. The scheme will be first tested in 3 savings and loan associations, then introduced on a larger scale and advice will be given to implement the scheme in other savings and loan associations. The initial credit resource is assigned from the 1999 state budget.

Main results: The micro credit scheme has been launched as a result of Phare project. Administrative framework to run micro credit scheme has been developed and guidance and training has been given to savings and loan associations to maintain the scheme.

Development of rural tourism, other alternative economic activities and land use policy

The project ES 9621/0201 was provided from 1998 to 2000 with following components:.

- The rural tourism component included the development of a rural tourism strategy and a permanent training programme in the field of rural tourism, and the publication of a rural

tourism development manual. An organization is established, responsible for further development of sector (see Rural Tourism section of Chapter 5).

- Development of alternative economic activities included research covering all activities, which could be successfully pursued in Estonia and for which both a domestic and foreign market exists. A manual is published on alternative agricultural production activities and other rural activities, including an assessment of the economic efficiency of these activities.
- Land use policy included the preparation of recommendations for the organisation, planning and zoning of land use. The project introduced Geographic Information Systems within the Ministry of Agriculture and laid base for further zoning processes for different purposes.

Ongoing projects:

IT equipment for Agricultural Register (ES-9621.02.06), under which computers and servers have already been procured for central and county land amelioration bureaux and other agencies in the field of administration of the Ministry of Agriculture. Further activities include procurement of software and training.

5.1.5. Programme ES 9803

Besides to SPP-related projects, two projects have been/are being implemented from the 1998 PHARE budget:

- *Development of agricultural information systems* (ES-9803.01.01), concerning the development of agricultural statistical and accounting systems: FADN – *farm accountancy data network*, EAA – *economic accounts for agriculture*, MIS – *market information systems*, and
- *Development of phytosanitary services* (ES-9803.01.02), which is focused on modernising the laboratories of the Control Centre of Plant Production.

5.1.6. Phare Special Preparatory Programme for the Structural Funds

The objective of the SAPARD component of the PHARE SPP (ES 9803.04) has been to enhance Estonia's capacity to implement SAPARD programme.

The specific objective has been to develop the necessary programme framework to enable Estonia to immediately benefit from the SAPARD.

The following activities have been or are being carried out:

Adopting EU regulations related to the use of EAGGF, financial control and management.

Preparation of intersectoral and integrated Rural Development Plan with priority measures and carrying out prior appraisal of the plan.

Preparation of SAPARD implementation guidebook and application packages.

Developing of structures and procedures tested during implementation of pilot project.

Developing of information system to work with applications, for monitoring and control and developing and applying of financial management.

Training of officials and specialists on all levels to prepare and administer the programme.

During the programme several EU short-term experts and twinning experts have provided useful expertise to the Ministry of Agriculture and Agricultural Registers and Information Centre in the preparation to administer SAPARD programme as specified hereinafter:

- * preparation of the Rural Development Plan (ES 9803.04.0004, 0005, 0006);
- * preliminary (ex-ante) evaluation of the RDP (ES 9803.04.0007 - twinning);

- * elaboration of procedures of book-keeping (ES 9803.04.0007 - twinning);
- * elaboration of the internal control, on-the-spot and ex-post system (ES 9803.04.0007 - twinning);
- * elaboration of the documents e.g. application forms, business plans (ES 9803.04.0007 - twinning).

Phare SPP Rural Pilot Project

The PHARE SPP Rural Pilot Project (ES 9803.04.0001) has been established to develop necessary skills for the programming, project management and financial administration and control required under SAPARD/Structural Funds as well as to support economic development of the Southern Estonia region through co-financing investment grants for non-traditional production in farms and rural diversification. The project has started in September 1999 and scheduled to be completed by the beginning of the year 2001. The amount of the expenditure covered by EU is 750 000 euros.

The following activities have been or are being carried out:

- preparing of criteria, procedures and proceedings for implementing of Rural Development Programme;
- training administrative staff, advisers and beneficiaries;
- evaluation, financing and control of projects in farms for piloting procedures.

By the 30 June 2000, 99 grant applications have been evaluated in the County Commissions, from them approved for the grant investment 91 and refused 8. For the training grants applied 39 candidates, which all were approved. From the total contract amount of 640 000 euros 128 000 euros has been committed.

Phare SPP Technical Assistance Project

The overall objective of the project (ES 9803.04.0009) has been to identify, procure and manage, technical assistance input necessary for the implementation of the measure SAPARD within SPP. The project is being administered by Estonian Rural Advisors Association in close co-operation with the MoA and ARIC. The project has started in July 2000 and will be completed by the beginning of the year 2001. The total amount of expenditure under this project is EUR 137 500.

Expertise is being provided in the following fields:

- * Current needs and priorities of the food industry (incl. fishery sector)
- * Farm technology, hygiene and animal welfare in farms
- * Rural infrastructure
- * Assessment of needs of agricultural vocational education
- * Farm machinery needs survey
- * Farm structures survey
- * Amelioration strategy
- * Comparative analysis of county development plans, agriculture sectors
- * Preparation of administration, business plans, logistics for individual projects
- * Preparation of business advisers training methodology and supervision
- * Preparation of technical specification of IT and programmes for Dbase for the PA
- * Preparation of procedures for local control
- * Preparation of business plan evaluation methodology
- * Preparation of book-keeping procedures
- * Preparation of PR planning
- * Preparation of guidance manual
- * Preparation for internal control

- * Preparation of senior management supervision
- * Preparation of control sampling
- * Preparation of payment procedures
- * Preparation of development guidebook
- * Preparation of job descriptions
- * Preparation of recruitment and training plans
- * Preparation of irregularity procedures
- * Preparation of risk evaluation methodology
- * Preparation of procurement procedures
- * Preparation of control check-lists

Phare SPP residual services

The overall objective of the assignment (ES 9803.04.0008) has been to organize training sessions, seminars, exchange visits, translation and publications within the SPP Programme in Estonia. The services have been provided by the Netherlands Economic Institute in total amount of 100 000 euros. The project has started in February 2000 and scheduled to be completed by the beginning of the year 2001.

Under SAPARD component the following activities has been or is being carried out:

seminars of EU basic course
 seminars of SAPARD and ARIB administrating
 training of customer service and intercourse
 management and intercourse training followed by exchange visit to Austria
 internal audit training followed by exchange visit to Netherlands
 training of programming of Oracle followed by exchange visit to Netherlands
 seminar for control officials concerning the documents and procedures
 seminar for agricultural counsellors concerning the documents and procedures
 publicity seminars for potential beneficiaries
 preparation of internet homepage
 editing and printing of documents

5.2. WORLD BANK AGRICULTURE LOAN

The loan project No 3983 EE (loan of DEM 22 million) was launched in 1995 with a 40,132,000 DEM total budget. Actual use of the loan funds began in summer 1997. By end of 1999, after the first half of the total project duration, DEM 24,96 million, including DEM 12,96 million of loan resources have been used. The project lasts until end of 2001.

The project consists of five components – land reform, rehabilitation of land amelioration systems, environment protection, advisory service and food and veterinary inspection. The project involves subdivisions of the Ministry of Agriculture, the Ministry of Environment (land reform and environment protection) and the Ministry of Finance (payments). A Project Steering Committee and an Implementation Unit have been set up in the Ministry of Agriculture.

The simultaneous implementation of several sources of financing, system decentralisation, limited-resource project management (three-member project implementation unit at the Ministry of Agriculture) and inter-institutional co-operation (three Ministries) have provided a valuable experience.

5.2.1. Land reform

Cadastral surveys of 150,000 hectares, in particular in the areas covered by the land amelioration component of the project, were planned under this component. The project plan initially included completion of the basic geodesic network, but the state budget funds for this activity are insufficient and loan resources will not be used. The land amelioration component was already launched in 1995, but the first contracts under the land reform component were concluded only in 1997/1998, consequently only 6% of the planned resources have been used. This section of the budget has been, and probably will be further reduced. In collaboration with a EU Phare project in the field of administration of the Land Board, proposals were made to amend the legislation concerning the land reform and land readjustment. The main parts of these amendments have been implemented, and their effect should become evident in year 2000.

5.2.2. Land amelioration

The objective was to rehabilitate drainage systems on circa 60,000 ha by involving the landowners and users through the local land and water associations. By end of 1999, DEM 13.7 million or 80% of the budget had been used. Due to the better than expected results (the land area is already more than 70,000 ha), additional funds were allocated to the component on account of reserve loan amounts. In collaboration with the Dutch state aid programme IDLDP, land readjustment was included in land amelioration activities and building activities were extended to the reconstruction of other infrastructure elements (local roads network). The organisation that formed in the course of the project is a strong basis for further development projects financed under SAPARD (*unfortunately, the relevant component wasn't included in the SAPARD in hope of availability of follow-up loan project*). At the same time, the activities already started have to be continued – the bulk of Estonian ameliorated lands (up to 640,000 ha in total) should be rehabilitated in 10-year cycle. The land reform and environment protection components should not be divided in future activities, but the problems should be solved with contracts covering all the necessary activities – some companies have successfully participated in tenders for consulting services under all three project components.

5.2.3. Environment protection

The main objective is environmental monitoring of land amelioration activities, for which laboratory equipment was procured. The monitoring programme covers support for selected objects and involves non-government organisations in the field of engineering, construction, and within a year after the objects are completed. A total of DEM 1.16 million (95% of the total estimate) has been used under this component.

5.2.4. Agricultural advisory service

The basis for this was laid under several earlier EU Phare and bilateral aid programmes. 170 agricultural advisors who can advise farmers in a wide range of issues have been attested. A complementary training system has been established for advisers, which covers both professional advising activities and subject-specific training. 83% of the budget for this has been used, including only 33% of the loan resources – this is mainly due to the use of EU Phare funds until spring 1998. The further maintenance of the advisory service is necessary to ensure a sufficient number of quality projects to use the SAPARD financial resources; the advisory service with its efficient information dissemination system also helps to meet various EU requirements during accession.

5.2.5. Food and veterinary control

The main objective of this Component is to ensure an efficient and modern food and veterinary control system to control the quality of imported foods and to facilitate our exports to EU and third markets. Besides the procurement of laboratory equipment, a major training project will be implemented during 2000. By end of 1999, Component has used already DEM 3,62 million (152% of initial plan). Expenditure under this measure has exceeded the initial budget owing largely to the fact that the state started to finance specific analyses, which were earlier funded by the farmers. Further financing of investments is still necessary to ensure the technical level of the system to be maintained.

5.3. FORESTRY RESEARCH AND DEVELOPMENT PROJECTS

The Forest Board under the Forestry Development Programme launched a number of research projects. The most important of them are:

- EC1. Inventory and development of forestry protection areas network. The objective is to increase the area of forests under strict protection to 4% of the total forest area. Field works have so far been performed in the forests of half of the Estonian counties. The work is continued in collaboration with Danish experts.
- EC2. Development of a biological diversity strategy for commercial forests. The short-term objective is to prepare guidelines for sustainable forest management and protection of biological diversity, and to train forestry planners to ensure the compliance of all forest management plans with nature and environment protection considerations. The final project report – Biological diversity strategy for commercial forests, was completed in June 1998.
- EC3. Development of a system of sustainable forestry criteria and indicators. The initial criteria and indicators are determined on the basis of Pan-European criteria and indicators. The land Board intends to integrate the indicators necessary for assessment of compliance with legislation concerning sustainable forestry and forestry into the new Sustainable Forestry Information System.
- With regard to the deficit of hardwood and softwood seeds and the need to ensure the existence of seed and plant material conforming to EU requirements for reforestation of cut areas and disused agricultural lands, establishment of the Forest Seed Reserve began in 1998.
- With regard to the establishment of stricter environmental requirements on the timber market, preparation of the forest certification standard began on the initiative of the Forest Board together with several institutions and interest groups and in good collaboration with the Ministry of Agriculture and Forestry of Finland.

Some of the above activities of the Ministry of Environment and the Forestry Board provide a good platform for the further development of the forestry measures under Rural Development Plan in collaboration between the Ministry of Environment and the Ministry of Agriculture.

5.4. FOREIGN-AID PROJECTS IN FISHERY SECTOR

FAO “Assistance to reviewing legislation concerning fisheries and fishery policy”

July 1995 – April 1996

57,000 US dollars

The Estonian contribution from the Fish Capital was 15,000 EEK.

FAO experts made a critical analysis of the Estonian legislation concerning fisheries and fishery policy. The project report and recommendations contains valuable advice on bringing the legislation concerning fisheries into compliance with the main international requirements for fisheries, including the EU basic requirements. The Fisheries Department of the Ministry of Environment has repeatedly used the FAO expert report in amendments to legislation and in preparation of the new Fisheries Act.

Technical assistance from Denmark for strengthening of the Estonian fisheries administration 1997-1998

2.3 million EEK

The Danish technical assistance programme for strengthening of the Estonian fisheries administration in view of Estonia's accession to the European Union provided long-term expert assistance at the Fisheries Department of the Ministry of Environment.

The allocation of fishery functions in the Republic of Estonia and in the Fisheries Department of the Ministry of Environment was analysed. As a result, information exchange and co-operation with other Ministries was made more efficient and the distribution of tasks within the Department was optimised. Information was collected and analysed for the preparation of a fisheries development plan and the concept and structure of the development plan were worked out.

PHARE project “Development of more effective management of fisheries resources and compliance with EU legislation” 1997 – 1998

Budget 860,000 EEK

PHARE Portugal (Megapesca) and Ireland (Coillte; Agriconsulting Temporary Association)
Results: PHARE technical assistance and advice for approximation of legislation concerning fisheries was especially well timed, considering preparations for screening the fisheries chapter of EU accession negotiations. The project made a substantial contribution to the critical review of the new draft Fisheries Act. The project also laid the basis for the establishment of a modern statistical system of fisheries in Estonia: the basic system concept was worked out and some essential system components were programmed.

6. AGRICULTURE AND RURAL DEVELOPMENT STRATEGY

6.1. INTRODUCTION

The socio-economic profile, environmental profile as well as the detailed analysis presented in the previous chapter on the agricultural and rural economy provide a framework for a detailed examination of the problems and opportunities facing the rural areas of Estonia and the development of an appropriate strategy. This analysis will be complemented by the experience gained from previous actions. The drawing up of the strategy needs to take into account the findings of the prior appraisal of the plan. This will allow an assessment to be made of the purpose and rationale of the approach adopted, the appropriateness of the strategy presented and the linkages between the objectives, priorities and the measures put forward.

6.2. SUMMARY SWOT ANALYSIS

As part of the framework for examining the problems and opportunities of agriculture and rural development in Estonia, a detailed SWOT analysis has been undertaken. This analysis has two dimensions:

The strengths and weaknesses relate to internal conditions, more specifically in the rural areas of Estonia.

The opportunities and threats relate to external conditions that cannot be directly influenced, but which constitute factors that have to be taken into consideration when defining the appropriate strategies.

The drawing up of a comprehensive SWOT analysis helps to identify in a systematic way the main problems and weaknesses facing rural Estonia. Such an exercise allows for the further identification of those issues, which are the most critical for the development of Estonia's rural economy and society. The detailed result of the SWOT analysis is included in Annex V (SWOT Analysis).

It is structured under headings covering: rural economy and society, agriculture, processing, forestry, fisheries, rural environment including social and physical infrastructure.

Table 18 summarizes the principal findings of this analysis, drawing at the same time on the combined results of the socio-economic profile, the environmental profile and the results of consultations with social and economic partners undertaken as part of the preparations for this programme.

Table 18. Summary of SWOT Analysis for rural Estonia

Strengths	Threats
Good farm structure – 75% of production from technologically viable holdings Natural preconditions for growing traditional crops, remaining competitive (especially grassland for livestock production) Consumer prefers Estonian food products Available quality raw materials for processing industry	Enterprises will not meet EU requirements, seriously restricting their marketing possibilities Insufficient management skills of possible applicants Development of rural economy slow due to weak infrastructure support Continuing loss of skilled labour from the sector

<p>Large forest area and timber capacities Rich diversity of natural habitats, flora and fauna Relatively strong third sector IT development in rural areas</p>	<p>Out migration of active people from rural areas Water pollution from inadequate water management Risk to landscape and biodiversity from unfavourable farming practices</p>
Weaknesses	Opportunities
<p>Very low investment level resulting with outdated technology and low efficiency in agri-food sector General non-compliance of agri-food sector with EU requirements, resulting in low competitiveness in external markets Long-term structural unemployment Poor or inadequate infrastructure (physical and social) in rural areas Slow development of local small-scale wood processing industry Inadequate waste management Decrease in water quality and quantity due to irrational use of ground water</p>	<p>To bring processing industry into compliance with EU requirements and improve efficiency Rapid improvement of agricultural technology, diversification of production and primary processing of products by primary producer Development of technical networks for tele-working environment, improving information exchange through the Rural Information Centres Provide the conditions for joint village activities Development of rural tourism and other supporting activities, providing alternative jobs in rural areas</p>

In drawing up both the detailed SWOT analysis (Annex V) and the above summary table, an attempt has been made to ensure that the findings contained in previous chapters have been taken into account. This has helped to ensure that consistency is achieved in the subsequent identification of the priorities of the programme. The SWOT analysis will constitute the basis for deciding the appropriate strategy and priorities, which will form the basis for the Rural Development Programme.

6.3. CONSULTATIONS WITH SOCIAL- ECONOMIC PARTNERS

As part of the process of analysing the needs of the rural economy and society in Estonia, background research was undertaken to identify the particular problems in specific sectors. These included surveys to identify the needs of the agricultural sector (dairy, plant production and protection, seed propagation and horticulture) as well as a questionnaire survey of the processing sector (dairy, meat and fish) enterprises.

In addition, during the course of the preparation of the plan, consultation meetings were held throughout 1999 with the principal social-economic partners in rural Estonia. These included for example Milk Union, Meat Union, Horticultural Union, Fishery Union, Estonian Farmers Union, Estonian Chamber of Agriculture and Commerce, Central Union of Estonian Agricultural Producers, Tourism Association, Kodukant - Village Movement, Private Forestry Union, Estonian Rural Advisory Union, Food Processing Union.

In addition, consultations were undertaken with other Governmental Departments and the sub-committees of the Estonian Parliament, County- and municipal governments and a series of regional seminars were hosted to discuss proposals for the RDP.

In addition it should be noted, that meetings were held in respect of a range of issues, concerning for example eligibility, scope, levels of support, distribution of funds between measures and actions, relations between SAPARD funds and Estonian national, regional and rural development funds, definitions etc. The extent to which support could be concentrated in one sector, and other practical management concerns were also examined. The results of these meetings are covered in Annex 3 (Consultations with Social Partners).

6.4. LESSONS LEARNED FROM PREVIOUS EXPERIENCES

6.4.1. Previous actions

Overall, the European Union's Phare programme has been providing support to Estonia since 1991 when the country was added to the list of programme beneficiary countries together with other Baltic States. The total amount of assistance to the agriculture sector since 1991 has amounted to 14.45 MEUR. Approximately 24 MEUR has been allocated to Estonia for 2000.

Table 19 provides a brief summary of earlier activities supported by both EU and non-EU sources. Annex I (DPP) provides a detailed overview of current donor projects and at the same time identifies Estonia's needs for additional donor support. This section attempts to draw out some of the key lessons learned from the previous experience of such assistance. The analysis does not provide a systematic assessment of outputs, results and impacts; rather it is selective in nature attempting to synthesize some of the key lessons learned.

6.4.2. Relevance to RDP

Examining the above projects and actions for their relevance to the RDP, it can be noted that the main emphasis of much of the support provided by Phare has been directed towards improving the Estonian agricultural administrative systems. Activities have included the following:

- expert assistance in EU accession issues provided for the Ministry of Agriculture in Estonia;
- the establishment and development of an agricultural advisory system and advice fund;
- the development of an agri-environment programme;
- the development of agricultural information systems;
- the development of a strategy for land information systems including an analysis of and obstacles to land reform;
- training in the implementation of an agricultural grant scheme including the training of county officials in the evaluation of applications and business plans;
- the development of an administrative framework for the establishment and implementation of an innovative micro credit scheme for rural areas;
- the development of a rural tourism strategy and rural tourism training programme;
- research on alternative economic activities;
- the introduction of Geographic Information Systems within the Ministry of Agriculture and the introduction of agricultural statistical and accounting systems;
- the development of a more effective system of management of fisheries resources including the development of a fisheries information system.

Table 19. Summary of previous actions supported by the EU and the World Bank

Programme	Reference No'	Nature of Programme
PHARE	ES 9610	Agriculture: Assistance to accession planning

	ES 9611 ES 9621 ES 9803	Land Reform: Information system & land use Regional Development: Agricultural grants scheme Modernisation of agriculture sector Phare Special Preparatory Programme for The Structural Funds (SPP) Phare SPP Rural Pilot Project Phare SPP Technical Assistance Project Phare SPP residual services
World Bank		World Bank Agriculture loan
Ministry of Environment And Forestry Board.		Forestry research and Development projects
FAO		Assistance to reviewing legislation concerning fisheries and fishery policy.
Denmark		Technical Assistance from Denmark for strengthening the fisheries administration
PHARE		Development of more effective management of fisheries resources and compliance with EU legislation

Reviewing these activities, there are a number of links that can be drawn to the aims of SAPARD and the findings of the SWOT analysis.

In the first instance, strengthening the institutional capability of the Ministry of Agriculture should help to contribute towards the efficient and proper management and implementation of the programme.

In this respect the training that has been provided to county officials in the evaluation of applications and business plans should provide a firm basis for the establishment and management of SAPARD support. These experiences should at least result in a better understanding of how OP-s should be implemented.

It is worth highlighting the relevance of the Special Preparatory Programme supported under Phare aimed at enhancing Estonia's capacity to implement SAPARD. Several short term and twinning experts have provided expertise to the Ministry of Agriculture on a range of matters relevant to the RDP.

The experience of the SPP Rural Pilot Project, which aims in particular to support, the economic development of Southern Estonia through investment grants for rural diversification is worth noting.

Secondly, technical assistance will be a feature of the new programme. The experience that is being gained from the Phare SPP Technical Assistance Project should help to ensure that expertise is obtained in fields, which will relate directly to areas of expertise required for managing the new RDP. For example, experience gained in the preparation of payment procedures, internal control and control sampling will be valuable.

Thirdly, lessons should arise from the experience gained in more specific fields of activity, which could form part of the rural development strategy for SAPARD.

For example, the development of an innovative micro-credit scheme for rural areas as well as the development of a rural tourism strategy are highly relevant to any measures which are established to promote either rural tourism or the promotion of diversification actions.

The basis for an agricultural advisory service was also laid as a result of earlier EU Phare and bilateral aid programmes. A total over 170 agricultural advisors who can advise farmers in a wide range of issues have been attested. The maintenance of such an advisory service is necessary to ensure a sufficient number of quality projects that can make use of the financial assistance available under SAPARD.

Valuable lessons should also arise from the experience gained from the use of a World Bank Agriculture Loan, which began in 1997 involving land reform, rehabilitation of land amelioration systems, environmental protection, advisory service and food and veterinary inspection. Experience from these activities suggests that infrastructure (drainage, roads), land reform and environment protection components should not be divided in future activities, but the problems should be addressed by contracts covering all the necessary activities.

Finally, from the overview of projects involving donor assistance from other countries which is summarized in Annex 1 (DPP), it is worth highlighting the practical help received in a wide range of areas covering for example: the implementation of integrated land development, grass fodder production and conservation technologies from Netherlands; the transfer of the concept of pilot farms and their application in the dairy sector.

Recognising the role of villages in rural development in Estonia, long-term cooperation has been established with the “Kodukant” village movement in Sweden. This has involved cooperation training seminars and study trips for those involved.

6.4.3. Future needs

In summarizing the donor assistance received by Estonia, Annex 1(DPP) has also included an assessment of the need for future assistance from outside organisations and bodies. It is noted that in recent years, assistance from foreign donors has decreased. Despite this, Estonia’s Donor Programming Plan has identified new emerging areas for assistance.

It is worth noting that in the field of agriculture and rural development, a number of activities are identified relevant to SAPARD. These include the possible adoption of the actions involving local villages; assistance to rural tourism providers including the operation of the non-profit Rural Tourism Organisation; a pilot project for the development of a regional product in Estonia (e.g. cheese); the evaluation of rural development projects as well as assistance towards the development of organic farming using applied research.

Potentially these areas of future activity when combined with the experience gained from previous projects, offer opportunities to achieve complementarity with those actions that will be included under the RDP for Estonia 2000-2006.

6.5. *STRATEGIC GOALS AND PRIORITIES*

6.5.1. Description of the Strategy proposed

Based on the previous overview of the agricultural sector, the socio-economic profile of Estonia’s rural areas, and the SWOT analysis, the following **strategic objectives** have been identified for the SAPARD Plan for the years 2000-2006:

- to improve the efficiency of agricultural production, bringing it into compliance with the market requirements, gradually adopting the EU CAP and accompanying measures, developing environment-friendly agriculture
- to provide conditions for sustainable rural development,
- to contribute to the socio-economic and infrastructure development of rural areas; to reduce economic idleness and structural unemployment
- to ensure the development of a competitive and efficient food processing industry

These objectives reflect the need to address the problems of the agri-food industry and the need to promote the viability of rural areas through a range of measures from improvements in rural infrastructure to the diversification of economic activities.

The objectives and priorities, identified within the RDP reflect the development priorities contained in the NDP on behalf of the agricultural sector and rural areas. A number of measures and actions that fall within these priorities will be implemented through the SAPARD Plan. The focus of the latter will be on Estonia's rural areas while the NDP will address economic and social disparities within the country. It is recognised that there will be a need for co-ordination between the SAPARD Programme with the NDP. In addition, there will be a need for co-ordination between the SAPARD and PHARE instruments to ensure coherence and also to avoid double funding and potential overlapping.

Table 20. Strategic Goals & priorities

SAPARD Goals:	(a) contributing to the implementation of the acquis communautaire concerning the CAP and related policies; (b) solving priority and specific problems for the sustainable conversion of the agricultural sector and rural areas.		
NDP priority axis	Ensure conditions for sustainable development Developing competitiveness and entrepreneurship Human resource development		
Strategic Objectives:	1. to improve the efficiency of agricultural production, bringing it closer to market requirements; 2. to provide conditions for sustainable rural development, 3. to contribute to the socio-economic and infrastructure development of rural areas; 4. to foster the development of a competitive and efficient food processing industry.		
Priorities:	Priority 1: Improving the competitiveness of Agriculture and the Agri-food industry	Priority 2: Rural regeneration and Development	Priority 3: Facilitating effective programme implementation
SAPARD Measures:	M1: Investments in agricultural holdings M2 Improving the processing and marketing of agricultural and fishery products	M3: Development and divers' of economic activities M4 Development and the improvement of rural infrastructure M6 Renovation and development of villages M7 Agri-environment M8 Forestry	M5: Technical Assistance

National Measures:	Direct support of: dairy cows, sow, suckler cow, ewe, arable crops, young and meat cattle, certified seed potato, certified hayseed. Input (intermediate consumption) support to: interest rate, insurance, liming General supports of: animal breeding, market research, control of epidemics, cooperation, horticulture and tax exemptions Other supports: intervention, young farmers	Input support of: amelioration systems maintenance General support of: organic farming, activities listed under AEP, Landscape Maintenance	General support of: research, training, agricultural advisory
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6.5.2. Priorities and Measures

In support of these strategic objectives, three priorities have been identified as part of the SAPARD Plan:

- (1) Improving the competitiveness of agriculture and the agri-food industry
- (2) Rural regeneration and sustainable development
- (3) Facilitating effective programme implementation

These priorities are subdivided into eight measures, which are summarised in the following table, outlining the proposed distribution of SAPARD funds between the measures.

Table 21. Distribution of SAPARD funds across the measures

SAPARD Rural Development Plan of Estonia		Share of total allocation of EU funds	
Priority and Measure		%	%
Priority 1: Improving the competitiveness of agriculture and the agri-food industry			60,1
Measure 1: Investments in agricultural holdings		42,0%	
Measure 2: Improving the processing and marketing of agricultural and fishery products		18,1%	
Priority 2: Rural regeneration and development			36,0
Measure 3: Development and diversification of economic activities		17,6%	
Measure 4: Development and improvement of rural infrastructure		12,2%	
Measure 6: Renovation and development of villages		3,5%	
Measure 7: Agri-environment		1,4%	
Measure 8: Forestry		1,3%	
Priority 3: Facilitating effective programme implementation			3,9%
Measure 5: Technical assistance		1,9%	
Assistance from Article 7(4) Regulation 1268/99		2,0%	
		100,0%	100,0%

The first four measures will form the basis for accreditation process. The accreditation of the Technical Assistance measure should not prevent the practical application of the other measures in the Plan, which may become fully accredited in advance of this measure. The measures 6, 7 and 8 will be accredited later to guarantee their timely implementation according to the following table.

Table 22. Distribution of SAPARD funds across the measures

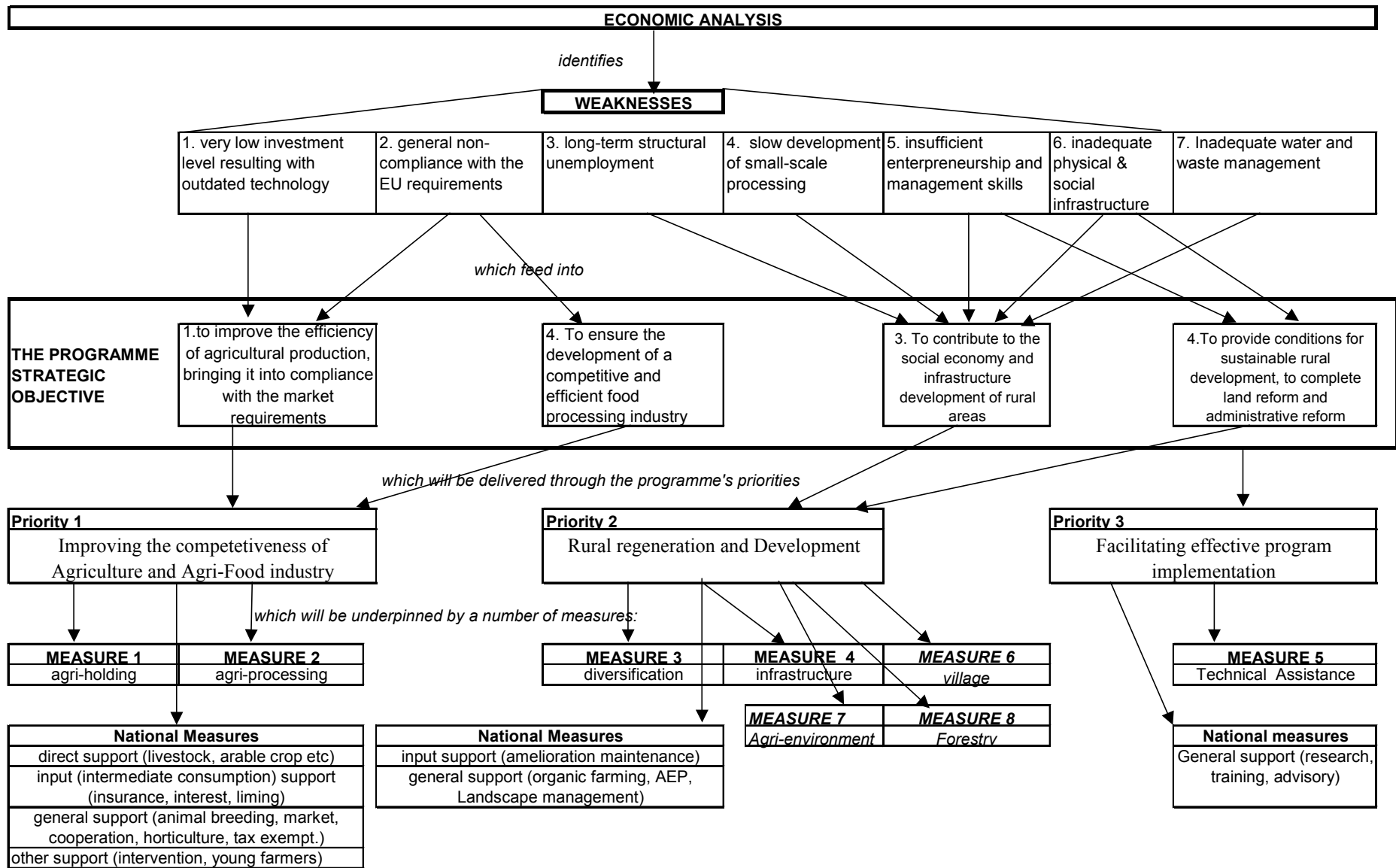
	M 1	M 2	M 3	M 4	M 5	M 6	M 7	M8
2000	45,0%	20,0%	20,0%	13,0%	2,0%	0,0%	0,0%	0,0%
2001	45,0%	20,0%	20,0%	13,0%	2,0%	0,0%	0,0%	0,0%
2002	42,0%	19,0%	19,0%	13,0%	2,0%	5,0%	0,0%	0,0%
2003	42,0%	18,0%	18,0%	12,0%	2,0%	5,0%	2,0%	1,0%
2004	42,0%	18,0%	17,0%	12,0%	2,0%	5,0%	2,0%	2,0%
2005	42,0%	17,0%	16,0%	12,0%	2,0%	5,0%	3,0%	3,0%
2006	42,0%	17,0%	16,0%	12,0%	2,0%	5,0%	3,0%	3,0%

6.5.3. Rationale & justification

In presenting the above allocation across three priorities and their individual measures a range of considerations were taken into account. These included:

- the need to maximise the degree of internal and external coherence of the proposed strategy.
- the need to ensure that the strategic objectives outlined above address the principal findings from the analysis of the strengths, weaknesses, opportunities and threats.

Figure 21 provides a diagrammatic presentation of this strategy including its derivation from the SWOT analysis.



Account has also been taken of the findings of the ex-ante evaluation and the subsequent alterations made by the Estonian authorities. A number of key points are therefore considered below, in order to explain the preferred allocation of SAPARD support.

6.5.4. Key Points

(1) The need to achieve strategic integration

A priority in deciding the allocations across the measures was the need to ensure consistency and complementarities between the SWOT analysis and the choice of measure. Table 23 sets out a list of key problems and weaknesses derived from the SWOT analysis: They reflect the ranking on the part of the Estonian authorities of those problems which should be addressed in the SAPARD Programme and which should carry a high priority.

Table 23. Consistency between program measures and situation analysis

Key problems and weaknesses	Principal opportunities	Threats	Measures
Agriculture			
The sector has suffered from low levels of investment and outdated means of production. Non-compliance of the sector with EU requirements Low profitability in the sector; Weak development of co-operative activities; Poorly developed seed cultivation system;	To develop an optimum farming structure	Continuing loss of skilled labour from the sector; Further declines in the sector will have negative consequences for rural society	Measure 1: Investments in agricultural holdings
Forestry			
Insufficient capacity (management skills) of private forestry related organisations; Inadequate reforestation and afforestation Slow development of local small-scale wood processing	To generate additional income in rural areas	Non sustainable forestry management coupled with poor stand quality	Measure 8: Forestry
Fisheries			
Outdated fish farming technology; Low quality and low volumes General management weaknesses in sector	To develop crayfish and fish farming; Common marketing and supply arrangements	Uncertainty	Measure 3: Diversification (fish and crayfish farming)
Processing Industry			
Excessive number of enterprises surplus capacity & low efficiency weak management skills;	To restructure the processing industry and to ensure compliance with EU	Enterprises do not meet EU requirements Threat of takeover of key enterprises	Measure 2: Processing of agricultural and fishery products

	requirements		
Rural Development Activities			
Lack of jobs; long term structural unemployment; Absence of representative organisations Out migration of young people	To diversify rural business activities	Low income of rural inhabitants will not help to create a favourable investment environment	Measure 3: Diversification of economic activities
Social & physical infrastructure			
Weak or insufficient infrastructure, weak third sector Lack of maintenance and renovation of private road network (farm roads, access roads) Inadequate or missing water-and sewage systems Uneven network of rural information facilities	to develop local initiatives to address infrastructure weaknesses	Out migration of active people coupled with areas of sparse population would further restrict service provision and village renewal	Measure 4: Rural infrastructure Measure 6: Renovation and development of villages
Environment			
Pollution and eutrophication of surface water; Waste disposal causing environmental pollution; Loss of traditional landscape structure caused by former intensive farming practices; Deterioration of certain landscapes and species diversity due to insufficient agricultural land use	Approval of Estonian Environmental Strategy in 1997; Implementation of a national agri environment programme	Water pollution from inadequate water management; risk to landscape and biodiversity from unfavourable farming practices	Measure 7: Agri-environment; Potentially these issues should be addressed in all measures

It is not without significance that approximately 60 % of the SAPARD support will be directed towards Priority 1: "Improving the competitiveness of agriculture and the agri-food industry".

The analysis of Estonia's agricultural sector presents an alarming picture where both output and production capacity have fallen drastically since 1989. The sharp decline in both output and employment in rural areas and in agriculture also reflect in part the impact of the decline in agricultural exports to Russia. Overall the Russian share in Estonian agricultural exports has dropped from 44% in 1994 to 9% in 1999. As a consequence the harsh economic situation in agriculture has imposed an urgent need to increase efficiency in the sector and to restructure it towards larger production units.

(2) Proposed Measures and RDP objectives

The coherence of the overall strategy for the SAPARD Plan is also examined in Table 24.

Table 24. The links between the objectives and the proposed measures

RDP objectives	1. To improve the efficiency of agricultural production	2. To provide conditions for sustainable rural development.	3. To contribute to the social economy and infrastructure development of rural areas	4. To ensure the development of a competitive and efficient food processing industry
Measures				
M1 Agricultural Holdings	X			
M2 Processing industry	X			X
M3 Diversification		X	X	
M4 Rural Infrastructure			X	
M5 Technical Assistance	Measure is indirectly linked to all measures			
M6 Village renovation		X	X	
M7 Agri-environment		X	X	
M8 Forestry		X	X	

This shows the relevance of the proposed measures to the four objectives. In certain cases particularly the RDP objective of contributing to the social economy and infrastructure of the rural areas; this objective is addressed by three measures. The addition of further measures later in the life of the programme in respect of village development, forestry and agri-environment should maximise the opportunity to achieve synergistic effects from the implementation of the programme.

(3) Concentration

In pursuing the concentration of funds the following considerations were taken into account:

The highest importance is given to acquis-related investments. The Estonian authorities consider that a more significant impact can be achieved early in the life of the programme by concentrating resources in measure 1 “Investing in agricultural holdings”. Approximately 42% of funds have been allocated to this measure. A further 20% of the RDP’s resources will be directed towards measure 2. Combined together these measures account for over 60% of the programme’s resources. It is considered that the need for acquis related investment in agricultural holdings and processing sector is considerably higher compared to other areas of activity. Based on large amounts of holdings compared to processing industry units, the relative share of acquis related investments in agricultural holdings is higher.

Investments to improve the business environment in rural areas. The relatively lower share for diversification (measure 3) in SAPARD arises partly from the alternative indirect funding options available for SME sector, used basically in urban communities and for the establishment of medium-sized production units. However, the need for diversification funding in SAPARD is related to the reorientation of former agricultural holdings, which are not economically viable without a change of profile. It should be mentioned, that the public sector support schemes are aimed at different target groups, thereby avoiding overlapping.

Investments to improve social and physical infrastructure. The forecasted amount of funding for rural infrastructure investments under measure 4 covers the necessary investment need, based on the average amount of applications for support under the governmental scheme during the last 10 years.

To concentrate actions during the initial phase of SAPARD, it has been decided to start support for investments in village improvement (measure 6) from 2002, allowing better preparation and administration, thereby using lessons learned during the initial phase, and support of measures 7 (agri-environment) and 8 (forestry) from 2003, based on experience of the national scheme implementation of agri-environment.

Coherence between the RDP and the National Development Plan.

Table 25 attempts to provide an overview of the measures listed in Council Regulation 1268/99. It can be seen that a number of actions are being funded under PHARE or alternatively are supported by a national scheme as part of the National Development Plan. In the case of agri-environment actions, it should be noted that Estonia will start a national agri-environment programme (AEP), in 2001 with the aim of testing the practical implementation of the proposed AEP, continuing activities from 2003 within the SAPARD scheme.

Table 25. Overview of the measures listed in Council Regulation (EC) 1268/1999

Measure (1268/99)	SAPARD	Phare	Other non-EU
Investments in agricultural holdings,	*		
Improving the processing and marketing of agricultural and fishery products,	*		
Improving the structures for quality, veterinary and plant-health controls, for the quality of foodstuffs and for consumer protection,		*	WBAP ⁸
Agricultural production methods designed to protect the environment and maintain the countryside,	*		Gov
Development and diversification of economic activities, providing for multiple activities and alternative income,	*	*	
Setting up farm relief and farm management services,			
Setting up producer groups,			Gov
Renovation and development of villages and the protection and conservation of the rural heritage,	*		
Land improvement and re-parcelling,			WBAP
Establishment and updating of land registers,		*	WBAP
Improvement of vocational training,			WBAP
Development and improvement of rural infrastructure,	*		
Agricultural water resources management,			WBAP
Forestry, including forestation of agricultural areas, investments in forest holdings owned by private forest owners and processing and marketing of forestry products,	*		

⁸ WBAP = World Bank Agriculture Project, 1997-2001, detail description given in Chapter 5

Technical assistance for the measures covered by this Regulation, including studies to assist with the preparation and monitoring of the programme, information and publicity campaigns.	*		Gov
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(5) Possibilities for extending the scope of SAPARD.

To maximise the impact of SAPARD, it is considered preferable to take forward those measures, which have been examined as part of the Commission’s accreditation process. It is proposed that a phased approach should be adopted in respect of the introduction during the lifetime of the programme, those measures dealing with for example: the renovation and development of villages, forestry and agri-environment matters. Such an approach would allow more time for the Estonian authorities to gain valuable experience in respect of the administration and implementation of SAPARD. This approach would also allow more time for the preparation and refinement of these measures helping to extend the scope of SAPARD during the lifetime of the programme to cover activities such as village development, forestry and agri-environment. During the period between approval of the Plan and the introduction of these measures, the results of National agri-environment scheme could help inform the development and implementation of the proposed agri-environment measure under SAPARD. Likewise, the results of Estonia’s Forestry Development Plan will provide a valuable input in respect of the forestry measure. At the local village level, the drawing up of village development strategies should help provide a useful context for the measure dealing with the development of integrated initiatives at the local level.

(6) Ex-Ante Evaluation:

The RDP was subject to an independent ex ante evaluation carried out in the period November-December 1999. The evaluator concluded that the Ministry of Agriculture in drafting the RDP had made a substantial effort. The evaluator made a series of observations and recommendations were formulated accordingly. In respect of the independent evaluator’s assessment of the selected measures, it was noted in the report that:

“...the selected measures are adequate compared to the main weaknesses and disparities in agricultural and rural Estonia. Measures 1 and 2 are related to the primary production and the processing with the overall objectives of increasing competitiveness through higher productivity and improved quality standards. This is very well justified in the description of the current situation in Estonia...Also measure 3 on diversification of rural activities seems pertinent to remedy the problem of over dependence on agriculture, and the measure addresses the major infrastructure problems of rural areas”.

(Reference: Ex Ante Evaluation of the Agriculture and Rural Development Plan 2000-2006 for Estonia 10 January 2000, Final Report pp 47-48.

The relatively lower share allocated to the diversification measure in SAPARD reflects the alternative indirect funding options available for the SME sector. In addition the measure is production-oriented focusing on sole proprietors or companies who can show evidence of economic sustainability.

The independent evaluator’s main recommendations were forwarded to the Ministry of Agriculture so that they could be incorporated in the RDP. In addition, the evaluator also undertook a further assessment of the revised RDP, which had been compiled in April 2000

in Annex IV provides a summary of the evaluator's recommendations, the corresponding changes in the RDP and the evaluator's subsequent comments.

The *main recommendations* of the evaluation are presented below.

In total there were 54 separate recommendations made by the evaluator. This section concentrates on some of the more critical recommendations and the extent to which the Plan complies with them. Though selective in nature, it enables a brief examination to be undertaken of some of the key recommendations of the ex-ante evaluation. Using the structure of the evaluator's report they can be summarised as follows:

(i) Analysis of disparities, gaps and potentials of the current situation in Estonia:

Under this heading the evaluator recommended that all findings throughout the RDP of relevance to the SWOT analysis should be included. In response the Estonian authorities have revised the SWOT analysis, ensuring that it is consistent with the detailed overview of agriculture and the rural economy as well as with the socio-economic profile of Estonia's rural areas. It was also recommended that the RDP should explain how elements of the Environmental Strategy have been incorporated into the Rural Development Strategy. In response, additional information was provided on Estonia's Environmental Strategy. An environmental matrix has also been included in the Plan. It has also been confirmed that Estonia will start a national agri-environment programme in 2001 with the aim of testing the practical implementation of the proposed AEP.

The need to ensure that the results of previous activities have adequately described, was also stressed by the evaluator. In response, more information has been provided by the Estonian Authorities concerning the types of actions undertaken in the past including the details of assistance received from external sources. The evaluator has however stressed the need for not just a descriptive overview on earlier actions but a systematic assessment of the results and impacts of these actions. In response, it is the case that a number of these activities are still being undertaken and as a consequence their full impact has still to be realised. It was considered more appropriate to assess earlier actions in terms of their relevance to the types of measures proposed under the SAPARD Plan. This assessment pointed to a number of close links between earlier actions and the aims of SAPARD as well as the findings of the SWOT analysis.

(ii) Assessment of the consistency of the proposed strategy:

Under this heading the evaluator made a series of recommendations concerning for example: the need to ensure consistency between the objectives of the RDP and the SWOT analysis; the need to identify the relation between the measures and the objectives of the RDP; the need for a description of the selected measures **and an** explanation of their consistency with national funding opportunities; the need for an explanation as to why a specific amount is allocated to the specific measures. In addition the evaluator specifically requested that investment needs in the food, fishery and forestry industries be identified in order to provide an overview of investment needs related to agricultural and rural development.

The main response to these recommendations has been for the Ministry of Agriculture to set out more explicitly the rationale and justifications for the subdivision of the SAPARD funds across the measures. Additional information has also been provided on the individual measures including the insertion of short descriptions as part of the strategy chapter. In terms of the investment needs of the food, fishery and forestry industries, the results of surveys to assess their investment needs have been included in the Plan.

(iii) Assessment of consistency with CAP and other policies

A key recommendation concerns the suggestion that the Plan should document more clearly how the protection of the environment will be integrated when implementing the RDP. In particular, the evaluator stresses that it is extremely relevant to document if the environmental problems described (e.g. water pollution caused by agricultural production) will be aggravated or improved through SAPARD actions and assistance. In response, an environmental matrix was compiled precisely to show how the subsequent rural development programme might impact on for example efforts to reverse pollution and environmental degradation as well as on efforts to promote positive action in favour of the protection of the environment.

(iv) Expected impacts, quantification of targets and verification of proposed implementing arrangements

An important recommendation made by the evaluator concerned the possibility of being able to assess the expected impacts of the measures included in the SAPARD assistance. In response to this, the revised draft has made provision under each measure a section entitled ‘Quantification of Impact and Monitoring and Evaluation’.

Indicative allocations are outlined for each sub-measure followed by a list of potential indicators in respect of expected outputs, results and impacts. In subsequent comments on the Plan, the evaluator noted that a substantial effort had been made to include quantified targets. A more detailed analysis of the ex-ante evaluator’s comments and the subsequent follow-up, which has been undertaken by the Estonian Authorities, is provided in Annex IV.

6.6. IMPACT TABLE

In the following table the impact of all SAPARD measures is presented in a simple form. As seen from the table, the implementation of measures will lead to an improvement of the living environment.

Table 26. SAPARD Impact Table

ID	Measure description	Environmental	Social	Economical
1	Agricultural holdings			
	Milk production	+ less pollution	+ better working environment - less jobs	+ higher price for quality production
	Animal barns	+ less pollution	+ better working environment	+ lower maintenance costs + reduced production cost (fertilizers, plant protection products)
	Plant protection, seed management			
	Plant production	+ less pollution	- less jobs	+ reduced production cost
	Horticulture	+ sustainable land use	+ more jobs	+ income for rural population
2	Processing & marketing			
	Dairy sector	+ less pollution	+ more jobs in production sector	+ higher price for quality products
	Meat sector			

	Fish sector	+ sustainable use of resources	+ improved working environment	+ access to EU markets + less production cost
3	Diversification			
	Rural tourism & related activities	+ nature management, environmental education - intensive use of nature, probable waste	+ more jobs	+ income
	Handicraft & wood processing	+ Sustainable use of local resources	+ more jobs	+ income
	Service activities		+ Improvement of social infrastructure + more jobs	+ income for rural population
	Fish & crayfish Primary processing	- necessary water treatment facilities +less waste	+ more jobs + more jobs	+ income + income
4	Rural infrastructure			
	Electricity	+ less pollution	+ better living conditions	+ possibility to implement new technology
	water & sewerage management	+ less pollution + better use of water resources	+ better living conditions	+ reduced cost for waste management
	Road renovation	+ diversification of stands - biodiversity	+ better access	+ reduced transport cost
	Tele-communication	+ nature management	+ better living environment + more jobs	+better marketing
6	Village development (to be implemented in 2002-2006)			
	Common buildings		+ improved social life	
	Village outlook	+ improvement of cultural heritage	+ improved living conditions	
	Rural Information Centres	+ better informed on environment subjects	+ improved living environment	
7	Agri-environment (to be implemented from 2003)			
	AEP support	+ habitat preserved + restored biodiversity + improvement of landscape diversity + less pollution from agricultural	+ improvement of living conditions and recreational possibilities + more jobs	+ possible additional income to rural areas

		areas		
8	Forestry (to be implemented from 2003)			
	Afforestation of former agricultural lands	+ less pollution + sustainable use of natural resources (sustainable forest management)	+ better living conditions	+ income in rural areas

6.7. ENVIRONMENT MATRIX

The environmental profile outlined the outstanding environmental qualities of Estonia's natural environment. Environmental issues have been given considerable attention in the development of this plan. As part of the assessment of the plan's priorities and measures outlined earlier, an environmental matrix has been compiled. This attempts to set out how the subsequent rural development programme will impact on:

the country's environmental asset base – covering Estonia's special landscape protection areas, historic heritage etc;

attempts to reverse or prevent pollution (e.g. through the use of renewable energy sources);

the promotion of sustainable management of natural resources (e.g.: through positive conservation management);

the demand for environmental goods and levels of business awareness of such opportunities.

The matrix completed by the Estonian authorities is an attempt at compiling an environmental health check demonstrating at the same time the scope for positive action in favour of the protection of environmental assets, the reversal of pollution and environmental degradation, the promotion of sustainability and increased business awareness and opportunity. In some cases it has not been possible to assess fully the precise impact of the measures, reflecting in part that it is not known how the specific projects will impact upon the environment. Nonetheless the matrix may be a useful tool when assessing the impact of measures on the environment.

Table 27. Environment Matrix for the RDP for Estonia 2000-2006

Protection of the asset base	Reversal of degradation & pollution	Promotion of positive and sustainable management	Increased business awareness and opportunity
PRIORITY 1: IMPROVING THE COMPETITIVENESS OF AGRICULTURE AND THE AGRI-FOOD INDUSTRY			
Measure 1: Investments in Agricultural Holdings			
Positive: Should lead to the sustainable use of the existing assets and resource base	Positive: Reduction of waste and water emissions, less impacts on surface- and groundwater quality, better control of green house gasses; better working conditions,	Positive: Promoting the usage of best available production technology and enhancing competitiveness of	Uncertain: Depends on type of activities pursued

	improved animal health and welfare; reducing the inputs of fertilisers and pesticides, the impact on environment and nature can be potentially positive	existing production unit.	
Measure 2: Improving the processing of agricultural & fishery products			
Positive: Should lead to the sustainable use of the existing assets and resource base	Positive: Reduction of waste and waste water emissions, better working conditions, the impact on environment and nature can be potentially positive	Positive: Promoting the usage of best available production technology and enhancing competitiveness of existing production unit.	Uncertain: Depends on type of activities pursued
PRIORITY 2: RURAL REGENERATION AND DEVELOPMENT			
Measure 3 Development & Diversification of economic activities			
Positive: Should help in sustaining farming and the possibilities of improved sustainable management of natural assets	Positive: Improved landscape management, more precise protection of valuable habitats, better and sustainable use of natural and landscape features for improved living and recreation conditions	Uncertain: Depends on type of activities pursued	Uncertain: Depends on type of activities pursued
Measure 4 Development and improvement of rural infrastructure			
Positive: Should bring significant improvements in living conditions and environmental terms	Positive: More attractive and healthy living conditions stops depopulation of rural areas, reduction of waste and waste water uncontrolled emissions, less impacts on surface- and groundwater quality	Positive: Encourage inhabitants to sustainable use of local natural recourses and landscape values	Uncertain: Depends on type of local positive examples
Measure 6 Renovation and development of villages			
Positive: Maintaining and enhancing the culture of areas and rehabilitation of landscape quality Negative: Influx of tourists & visitors	Positive: Improved physical and living attractiveness; strengthening local economy; should enhance community awareness of environmental issues and concern	Positive: Promoting the best use of and enhancing visual appearance of existing building stock.	Uncertain: depends on types of actions undertaken
Measure 7: Agri-environment			
Positive: Should lead to protection and enhancing of	Positive: Farmers are encouraged to adopt environment-friendly farming practices, which help to restore natural balance of wildlife	Positive: Promote the uptake of environmentally-friendly agricultural	Positive: Provide a basis for a range of alternative economic activities

traditional landscapes, biodiversity and wider environment	habitats, landscape features and agricultural activities. Additional measures are to recreate or restore specific cultural heritage and natural features.	practices	in rural areas
Measure 8: Forestry			
Positive: Should lead to the sustainable forest management	Positive: Economical and ecological improvement of landscape and land use. Improvement of biodiversity.	Positive: Promoting sustainable forest and landscape management.	Uncertain: Depends on type of activities pursued
PRIORITY 3: FACILITATING EFFECTIVE PROGRAMME IMPLEMENTATION			
Measure 5 Technical Assistance			
Positive: Support activities undertaken	Uncertain: Precise influence depends on activities undertaken	Positive: If it helps to promote awareness of environmental matters and more information.	Uncertain: depends on precise nature of activities supported.

6.8. PRIORITIES

The overall strategies set down in the Plan to achieve the objectives cover **three priority areas:**

Improving the competitiveness of agriculture and the agri-food industry
Rural regeneration and development
Facilitating effective programme implementation.

Priority 1 – Improving the competitiveness of agriculture and agri-food industry

Resulting from the low level of investments, lack of market regulation and state support in the sector during the last decade most fixed assets are amortised and the agriculture sector has not invested the necessary amounts to overcome said difficulties.

Estonia is harmonizing internal legislation with aquis-communautaire, which results in additional need for investments.

For other small and medium sized agricultural holdings, in order to stabilise agricultural income and appease the problems of providing jobs in rural area, the diversification of agricultural activities is necessary, however, ensuring agricultural land maintenance.

The main problem of food industry is the lack of exporting possibilities, caused by non-conformity of the production and processing conditions with the requirements of the developed markets. The production capacities need to be optimised and a flexible system of new product development should be implemented.

Estonia has to be ready to implement all market organisation measures applied in the EU, creating the required legislative and institutional framework.

During the pre-accession period, raising the competitiveness of domestic agricultural products both on the domestic and foreign markets is vitally important for rural economy. To achieve the strategic objective under this priority the following measures are designed:

SAPARD measures:

Investments in Agricultural Holdings (Measure 1, see Annex VI)

Improving the processing and marketing of agricultural and fishery products (Measure 2, see Annex VI)

National measures:

Direct support schemes

Input support schemes

General support schemes

6.9. DESCRIPTION OF THE MEASURES (MAIN ELEMENTS)

General eligibility conditions

All applicants seeking support from the SAPARD Programme must:

- not belong to state at the level exceeding 25% of ownership
- be selected through administrative procedures authorised by Estonia and the EU
- submit data and supporting documents on the technical and environmental compliance of the investment
- provide a valid letter of confirmation from the Estonian Tax Department stating that the potential beneficiary has no outstanding state tax debts; or that the debts have been deferred;
- provide evidence of capacity for economic continuity during at least three years following the investment
- ensure compliance with all the national minimum standards regarding the environment, hygiene and animal welfare
- have an Environmental Memorandum approved by the regional Environmental Department.

Rules in respect of non-eligible costs are defined within the Multi-Annual Financial agreement. Ministry of Finance will coordinate the activities to be financed under this program as well as those financed by other Community funds thereby avoiding any overlapping of different funding sources. Projects must also assure compliance with Community standards and requirements regarding hygiene, veterinary, phytosanitary, food quality, animal welfare and environment when their implementation is concluded.

Measure 1 – Investments in Agricultural Holdings

Description

In implementation of the measure, support is granted for investments:

on one hand to bring the agricultural production into conformity with various EU requirements, specially to modernise milk production technology, to improve animal welfare in animal barns, to modernise plant protection, manure spreading and seed propagation technology, to reduce environmental impact in plant cultivation; and on the other hand to diversify farm activities.

The measure will be implemented on the same principles all over the Estonian rural territory based on the eligibility criteria established for the projects.

This measure provides for support for aquis-related investments in agricultural holdings to modernise technology of viable farms and to diversify farmers out of those sectors, which are in surplus, in particular, towards horticulture. Under this measure, support may be granted for the following investments:

Milk producing - to modernise milk production technology, in particular, for milking equipment, milk coolers and renovation of water supply and sewerage systems (indicative distribution - 20% of measure)

Animal barns - for construction and renovation of animal barns, also for investments in lighting, ventilation, manure storage facilities and manure removal systems (indicative distribution - 30% of measure)

Plant protection, off-farm manure handling and seed processing - to modernise plant protection, seed propagation and manure spreading technology (indicative distribution - 10% of measure)

Plant cultivation - for purchasing tractors, combine harvesters, forage technology, hay and cereal seed drills and ploughs (indicative distribution - 30% of measure)

Diversification of agricultural activities - to purchase of certified plant propagation materials for establishment or expansion of orchards (apple, plum, cherry, dwarf stock seedlings); berry plantations (strawberry, black currant, sea buckthorn, red currant, raspberry, blackberry and cloudberry seedlings) and the purchase of irrigation systems (pumps, pipelines) for new orchards and berry plantations (indicative distribution - 10% of measure). This measure will be implemented through grants to applicants, which could vary up to 50% according to application, within specified limits. In order to get the grants certain criteria must be met both by the applicants and by the investment projects. These include:

- that they have received agricultural vocational or high education on relevant speciality or professional service record of having been working in the agriculture for at least two years on relevant speciality and,
- in the case of animal-related activities (milk producing and animal barn), the farm animals belonging to the applicant should be registered in the national registry of farm animals and the dairy cows under the milk recording
- agricultural holdings should comply with the national and as result of investment, EU minimum standards regarding the environment, hygiene and animal welfare.

Final beneficiaries

An investment support for agricultural holdings can be applied for by an agricultural producer who has profited from the agricultural production during the year preceding the submission of the application in the amount that constitutes at least 50 per cent of the net sales.

Measure 2 - Improving the Processing of agricultural and fishery products and the marketing of agricultural products.

Description

In implementation of the measure, support is granted for investments to product development, improving marketing and product quality, adjustment of processing enterprises to relevant EU standards.

Specific objectives are:

- to guide production in line with foreseeable market trends or encourage the development of new outlets for agricultural products;

- to improve or rationalise processing procedures;
- to guarantee benefit to agricultural producers;
- to improve the presentation and preparation of products or encourage the better use or elimination of by-products or waste;
- to apply new technologies,
- to favour innovative investments.

The measure will be implemented according to the same principles all over the territory of Estonia based on the eligibility criteria established for the projects. Under this measure, support may be granted for the following investments:

In dairy sector - support is granted for investments in the construction and adjustment of milk production and processing buildings and facilities, provided that the building and/or facility will, as a result of the investment, comply with relevant EU standards. Support is provided for investments in purchase of new equipment, technological lines and implementation of new technologies and introduction of in-house control and quality control systems (*indicative distribution - 40% of measure*).

In meat sector - support is granted for investments that help to bring slaughterhouses and meat processing facilities and conditions into compliance with the EU standards and environmental protection rules. Support is provided for investments in buildings, room planning and reallocation of functions, in the improvement of technological, technical and hygienic situation, introduction of modern environment-friendly packaging materials and equipment and new product development (*indicative distribution - 30% of measure*).

In fish sector - support is granted for investments in the construction and adjustment of fish production and processing buildings and facilities provided that as a result of the investment, they comply with relevant EU standards. Support is provided for investments in purchase of new equipment, technological lines and new product development.

This measure will be implemented through grants to enterprises, which could vary up to 50% according to application, however, not exceeding the maximum public aid level of 1 MEUR per project (*indicative distribution - 30% of measure*).

For ranking purposes the projects meeting following eligibility criteria and assessment criteria are used.

The requirements to be respected by the applicants:

- economic continuity at least 5 years,
- no national tax debt allowed,
- they have paid to the producers for the products (95% of the outstanding bills in monetary terms),
- basic processed raw material origin corresponds to relevant EU requirements,
- investment is technically feasible and practical and makes it possible to follow the EU norms and standards,
- products must have a sufficient market output;
- they must ensure profit to agricultural producers.

The criteria for assessing the financial-economic indicators of the applicant for the period of three years prior to the year of applying are:

- yearly solvency over short-term liabilities (current ratio);
- annual average liquidity ratio (quick asset ratio);

- net turnover per employee
- net profit to net turnover (profit margin)
- rate of return on assets
- debt/equity ratio

The criteria for assessing the beneficiary's investment

- Building and renovation.
- Product development.
- Improvement of implementation of environment protection requirements.
- Closing over-capacities is favoured.
- Reduction of production costs.
- Contracts with producers.
- Self-financing.

Final Beneficiaries

The investment support for processing agricultural products and marketing agricultural commodities, can be applied for by a company whose field of activity is processing dairy, meat or fish products and marketing the dairy, meat and fish commodities made of these products (henceforth applicant), if there are at least ten full time jobs in the company.

National support schemes (Priority 1)

Direct support/income support is applied as an additional market regulation measure in order to guarantee the sector's ability to reproduce.

Granting of direct support / income support is related to the following conditions:

in general, support is granted to production branches which have a significant share in landscape design, i.e. grain growing, dairy cattle breeding, sheep breeding; such unit support/income support is not related to production volumes or prices but extended to the entire sector in the same manner;

temporary unit support/income support is applied for certain purposes in areas the development of which has to be accelerated for achievement of long-term objectives (hayseed growing, potato seed growing).

Input support

Capital grant

The objective of granting investment support is to favour investments directed at:
 fulfilment of requirements proceeding from veterinary, phytosanitary, hygienic legal acts and legal acts that regulate animal welfare;
 fulfilment of requirements of environmental protection, first and foremost concerning investments in manure management, plant protection technology;
 development of production efficiency and product quality and primary processing.

Interest Rate

The objective of granting interest compensation is to decrease the effect of fluctuations in loan interests on long-term investments. Another objective is inclusion of more private loan capital in the development of the agricultural sector.

General support

Livestock farming and Plant Breeding

Private legal livestock farming associations and seed production centres that correspond to requirements are supported through single-purpose subsidies.

Priority 2 Rural regeneration and development

The living conditions of the rural and urban population have become very unequal. It is necessary to secure the availability and quality of basic services (education, health, social security and public transport).

In rural areas, the public sector has had rather limited possibilities for supporting infrastructure, necessary for the development of business activities in rural regions (electricity, access roads, water and sewage).

For the preservation of the quality of arable lands, it is necessary in large areas to restore and repair the drainage systems built 20-40 years ago. In forest areas such drainage systems have to be established to improve timber quality.

The number of private forest owners and the role of forests in the income of the rural population is constantly increasing. New forest owners often do not have sufficient knowledge for the management and maintenance of forests, thus the public sector should increase its support to the provision of training and consultations to private forest owners and to joint management of forests.

Results of the survey of rural sociologists about the future plans of school-leavers indicate that most young people in rural areas do not connect their future with agriculture or rural life. The agricultural employment has rapidly decreased within the last decade. This process is not completed and for the compensation of the jobs directly related to agricultural production it is necessary to develop alternative local business activities that should be primarily based on local resources.

There are very good preconditions for rural tourism in several regions, but it is necessary to improve accommodation conditions and diversify recreational opportunities. Co-operation between the providers of services should also be improved.

The fertility of soil in the fields, water, forests, fish resources, mineral resources, biological and landscape diversity are extremely important components for securing the long-term sustainable development of Estonia.

The extensive pollution in the course of the past decades without consideration of environmental requirements has caused extensive eutrophication of surface water bodies and pollution of ground waters.

The current decline in agricultural production, particularly with respect to land use and livestock farming, has decreased biological and landscape diversity and increased the spread of weeds.

A lot of land has been restituted to former owners or their descendants who have received no training or further training in agricultural or forestry speciality. This is also one of the reasons for the low productivity.

To achieve strategic objective under this priority the following measures are designed:

SAPARD measures:

Development and Diversification of Economic Activities, providing for multiple activities and alternative income (Measure 3, see Annex VI)

Development and improvement of rural infrastructure (Measure 4, see Annex VI)

Renovation and Development of Villages and the protection and conservation of Rural Heritage (Measure 6, see Annex VI)

Agri-environment (Measure 7) and

Forestry (Measure 8)

National measures:

Direct support measures
Development support measures
Other support measures

Measure 3 – Development and Diversification of Economic Activities, providing for multiple activities and alternative income

Description

The measure supports activities based on local initiative, to establish diversified economic activities in rural areas, to create additional jobs, providing for additional income, therefore improving the living conditions of inhabitants of rural areas.

The measure will be implemented on the same principles in all rural areas of Estonia based on the eligibility criteria established for the projects. Under this measure, support may be granted for the investments related to the following **activities**:

Rural Tourism - establishment or expansion or improving the quality of rural tourism and related (recreational and catering) services (*indicative distribution - 30% of measure*);

Handicraft activities - establishment or development of activities related to handicraft, including fabrics, home-made textiles, products of timber, log and lumber houses and pottery (*indicative distribution - 20% of measure*);

Service activities - establishment or expansion of servicing activities aimed at agricultural producers, forest owners and rural population – storage facilities, repair and maintenance of agricultural and forest equipment, special equipment services necessary for local inhabitants, child-care facilities (*indicative distribution - 10% of measure*);

Crayfish and fish farming (incl. hatcheries) - establishment or expansion of farming (*indicative distribution - 20% of measure*);

Food processing of small business – establishment, expansion or modernisation of small business (up to 9 employees) in the sector of food processing to produce specialities for the local market (*indicative distribution - 20% of measure*).

This measure will be implemented through grants to entrepreneurs, which could vary up to 50% of eligible investment amount within specified limits, according to application.

In order to get the grants the following **criteria** must be met both by the applicants and by the investment projects:

- the planned investment is technically feasible,
- proposed technological schemes and equipment meet relevant EU environment and hygiene requirements
- they must create at least two additional full-time jobs, with exception on agricultural producers, who establish side-activities to provide additional income.
- In case of food processing activities, at least 60% of the basic raw material (in fiscal value) must be supplied from the agricultural producers of the County concerned or its neighbour-counties and products will be marketed in local market.
- In case of investments on fish and crayfish farming and food processing, additional requirements are set up on qualification of applicant's staff (education and working experience).

Final Beneficiaries

Final beneficiaries under this measure are sole proprietors or companies pursuing business activities in rural areas, including agricultural producers who want to establish or develop non-agricultural activities.

Measure 4 - Development and improvement of rural infrastructure

Description

The measure is aimed to:

- support entrepreneurship in rural areas,
- guarantee competitiveness in the rural environment,
- raise economic effectiveness, to improve the living conditions of inhabitants of rural areas and
- enhance the economic security by assisting with the encouragement of economic activities;

The measure will be implemented on the same principles all over the territory of Estonia based on the eligibility criteria established for the projects. This measure provides for support for investments in rural areas to improve living conditions, and to contribute to entrepreneurship. Under this measure, support may be granted for the following investments (one or more per project):

Electricity supply systems - Investments for equipment, necessary to connect the electricity network or reconstructing an electrical system necessary for connecting into the energy distribution networks; (*indicative distribution - 20% of measure*);

Access roads - Investments for construction and reconstruction of access roads related to the economic activities of the beneficiary (*indicative distribution - 30% of measure*);

Water and sewage - Investments for construction or reconstruction of water supply, sewage and wastewater cleaning systems of agricultural holdings and enterprises or for joining with common systems; (*indicative distribution - 40% of measure*);

Telecommunications - Investments for telecommunications, necessary to connect into the public telephone and data network (*indicative distribution - 10% of measure*).

This measure will be implemented through grants to entrepreneurs, which could vary up to 50% according to application.

In order to receive a grant, certain **criteria** must be met both by the applicants and by the investment projects:

- the buildings and capital assets constructed or reconstructed must meet the relevant EU requirements.
- investment has **been supported by the Board of Local Government**.

Final beneficiaries

Final beneficiaries under this measure are sole proprietors and companies pursuing business activities in villages in rural areas.

This measure is designed to provide a basis for financing projects co-financed under the EU support, focusing clearly on aquis-related investments.

Measure 6: Renovation and Development of Villages and the protection and conservation of Rural Heritage

Description

The measure aims to prepare rural NGO's to participate in the development of integrated rural development initiatives in rural Estonia.

The measure creates preconditions for improvement of living and business environment and for an increased self-esteem of rural inhabitants.

In implementation of the measure, support is granted for **investments**:

- to support activities, based on local initiative, to increase social, cultural and natural value of their living environment;
- to create preconditions for alternative jobs and to facilitate information availability, maintaining population in rural areas.

The measure will be implemented on the same principles all over the territory of Estonia based on the eligibility criteria established for the projects.

This measure provides for support for investments in commonly used facilities. **Under** this measure, support may be granted for the **following investments**:

Commonly used buildings - for the construction and renovation of commonly used village buildings the adding of multiple functions to these, and the reconstruction/ conservation of buildings with architectural or historical value

Village outlook - for the establishment and renovation of parks, building or reconstruction of fences, reconstruction of traditional roofing, ordering and installation of signs and location schemes to introduce villages/ rural municipalities, improvement of water bodies; diversification of recreational activities (the repair, reconstruction and establishment of children's playgrounds, sports grounds swing grounds, hiking paths and other commonly used objects which);

Information centres - for the repair and/or building of information centres in villages, acquisition of information technology (Internet centres, information rooms, libraries, Information-points)

Final beneficiaries

The final beneficiaries of this measure are non-governmental organisations and entrepreneurs in villages.

Measure 7: Agri-environment

Agriculture is a major influence upon the rural environment and can both create and destroy the quality of natural resources and countryside features. While traditional agriculture originally contributed to the creation of varied rural landscapes and valuable wildlife habitats, changes in modern farming methods have resulted in major damage to environmental resources, including the loss of many landscape features, damage to valuable wildlife habitats and the pollution of air and water.

The main **objectives** of the measure are to encourage environmentally friendly farming practices and to avoid damage to semi-natural and natural habitats and landscape elements on the farm.

Within the framework of this specific measure, AEP pilot project consists of four connected schemes and support will be provided for the following **activities**:

Environmentally-friendly Production Scheme (EPS)

Supplementary Measures Scheme (SMS)

Farmers may undertake any combination, of the following supplementary measures:

Organic Farming

Local Endangered Breeds and Traditional Crop Varieties

Natural Diversity (Special Habitats and Landscapes

Creation of Ponds and Wetlands

Abandoned Land Scheme (ALS)
Training and Demonstration Scheme (TDS)

The measure will be implemented on the same principles all over the territory of Estonia based on the eligibility criteria established for the projects.

The pilot project will be commenced from 2001 based on funding from the Government of Estonia. This will cover three pilot areas (municipalities). Additional areas may be added from 2002 depending on demand and budget structure. Based on the results of these projects, additional areas will be included from 2003, which will be co-funded within SAPARD. The qualitative scope of measure is equal in all areas, however, the actual sub-activities selected will depend on individual pilot areas and will be based on Farm Agri-environment Plans.

Final beneficiaries

Agricultural producers can apply an investment support for agri-environment.

Measure 8: Forestry

Analysis of the forestry sector indicated there are a large number of small, low-fertility agricultural land plots, overgrown grasslands and scrub areas in Estonia which could be developed into valuable forest areas through forest planting, partial improvement cutting and road construction. About 87% of the yearly clear-cut area in private forests lacks reforestation.

Recognising that forestry is an alternative for agriculture, it influences rural areas and their developments providing additional incomes for rural entrepreneurship and also additional jobs, the SAPARD programme provides an opportunity for Estonia to pursue through this measure the following **objectives**:

- to promote afforestation and sustainable forest management
- to encourage effective forestry management practices through the implementation of forestry management plans
- to increase rural job opportunities in forestry sector.

This measure will provide support for investments in forestry sector development. Under this measure, support may be granted for afforestation to cover the costs of plant materials.

The measure will be implemented on the same principles all over the territory of Estonia based on the eligibility criteria established for the projects.

Final beneficiaries

The final beneficiaries of this measure are private sole proprietors- forest owners, private forest owners associations pursuing activities in the rural areas of Estonia.

National support schemes (Priority 2)

The Agri-environment scheme will be implemented on pilot-basis from 2001, the specific details of scheme are described above, under Measure 7 of SAPARD.

Priority 3 – Ensuring effective program implementation

To ensure effective implementation of SAPARD, all participants should be well informed on possibilities and rules and the system must be transparent. Final beneficiaries should be informed about support measures available, rates of assistance under these measures,

principles for differentiation, rules for monitoring and evaluation of rural development support and aid schemes.

There are a lot of new small businesses in rural areas that need labour with new skills and qualifications.

A situation has been reached where the admission of new students to vocational schools does not secure the necessary successors for educated agricultural producers. The structure and quality of professional vocational education does not match with the needs of rural society. The agricultural advisory scheme has up to some extent, reduced the problem but significant efforts are necessary to coordinate activities between different administrative bodies to ensure adequate and sustainable development of training systems.

Measure 5 – Technical assistance for the measures, covered by RDP

Description

Measure ‘Technical assistance for the measures, covered by Rural Development Plan, includes provision for studies to assist with the preparation and monitoring of the programme, information and publicity campaigns’ developed to guarantee systematic management of information and to contribute to the effective performance of other concurrently applied measures. Under other measures specific promotion campaigns aimed at increasing the awareness of the potential beneficiaries about the support schemes available and the eligibility criteria applicable will be organised.

The main objective of implementation of the measure will be to disseminate knowledge concerning the SAPARD programme including the general principles and procedures involved for granting support to those living in the rural areas. The measure should also help to strengthen the administration of the programme. In support of these aims, a range of objectives will be set to include for example the following:

- to ensure an adequate flow of information and publicity
- to provide support for the monitoring of the programme
- to support studies related to the strategy and implementation of the programme.
- to provide support for external expertise.

Final beneficiaries

The target groups of the publicity campaign are the potential beneficiaries of support schemes, professional organisations, social and economic partners, non-government organisations, public institutions and other interest groups, as well as the general public.

National support schemes (Priority 3)

Scientific, Educational and Consulting Services

Purchase of consulting services is subsidised; a network of optimal applied agricultural sciences is in formation process. The objective of the financing of agricultural sciences is that the level of the material basis and the professionalism of scientists should, at least in research areas of priority, achieve the level accepted in the European Union.

Long-term prospects

Implementation of this strategy should lead to the following situation:

The share of agriculture in employment should remain at 6-7%, during the next 10 years. The excess labour arising from improved efficiency will be counterbalanced by expanding the production of alternative crops and spreading the use of extensive farming methods (organic farming etc). Primary processing on the producer level will increase.

The more intensive farming activities will be concentrated in areas with fertile soils. Extensive farming methods will be more widely spread in less fertile and environmentally sensitive areas.

Approximately 900,000 ha of land will be in agricultural use. The afforestation of less fertile agricultural lands will have begun. Land maintenance will be applied to other lands discarded from agricultural use. From the 1.12 million ha of arable land, open landscape will be maintained in 1 million hectares; ca 120,000 ha of land with low agricultural value will be afforested in the long term. The estimated area under traditional crops will be at least 800,000 ha (corresponding to the volume of land use in recent years according to the Statistical Office). Intensive agricultural production will be oriented toward technology, least harmful for the environment.

Land maintenance support will be used and environmentally sustainable technologies (sheep and goat grazing) developed for the remaining lands. Natural grasslands have no important role in current agricultural production. Support for the use of natural grasslands in future will be provided on environmental and landscape protection considerations, and also for the development of organic farming.

The output of the main agricultural products will remain within the scope of domestic demand, while milk production because of its comparative advantage is expanded to the maximum. Exports will be oriented toward the foreign market. Agricultural production will meet the EU veterinary, phytosanitary, hygiene, animal protection and environmental requirements.

The production of alternative agricultural products and agricultural non-food products for which a normal market outlet exists, as well as opportunities for added value, will be substantially expanded.

Substantial structural changes will have taken place in the food industry, and as a result the number of enterprises decreased. Mass production will be concentrated in single large enterprises (effectively controlled by the authorities to prevent possible monopoly and trust agreement), while the production of various niche products expanded in small and medium-size enterprises. As a result of improvement, these enterprises are competitive in EU market. Niche product producers have joint marketing system, enabling flexibility and volumes, required for successive farming.

Land reform will be finally completed. All lands will be registered in Cadastre and covered by commonly used GIS.

Private forests have drawn up updated Forest Management Plans and private forest owner's unions will cover ca 65% of private forest area. Timber cutting and primary wood processing employs farmers in wintertime and timber cutting from private forests is done in an environmentally friendly way. Subsidised forest maintenance allows improved stand structure. The wood processing industry has improved to utilise all timber cutting volume and thus raw material export is minimized.

The agri-environment measures cover 20-90% of agricultural land area. Semi-natural habitats (incl. Natura 2000 areas) are protected and environment-friendly managed.

Alternative activities will be strongly established beside traditional farming, allowing additional income to rural population. Organic farming, landscape maintenance and agri-environment measures will keep the landscape attractive and invite tourists to rural areas of Estonia, not only in traditional hilly or coastal zones, but beyond these areas.

The structure of the agricultural research, education and advisory system will be developed in accordance with the sector's needs.

The educational and age structure of rural population will be improved; the development of rural infrastructure (physical and social) will enable widespread tele-working and pendulum-migration, which in turn will stop the degeneration of rural areas.

The third sector will be actively engaged in rural development, overtaking part of the public sector's responsibilities, being paid for the services. This approach will support the sustainable development and will reduce public tax levels.

7. CONDITIONS FOR MANAGEMENT AND IMPLEMENTATION

7.1. INSTITUTIONS INVOLVED IN IMPLEMENTATION PROCESS

The institutions responsible for programme implementation on national level are:

National Fund (NF) administrated by the Ministry of Finance. National Fund takes the full responsibility the application of funds, acting as a Competent Authority on the responsibility of the Authorising Officer. The Competent Authority is also responsible for managing the information flow between the Commission and the Republic of Estonia. National Fund takes responsibility for SAPARD-agency accreditation by appointing the Certifying Body and executing supervision over the SAPARD-agency.

The Agricultural Registers' and Information Board (ARIB) will fulfil the tasks set out for the SAPARD-agency in accordance with the Multiannual Agreement and Information Board, administrated by the Ministry of Agriculture. Within the framework of the programme, the Ministry of Agriculture will take the role of the Managing Authority (MA) described in Article 9 of the Commission Regulation 2759/1999, being responsible for general programme management and implementation. MA will, with the purpose of executing supervision over SAPARD-programme implementation appoint the Monitoring Committee (MC) (close cooperation with the European Commission is required in accordance with Regulation 1268/1999 referring to Regulation 1260/1999). Agriculture and Rural Development Board will be formed in the Ministry of Agriculture, the task of which will be information flow management and obtaining feedback concerning programme implementation from social partners.

The Veterinary and Food Board and the **County Environment Services** will also be involved in the implementation of the appropriate measures, acting as monitoring authorities participating in technical and environmental assessment.

All the measures will be implemented by the ARIB (SAPARD-agency) that fulfils both implementation and payment functions.

The implementation functions of the ARIB (SAPARD-agency) are:

- reception and checking of applications at the regional offices of the SAPARD-agency;
- checking the applications for approval of projects against terms and conditions, eligibility and against the conditions and requirements of SAPARD Agriculture and Rural Development Programme;
- selection of projects;
- laying down contractual obligations between the SAPARD-agency and potential beneficiaries and the issue of approval to commence work;
- execution of on-the-spot control before and after project approval and follow-up action to ensure progress of projects being implemented;
- supervision and reporting of progress on measures being implemented against indicators.

The payment functions of the SAPARD-agency are:

- checking of payment claims;
- execution of on-the-spot checks to establish eligibility for payment;
- payment authorisation;

- execution of payments;
- accounting over financial commitments and payments;

Where applicable, controls of beneficiaries after payment of aid to establish whether the terms and conditions of the grants continue to be respected. Requirements to the fiscal implementation of support measures.

7.2. FINANCIAL IMPLEMENTATION REQUIREMENTS

7.2.1. Short description of procedures

The procedures for the national budget of the Republic of Estonia

The national budget of the Republic of Estonia is developed for a single budget year starting on January 1 and ending on December 31. The Government of the Republic will establish limits for expenses to be realised by projects under the administration of Ministries, considering the action and national investments' programme. Within the framework of these limits established, the ministries will develop budget projects for their administration area. The conditions for budget project development, the Minister of Finance will establish project forms and deadlines for project submission. The budget projects will be submitted to the Ministry of Finance. The budget projects submitted would be reviewed by the Ministry of Finance that checks whether all the expenses listed are well grounded, meant for a certain purpose and in accordance with legal acts and international agreements. As the result of project review minutes including any disagreements will be drawn up. The Minutes will be submitted to the Government of the Republic. The Government of the Republic will submit the draft of the national budget to the Parliament no later than three months before the beginning of a new budget year. The Parliament will adopt the national budget as a legal act. After the law has been passed the ministries will develop budgets and division of expenses for themselves and national institutions under their administration; These budgets will be submitted to the Ministry of Finance. In case the Parliament has not approved the budget by the beginning of the next budget year, expenditures extending to one twelfth of the total budgeted expenditures of the previous year can be made on monthly basis during the new budget year – until the budget has been approved. The Government of the Republic will submit the parliament a report on the State Budget fulfilment.

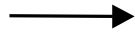
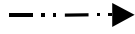
The procedures for SAPARD budget in the Republic of Estonia

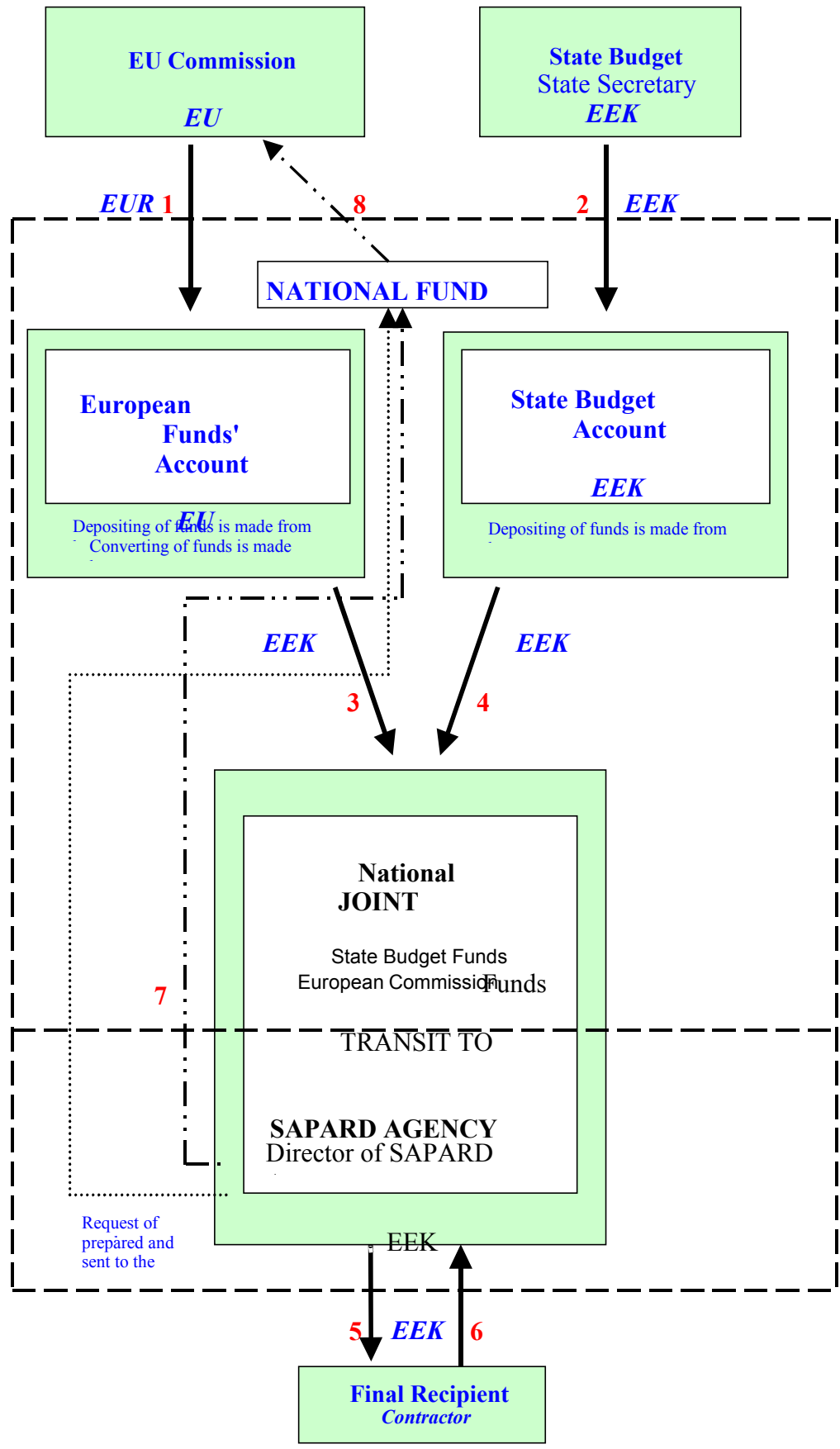
In accordance to the information mentioned above, the Ministry of Agriculture will calculate an amount to be co-financed within the European pre-accession support programme SAPARD to be included in the budget project for a given year. The project mentioned will be submitted to the Ministry of Finance and will be treated on the same grounds as the national budget. The final contribution of the Republic of Estonia will be determined by the Parliament in accordance to the budgetary procedures of the Republic. The national budget for the year 2000 was approved by the Parliament on December 15, 1999 and was announced by the President on December 27, 1999. In the budget for 2000, the contribution of the Republic of Estonia for SAPARD support programme totals to 64 million EEK (4 million EUR).

Figure 22. Financial transactions within SAPARD-programme.

SAPARD Financing: Cash flows and

- 1.** National Fund funds from the European
- 2.** State Budget funds for cofinancing.
- 3.** National Fund transfers funds on the Joint Account EEK.
- 4.** The National Fund allocated funds on to Joint Account in EEK. transfer is based on RoF SAPARD agency, which sent to the NF.
- 5.** SAPARD agency payments to final
- 6.** All irregularities must be back to SAPARD account.
- 7.** SAPARD agency reports to the National about paid amounts to recipients.
- 8.** National prepares the report to be the Delegation Commissi

 Fund's transfer
 Reports
 RoF = Request of



Estonian financial transactions for SAPARD-programme implementation

The contribution of the Republic of Estonia will be received in a SAPARD Estonian kroon account opened and administrated by the NF in one of the Estonian commercial banks. The grounds for the transaction executed by the State Treasury will be the application submitted by the NF in accordance to the amounts received on the SAPARD euro account.

European Union financial transactions for SAPARD-programme implementation

The basis for the allocations made by the European Union is the financing agreements signed by corresponding parties. The right to sign the first annual financing agreement rests with the Commission on condition that the Programme has been approved and both parties have signed the multi-annual financing agreement. The Community co-financing only extends to the SAPARD-assistance given in accordance to conditions listed in the programme approved by the Commission and if the criteria laid down in the multi-annual and annual financing agreements and conditions for conferral of support scheme management have been fulfilled. The Commission will make the first payment to SAPARD euro account. This payment can be made in more than one instalment and this can not exceed 49% of the total annual allocation for the candidate country concerned, as set out in the Annex to Decision (EC) No 1999/595/EC of July 20, 1999. The payment shall be made on condition that the SAPARD Agency accreditation has been subject to a corresponding decision, and after conclusion of the Multi-annual Financing Agreement and first Annual Financing Agreement. The payment shall be repaid if the Commission within 18 months of the date of that payment receives no payment application reports.

The subsequent payments will be made in accordance to the payment claims submitted by the SAPARD-agency.

Conversion costs, bank charges and exchange losses shall not be subject to Community co-financing.

NF accounts

NF opens a SAPARD joint account to be used for current financial transactions in accordance to final payments made to the beneficiaries by the SAPARD-agency from the transit account of SAPARD-agency. Such a system of accounts will help to verify:

- compliance of the co-financing rates;
- one payment made to the final beneficiaries in Estonian kroons;
- better financial control.

NF will execute control over SAPARD kroon account, SAPARD euro account and SAPARD joint account, but also SAPARD-agency transit account.

In case the information communicated by the Republic of Estonia is not complete or has not been submitted within the deadlines the Commission can suspend the advanced payments on temporary basis or apply financial corrections.

7.2.2. Description of selection procedures

Description of selection procedures applied for choosing eligible projects

The SAPARD Agency shall publicise the availability of support to all potential project managers/ operators so that they obtain as wide as possible selection of potential project managers/ operators. To fulfil that purpose, ARIB will publish an announcement declaring launching of the scheme in the Official Announcements Journal.

The rules and procedures for investment support application and application processing will be established by the Government of the Republic. Such procedures will include standard

application forms for support application (including clear guidelines for completion and conditions for eligibility), lists of data and documents required, requirements set for business plan completion, the deadlines for agricultural product processing and marketing investment support application submission and the clear procedures for submission, review, control and assessing of applications, business plans and documents, but also procedures for granting support and making payments, based on the criteria set in Agreement to be ratified.

To receive a SAPARD investment support (henceforth the investment support) the application with all the required annexes must be submitted to ARIB.

The procedures for investment support application processing

During the investment support application review process the officials will check whether the potential beneficiary has submitted all the required data and supporting documents (the data on technical and environmental compliance of the investment object) and whether the data is accurate. In case some deficiencies have been detected, the application will be returned to the beneficiary and it will be registered after being corrected. Officials authorised by ARIB are entitled to check the application on the spot, visiting the enterprise of the beneficiary (real estate and buildings included) on condition that the beneficiary or beneficiary's representative is informed.

Investment grant application assessment

ARIB will check against the application and business project whether the beneficiary and his/her economic activities do meet the criteria set in the law and other legal acts and will assess the economic and technical reasoning behind the investment. ARIB is entitled to use required expertise to assess economic or technical situation before and after the investment. The methodologies for assessing the application and the business plan will be approved by the Government of the Republic. Such methodologies will include criteria to be used for assessing economic sustainability of the beneficiary, his/her economic activities and the planned investment (economic activities after the investment included); the methodologies will also provide grounds for checking the beneficiary and his/her economic activities against requirements set in the relevant legislation. The specific contribution rates will be specified in accordance with the cash and loan deficit originating from the business plan submitted by the potential beneficiary, however, not exceeding the rates and levels, specified for each measure and sub-measure.

Investment support granting

ARIB will review applications for investment grants into agricultural holdings, rural diversification and development of infrastructures and living environment in rural areas and make decisions to grant or refuse the support within 50 working days since their submission. ARIB will review applications for investment grants into agricultural product processing and marketing and make decisions to grant or refuse the support within 90 working days since the deadline for submitting such applications.

The grounds for refusing investment grant

The application can be rejected on the following cases:

- the potential beneficiary has failed to submit all the data and supporting documents set with legal acts;
- the potential beneficiary has deliberately submitted inaccurate data;

- the potential beneficiary, his/her business activities or planned investment or economic activities after the investment do not meet the requirements set in the law or other legal acts that regulate entrepreneurship;
- the beneficiary refuses economic or technical expertise, checking of the application on the spot, visits to the enterprise of the beneficiary (real estate and buildings included);
- investment grant paid to the beneficiary last year has been reclaimed;
- the beneficiary has deliberately submitted inaccurate data when applying for investment grant in previous year;
- the funds for paying investment support have been exhausted;
- the support funds are insufficient after the previous application rating higher has been granted;
- the beneficiary has submitted inaccurate data entered into the support register.

Investment support for agricultural holdings, rural diversification, small enterprises and development and the improvement of rural infrastructure will be granted in the same order as applications meeting the criteria are received.

The Estonian authorities anticipate that the number of applications likely to be received at any time will not exceed by more than one third the numbers who are rejected on the grounds of being received later than other eligible requests. If however experience shows that a significantly higher ratio than this is encountered, the Estonian authorities will propose other criteria than the date of receipt in order to determine within the population of eligible new applications, those who are considered to warrant higher priority. This will be done in agreement with the Commission.

In the case of grant applications for improving the processing and marketing of agricultural products, these will be reviewed, assessed and scored on the basis of assessment criteria relating to the investment including financial economic indicators based on data over three years preceding the application. The potential beneficiaries will be ranked according to their final scores. Support will be refused if the potential beneficiary meets all the criteria set in the relevant legislation but after granting support to a beneficiary with a better rating the funds are insufficient to meet his/her investment requirements.

In the case of each measure an indicative distribution of funds by sub-measure is provided. The progress of each measure will be reported on at each Monitoring Committee. In cases where a sub-measure or set of actions against which there is an indicative allocation of funds within that measure is oversubscribed, the Monitoring Committee will decide on appropriate actions such as adjustments to aid rates or the exclusion of the appropriate sub-measures from subsequent submission rounds. These adjustments will be done in agreement with the Commission.

The procedures for informing the beneficiary about granting or refusing the investment support

Investment support will be granted or refused with the decision of the Head of SAPARD Agency. The decree must include reasons for refusing the support. In case the investment support has been granted, the beneficiary will be informed about the deadline of submitting the letter of confirmation on investment grant acceptance.

Confirmation on investment grant acceptance (contractual obligations)

The beneficiary will give a written confirmation stating his/her agreement to accept the investment support signed by the potential beneficiary and ARIB Director General or duly authorised director of the SAPARD-agency. By stating his/her consent to accept the investment support the beneficiary commits oneself to make an investment on grounds and conditions set in the application and confirmation letter, pay the amount not covered by the support in accordance to the deadlines and amounts established with the payment schedule, to provide all the opportunities for supervision over single-purpose use of the investment support and to take other responsibilities arising from the legal acts. The potential beneficiary not submitting the confirmation on investment grant acceptance by the deadline established can not opt for later payment of the support. ARIB is entitled to extend the deadlines for submission of letter of confirmation if the beneficiary has given good reasoning and has applied for such an extension before the deadline mentioned.

7.2.3. The concept of “legal and financial responsibility on national level”

ARIB takes decisions concerning granting and payment of investment support in accordance to the conditions and requirements set in corresponding legal acts. The criteria for granting support under different investment support measures have been developed in cooperation with Estonian Federation of Farmers and Producers, Milk Union, Meat Union, The Fur Animal Breeders’ Association and other social partners. The criteria reflected in the procedures mentioned also reflect criteria listed in regulations (EC) No 1257/99 and 2759/1999.

Financial responsibilities will be established with international agreements (multi-annual financing agreement and annual financing agreement) concluded between the Government of the Republic of Estonia and the Commission of European Union whereas these documents are to be ratified by the Parliament.

7.2.4. The concept of “realistic expenditures”

All the beneficiaries must submit to ARIB basic accounting documents verifying realistic expenditures:

- invoices/receipts;
- bank account statements.

The basic accounting documents must meet the requirements set in § 8 of the Act of Accounting and the procedures accounting for budgetary businesses established by the Minister of Finance. Basic accounting documents are written evidence of economic transaction that has taken place.

ARIB will make copies of the basic accounting documents submitted and at the moment of payment authorisation these documents will be marked as being treated as grounds for granting co-financing for investment support.

Based on the basic accounting documents submitted support payments will be authorised and ARIB will make an electronic transfer to the beneficiary’s bank account.

Payments made by the SAPARD-agency to the beneficiary will be executed in Estonian kroons and will debited against SAPARD-accounts.

Investment support will not be paid if the beneficiary has not paid for the investment in accordance to the conditions (time and amount) set in the confirmation letter or has failed to carry out the work agreed upon or to submit documents verifying the completion of the work

mentioned. The investment support will also be refused in case before the payment has been executed it is discovered that the beneficiary has deliberately submitted inaccurate data when applying for the support. The beneficiary will be informed about refusal within 15 days after the official have learnt about the attempted fraud.

SAPARD-agency will maintain accounting over the contribution of public sector in financing of individual measures and on project support level. SAPARD-agency keeps track of each payment whereas every payment entry has been recorded both in Estonian kroons and EUR.

Any overpayment, namely amounts in excess of the sum due, noted by the SAPARD Agency, shall be recorded without delay in the SAPARD account and will be reflected in debtor's ledger and reports submitted to the Commission.

The SAPARD Agency shall ensure timely treatment of payment requests by beneficiaries.

7.2.5. The definition of "final beneficiary"

□ **The final beneficiary is:**

- In case of measure 1 agricultural producer,
- In case of measure 2 entity processing agricultural or fish products,
- In case of measure 3 rural entrepreneur,
- In case of measure 4 rural entrepreneur located in rural areas.

7.2.6. The mechanism for declaring SAPARD payments and expenditures

SAPARD-agency will submit to NF on a quarterly basis payment applications (reports) on a form approved by the Commission. National Authorising Officer will transmit these documents to the Commission within one month of the end of each quarter. However, supplementary applications may be submitted only if justified on the basis of the risk of the net balance in the SAPARD euro account being exhausted before the next quarterly application has been processed.

The applications shall include at least the following information:

- the amount of expenditure paid by the SAPARD Agency to beneficiaries in the previous quarter, broken down in both national currency and euro by measure and the national and Community contribution,
- the balance of Community funds in the SAPARD euro account following the most recent debit,
- details of debts to be collected.

The Commission shall verify the payment applications taking account of the conditions set out in Article 32 paragraph (3) points (b), (c), (e) and (f) of Regulation (EC) No. 1260/1999. Expenditure declared in the payment applications shall be reimbursed by the Commission within, in principle, two months of an acceptable payment application being received by it, subject to the verifications referred.

Annual declaration

ARIB will draw up annual bookkeeping declaration that will be transmitted to the Commission by the National Authorising Officer together with a certificate and audit report by April 30 of the next financial year. The declaration form has been established in Article 4 and section 1, points (a), (c) and (e) of Article 5 and in point 2 of regulation (EC) No 1663/95, in addition, the provisions fixed in Article 7 paragraph (1) first and second last sentence, paragraph (2) point (c), paragraphs (3) and (4) of Regulation (EC) No. 296/96 are applicable. For the financial year "n", all transactions recorded in the accounts of the SAPARD agency in the financial year "n" are taken into consideration.

The Commission shall, before the 30 September of the year following the financial year concerned, clear the account of the SAPARD agency in accordance with the provisions of Article 7 (3) of Regulation (EC) N° 1258/1999 and Article 7 of Regulation (EC) N° 1663/95 hereinafter referred to as "the clearance of accounts decision". The clearance of accounts decision shall also cover the clearance of the SAPARD euro account. It shall also clear the amounts to be credited to the SAPARD euro account.

The Commission shall inform Estonia about the results of its verifications of the information supplied, before 31 July following the end of the financial year. If, for reasons attributable to the applicant country concerned, the Commission is unable to clear the accounts of an applicant country before 30 September, the Commission shall notify the applicant country of further enquiries it proposes to undertake.

The amount fixed by the clearance of accounts decision shall normally be added to or deducted from one of the subsequent payments from the Commission to the applicant country. However in cases where the amount to be deducted, fixed by this decision, exceeds the level of possible subsequent payments, the amount not covered by the balance shall be credited to the Commission in euro within two months of notification of the decision. The Commission may however, on a case by case basis, decide that any amount to be credited to it shall be offset against payments due to be made by the Commission to the applicant country under any Community instrument.

7.2.7. Use of EUR, exchange rates and indexation procedures

The basis for making use of euro:

SAPARD co-financing committed for applicant countries will be paid in euro (Annex to the decision (EC) Nr 1999/595).

In accordance to the provision of regulation (EC) No 1268/1999 and the Financial Regulation the financial support and payment have to be expressed in euro.

The conversion rate between euro and national currency of the Republic of Estonia shall be the exchange rate established published by the European Central Bank:

for payments by the SAPARD Agency, on the last but one working day at the Commission in the month preceding the month during which the expenditure was recorded in the accounts of the SAPARD Agency. The date the payment order is issued to the beneficiary shall be the date shown in the accounts;

for overpayments by the SAPARD Agency, on the last but one working day at the Commission in the month preceding the month during which the overpayment was first noted;

for amounts fixed by the clearance of accounts and conformity clearance decisions, on the last but one working day at the Commission in the month preceding the month during which the decision was taken.

Where the time-limits in Article 13 (5) and 14 (4) of the Financial Regulation are not respected, any outstanding amount shall generate interest at a rate equal to the Euribor rate for three month deposits published by the European Central Bank plus 1.5% points. That rate shall be the monthly average of the month in which the decision referred to in these articles was notified.

Interest earned on the SAPARD euro account shall be used exclusively for the Programme. Such interest shall not be subject to reduction due to charges levied except those of a fiscal nature.

ARIB will express the support rates co-financed by the European Union both in Estonian kroons and euro. As an official exchange rate the fixed exchange rate for euro – this being 1

EUR = 15.646 EEK – established by the President of Bank of Estonia on December 31, 1999, this being also a rate officially accepted by the Central European Bank.

7.2.8. Financial control and irregularities

Financial control is executed by Internal Audit Department; the internal audit service shall be independent of the SAPARD-agency's other departments and shall report directly to the ARIB top management.

The objective of internal audit service is to ensure that the agency's system of internal control operates effectively. The internal audit service shall verify that procedures adopted by the agency are adequate to ensure that compliance with the programme and Financing Agreement is verified, and that accounts are accurate, complete and timely. Verifications may be limited to selected measures/sub-measures and to samples of transactions provided that an audit plan ensures that all significant areas, including the departments/bodies responsible for authorisation and those departments to which functions have been delegated, are covered over a period not exceeding three years. The department's work shall be performed according to internationally accepted auditing standards, shall be recorded in working papers and shall result in reports and recommendations addressed to the agency's top management. The audit plans and reports shall be made available to the certifying body and to officials of the European Union mandated to undertake financial audits and for the sole purpose of appraising the effectiveness of the internal audit function.

The Internal Audit Department will execute annual audit including the following controls over SAPARD-payments:

- Control over the annual book-keeping declaration drawn up by the Book-keeping Department before it will be transmitted to the Certifying Body, with the purpose of checking the compliance between EU commitments and payments made to the beneficiaries by the SAPARD-agency in section of accounts and sub-accounts.

- Verification whether all the payments are reflected in the declarations of expenditure and stored as computer files available for the Commission on the first notice.

- Verification whether the expenditures expressed in annual book-keeping declarations are in compliance with the basic accounting documents of the corresponding period and will check all the differences noted.

The Certifying Body will be selected from among the auditing companies as a result of a public competition. The auditing company will deliver the audit in accordance to the internationally recognised auditing standards, considering the provisions established by the Commission and following the SAPARD-procedures, issuing a certificate and report on the results of the verification. Verification will be executed in the middle and in the end of the financial year. The auditing company must verify and assess the internal control and internal audit mechanisms and procedures. The auditing report must include the following controls:

- The procedures and accreditation criteria give reasonable assurance that operations charged to EU co-financing comply to the rules and obligations taken with a foreign contract;

- What recommendations have been made for improvement of the systems;

- The annual accounts are in accordance with the books and records of the paying agency;

- Accounts are correct and include no errors;

- Financial interests of the Community have been properly protected (this point concerns advances paid);

- Whether the agency has considered recommendations and has taken action to apply measures for improving of the systems;

- Agency staff compliance and qualifications.

SAPARD-agency and NF will maintain all the documents until the termination of the programme, making them available for the Commission and other competent authorities on their first notice.

When controls over SAPARD-programme implementation are carried out under Article 9 of regulation (EC) No 1268/1999, articles 8 (1) and (2) of regulation (Euratom, EC) No 2185/96 and Articles 9 (1) and (2) of regulation (EC) No 1258/1999, all the corresponding provisions shall apply mutatis mutandis for SAPARD-programme implementation.

Avoidance and detection of irregularities, reduction, suspension and termination of payment, reclaiming of wrongly and overpaid amounts

For handling irregularities and organisation of information systems used for this purpose the applicant countries will apply, mutatis mutandis, the provisions established in regulation (EC) No 1681/94.

Where the Commission finds that expenditure has not been effected in compliance with the rules referred to in Article 9 (1) of Financial Regulation (hereinafter referred to as the "conformity clearance decision") to deduct these amounts from the Community co-financing. The conformity clearance procedures shall be executed in accordance with the mechanisms and procedures in force for the application of Article 7 (4) of Regulation (EC) N° 1258/1999 and Article 8 of Regulation (EC) No 1663/95. A financial correction may include application of flat rate corrections in cases where controls have not correctly been established or executed by the SAPARD Agency and refusal of compensation of the foreseen financial correction with expenditure for other projects. The amount to be recovered in accordance with the conformity clearance decision shall be communicated to the National Authorising Officer who ensures that the amount is credited to the Commission in euro within two months of notification of the decision. The amount in the decision shall not be reallocated to the SAPARD programme. The Commission may however, on a case by case basis, decide that any amount to be credited to it shall be offset against payments due to be made by the Commission to the applicant country under any Community instrument.

If the Commission decides that implementation of some of the measures does not justify the allocations made, it will execute a thorough examination of the case and will ask the applicant country or corresponding authorities to transmit their comments on the situation within a certain period of time. In case the examination has revealed the occurrence of irregularities or essential modification not approved by the Commission, the amounts allocated to a given measure can be reduced or temporarily suspended.

The handling of irregularities by SAPARD-agency has been established with a regulation. The scope and rules for executing control over single-purpose use of the investment support and the rules for reclaiming and repayment of the aid. Based on this document the SAPARD-agency has developed detailed procedures for handling irregularities detected within the agency.

In case irregularities have been detected, the legal acts authorise the Director General of ARIB to make precepts for partial or total reclaim of investment support paid. Such precepts are obligatory for the beneficiary. The beneficiary having received a precept can make suggestions for deferring the repayment.

In case the beneficiary refuses to comply with the conditions set out in the precept he/she can file a complaint to the Ministry of Agriculture or initiate court procedures. In case the beneficiary does not agree with the decision concerning his/her application, he/she can file a complaint to the Minister of Agriculture within 30 calendar days after having received the precept. The complaint will be reviewed within 30 calendar days it was received. During the

complaint review procedures the corresponding bodies are entitled to demand the submission of any documents relevant, listen to the explanations given by parties involved, review documents and evidence and give their opinion on the situation. After the complaint has been reviewed, the Ministry of Agriculture will decide whether to validate, change or cancel the precept. Filing of a complaint won't relieve the beneficiary of the obligations for fulfilling the precept. The beneficiary having received the precept can start court procedures in any stage of precept rebute.

Procedures for aid termination

The Commission shall monitor continued compliance with the conditions and provisions of Financial Regulation including the Annex. If, at any stage, they are found to be no longer fulfilled, the Commission shall immediately revoke the decision and shall:

- cease to undertake any new financial obligations on the part of the Community,
- cease to transfer monies to the applicant country and
- if appropriate, make financial corrections against the applicant country.

In accordance to the regulation on pre-accession support measures, the period for receiving Community aid is 2000-2006. After becoming an associated member of European Community the Republic of Estonia will lose its title to aid under the regulation on pre-accession support measures.

7.3. SAPARD-AGENCY

In accordance to the Commission regulation (EC) No 2222/2000 and the Multi-Annual Agreement, the Commission will be informed about the institutions and persons the task of whom it will be to cover expenditures incurred as the result of implementation of Agriculture and Rural Development Programme. The same regulation also lists the tasks and responsibilities of the SAPARD agency.

The Commission shall verify compliance with the conditions of Article 12 (2) of Regulation (EC) No. 1266/1999, hereinafter referred to as "the conditions", and the provisions of Articles 4 to 6 and the Annex of this Regulation prior to deciding on conferral of management of aid to the applicant countries. For the establishment of compliance with the conditions and with the provisions mentioned in the first subparagraph, the Commission shall examine the National Fund procedures and structures related to the implementation of the SAPARD Programme and SAPARD Agency procedures and structures and, where appropriate, procedures and structures of other bodies to which tasks may have been delegated in accordance with Articles 4 (4), 5 (3) and 6(2). The decision to confer management on an agency may be made on a provisional basis, provided there is compliance with the conditions and with the functions and criteria of the Annex to this Regulation and the provisions of Articles 4 to 6. The SAPARD-agency will be accredited by a Competent Authority that also monitors the agency and can withdraw the accreditation of the SAPARD Agency.

The accreditation decision must include a written verification that the agency meets the accreditation criteria and, if required so, guidelines established for making the required changes and the deadline set for that purpose.

The Commission must be informed immediately about any changes in this information.

The ARIB competence arises from the Act of Rural Life and Agricultural Products' Market Regulation, in accordance to which the Board will execute national control over the support paid in accordance to provision set in legal acts (including the monitoring over compliance to the requirements set for granting support and single-purpose use of support and other resources allocates as state aid).

The competence of the Board for executing national control and implementation of national coercion includes the following issues:

- 1) granting of supports and taking decisions for refusing the support established with corresponding legal acts;
- 2) monitoring over the single-purpose use over support established with corresponding legal acts;
- 3) in cases established with corresponding legal acts, initiation of reclaim procedures to recover of resources paid as support and to have them paid back to the national budget and accounts of the institution that paid the support;
- 4) support registry maintenance, analysis and processing of registry data;
- 5) fulfilment of obligations arising from the foreign agreements related to the support granting responsibilities, processing and transmission of data required to fulfil the responsibilities mentioned;
- 6) in cases established with corresponding legal acts, publication of announcements in the Official Announcements;
- 7) fulfilment of other duties arising from the law and other legal acts.

Structure of ARIB

The general structure of ARIB has been shown on a Figure 24 Agricultural Registers' and Information Board while the structure of ARIB SAPARD-agency for the year 2000 together with the list of positions and total number of employees has been shown on Figure ARIB SAPARD AGENCY 2000.

ARIB is being managed by a Director General. The Deputy Director General acting as head of SAPARD-agency, works under the immediate subordination to the Director General. Support Department, Control Department and SAPARD Finance Department are subordinates to the Head of SAPARD Agency.

The Support Department is divided into a SAPARD support bureau and national support bureau. Both the Support Department and Control Department have officials working at the regional offices. The officials of Support Department on regional offices receive and register applications and carry out the very first verification of the potential beneficiary against the criteria set. Officials in Control Department regional offices carry out on-the-spot control of the potential beneficiaries.

The Support Department is responsible for executing SAPARD-agency implementation functions. The Support Department is responsible for receiving applications, execution of verification of compliance of the applications and projects against the conditions established in the Programme and Estonian legal acts, project authorisation, laying down contractual obligations between ARIB and the beneficiary and the issue of approval to commence work and follow-up action to ensure progress of projects being implemented.

The Control Department fulfils the control functions arising both from implementation and payment functions, executing on-the-spot checks on the beneficiary's property, before authorisation, intermediate checks (if so required) and ex-post control over the supports paid (the sample is 10% of all the supports paid within every measure).

The SAPARD Finance Department fulfils tasks related to payments. As for the payment-related functions, the responsibilities for checking payment claims and payment authorisation lay with the Deputy Head of the Department. To follow the principle of task segregation, there are two bureaus in the SAPARD Finance Department: accounting bureau and payment bureau. SAPARD accounting bureau maintains accounts on commitments and payments, draws up quarterly reports to be

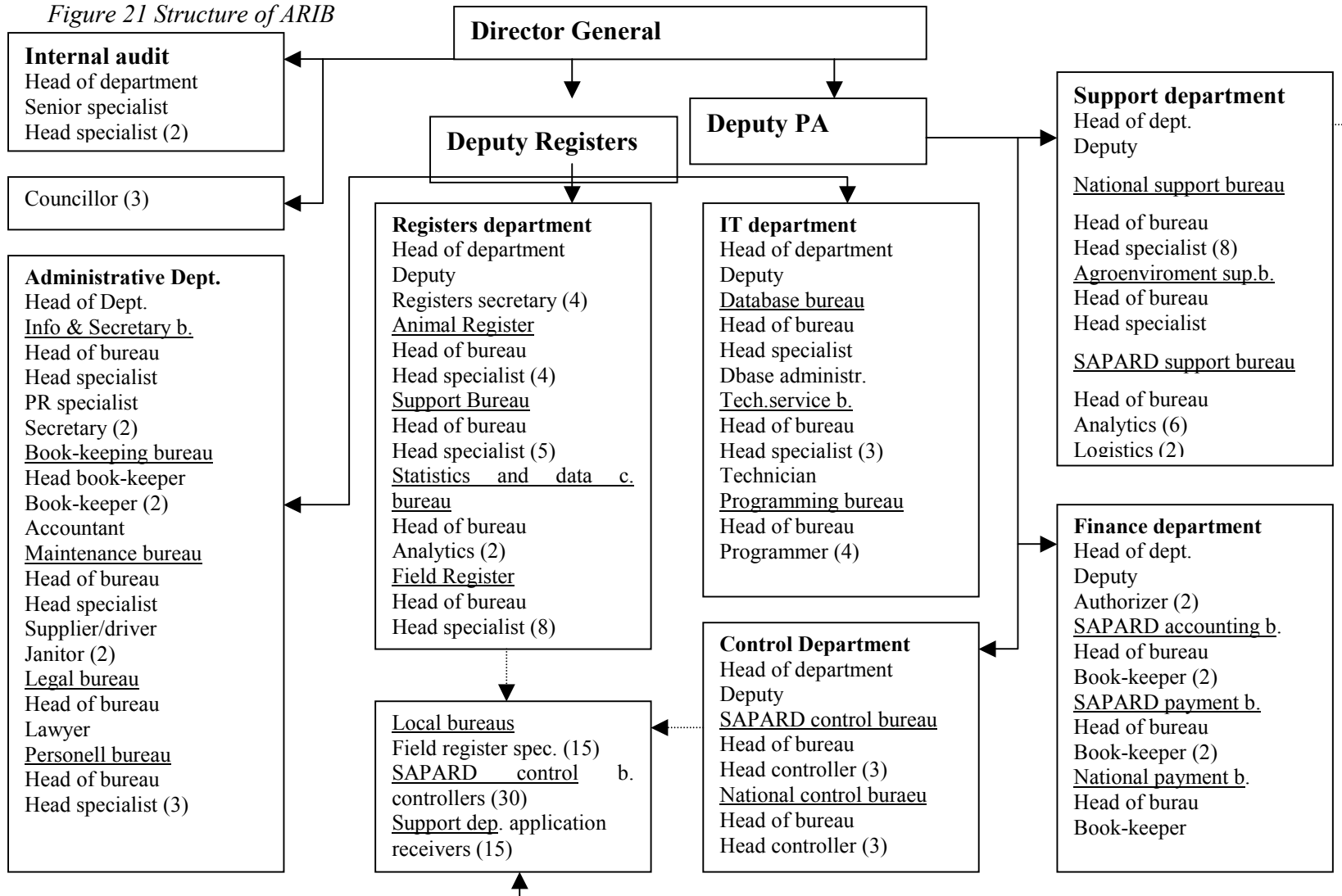
submitted to NF. The same department also draws up reports and declarations to be transmitted to the Certifying Body.

SAPARD payment bureau is responsible for making payments to the beneficiary and communication with the financial institutions.

Within the structure of SAPARD-agency there is an independent Internal Audit Department. The main task of this department is to check the activities of ARIB on constant basis and to dispose internal audit service for SAPARD-agency.

AGRICULTURAL REGISTERS AND INFORMATION BOARD 2001 (183 employees)

Figure 21 Structure of ARIB



8. MONITORING AND EVALUATION

8.1. MONITORING COMMITTEE

8.1.1. Legal basis

- The legal basis for the setting up of surveillance committees is Article 4 of Council Directive No 2052/88 and the regulation of the Minister of Agriculture of the Republic of Estonia.
- The surveillance committee is a unit set up to perform a task and is responsible for the general effectiveness and correctness of the management and performance of the Rural Development Plan under SAPARD.
- The setting up of the monitoring committee is subject to an agreement between the respective managing authority and partners. An equal participation of men and women will be sought in the selection of partners.
- A representative of the Ministry of Agriculture will direct the work of the monitoring committee.
- The Government of the Republic of Estonia and the European Commission will set up the monitoring committee not later than three months after the approval of the Rural Development Plan.
- The internal procedures and rules of the monitoring committee will be established with a regulation of the Minister of Agriculture.

8.1.2. Partnership

The European Commission and the Government of the Republic of Estonia will collaborate under the partnership agreement as needed for the preparation of structures, methods and procedures to render surveillance systems and evaluation procedures more effective.

8.1.3. Tasks

The tasks of the monitoring committee are to:

- monitor the efficiency and quality of support measures used to achieve the goals of the Rural Development Plan;
- discuss the strategic guidelines and priorities of the Development Plan;
- guarantee the compatibility of respective guidelines and priorities with the economic, social and where necessary, regional policy pursued in Estonia;
- check the achievements of the Rural Development Plan and to monitor fulfilment of the quantitative and qualitative objectives of each measure;
- create implementation and monitoring indicator systems;
- prepare and implement a financial plan necessary for the performance of the Rural Development Plan;
- organise interim assessment of the progress of the Rural Development Plan and check interim results and present them to the Government of the Republic of Estonia and the European Commission;
- discuss draft annual reports;

- approve annual reports and present them to the Government of the Republic of Estonia and the European Commission;
- adhere to requirements concerning publicity and dissemination of information;
- guarantee the correctness of activities financed by the Government of the Republic of Estonia and the European Commission and to conduct related internal audit proceeding from good financial management practice;
- prepare/ discuss/ approve amendment proposals to the Rural Development Plan based on the respective elements of monitoring systems;
- draw up the internal procedure rules and voting procedures of the monitoring committee at the first meeting of the committee.

8.1.4. Membership of monitoring committee

From the Republic of Estonia, the members of the Monitoring Committee are representatives of the Ministry of Agriculture, Ministry of Environment, Ministry of Finance (general regulation of financial issues), Ministry of Social Affairs (Employment Board), county governments, processing industry, local government associations, Regional Board, producers' unions, farm unions, village movements, etc.

All partners participating in the financing of the Rural Development Plan, and in activities concerning human resources, representatives of other partners, may participate in the work of the monitoring committee and in the voting of decisions of the Committee. In other cases the representatives of other partners have an advisory role in the work of the committee.

A representative of the Commission and where necessary, a representative of the European Investment Bank, will participate as advisors in the work of the monitoring committee.

The Minister of Agriculture of the Republic of Estonia approves the membership of the monitoring committee.

The monitoring committee may make proposals to the Ministry of Agriculture for corrections or revisions of the support scheme on the premise that such recommendations facilitate the quicker achievement of the objectives of the Rural Development Plan.

8.1.5. Indicators

The monitoring committee and the managing authority shall prepare specific monetary, physical and performance indicators for supervision, which shall have regard to the objectives of the Rural Development Plan and the socio-economic and structural in the Republic of Estonia. To monitor the environmental condition and to identify the actual environmental changes following the investment, the indicators prepared by OECD and adopted for the agriculture sector in the course of the Baltic Sea Agenda 21 will be used.

Monitoring indicators must be selected and qualified by quantity so as to indicate:

specific quantitative objectives related to the measures and priorities of the Rural Development Plan and their mutual compatibility;

stages, results and consequences achieved in the physical performance of priorities and measures; - fulfilment of the financial plan.

8.1.6. Reports on programme progress

The Republic of Estonia submits appropriate annual reports to the European Commission not later than within the first 6 months of the following year. The report contains at least the information specified in Article 36 of the Structural Funds General Regulation.

8.2. *INFORMATION AND PUBLICITY*

The agricultural and rural measures applied in the Republic of Estonia will be published. The publicity shall entail particular:

- informing potential beneficiaries and professional organisations of the support available;
- informing the general public of the Community' role in relation to the support.

The proposals contemplated and the measures adopted to that end will be communicated to the Commission.

The basis for information and publicity is Article 32 of Council Regulation No 2082/93 on Community support to pre-accession measures for the development of agriculture and rural life.

The institution carrying out projects financed by the EU aid programme must guarantee an adequate notification of the public of all projects separately, while an important component is information on the potential environmental impact.

All target groups entitled to support (undertakings, professional organisations, etc.) will be notified of the monetary support granted under the Plan and the procedure for application. Information on specific programmes and the conditions for participation therein will be available through organisations of undertakings, entrepreneurial centres and county centres. The relevant information must also be made available to the general public in the following main forms:

- The press: advertisements, press announcements and press conferences.
- The public: seminars, conferences and exhibitions.
- Printed publications describing specific programmes.

Besides the distribution of specific information, the general public is made aware of the role of the EU in the projects.

Appropriate advertising boards and posters are displayed at project sites financed by the EU aid programme, permanent boards are displayed near ready publicly used buildings.

The specific procedure for publicity and the budget of each project will be co-ordinated with the Commission. The authority organising the project also informs the relevant Commission units of the progress of the publicity process.

9. CONSISTENCY WITH COMMUNITY POLICY

9.1. COMPETITION RULES

Competition rules in the Republic of Estonia are laid down in the Competition Act:

the purpose of which is to safeguard free competition in the extraction of natural resources, manufacture of goods, provision of services, sale and purchase of products and services, and to prevent and eliminate the restriction of competition in other economic activities based on the interests of free enterprise.

The Act also applies if the action or omission directed at restricting competition takes place outside the territory of Estonia but restricts competition in the territory of Estonia.

The rule of free competition applies to all undertakings and non-profit associations, foundations and other persons who participate in a market or act in the interests of undertakings. The provisions of the Act extend to state agencies and local government agencies if the decisions or activities of such agencies restrict competition.

The Act is applied to safeguard competition between persons who participate or intend to participate in a market. A market is an area in the whole territory of Estonia or a part thereof in which goods, which are regarded, as interchangeable by the buyer by reason of price, quality, technical characteristics, conditions of sale or use, consumption or other characteristics are circulated.

The Act prohibits contracts, other transactions and agreements or concerted practices, which have as their object or effect the restriction, prevention, limitation or distortion of free enterprise and competition. Unfair competition is also prohibited.

The Act contains a definition of an undertaking of dominant position in market, which is prohibited from directly or indirectly abusing its position, including using its position to restrict competition.

An undertaking dominating the market is an undertaking which accounts for at least 40 per cent of the turnover in the market or whose economic position enables the undertaking to operate in the market to an appreciable extent independent of competitors, suppliers and buyers.

Undertakings with special or exclusive rights or a natural monopoly are also considered to be undertakings dominating the market.

The state agency or local government which grants special or exclusive rights to an undertaking may establish the procedure for regulation of prices or the prices to be used or impose other conditions or obligations on the undertaking.

State agencies and local governments determined by a specific Act or, in the absence of a specific Act. For the undertaking who has the natural monopoly on the market there is possible to determine

- the price regulation procedures;
- to set prices to be used or
- to impose other conditions or obligations the undertaking has to follow.

The right to set those restrictions by state agencies or local governments has to be determined by special Act. If there is no special Act still the Government of the republic or also local government has the right to set those restrictions in accordance with Competition Act.

The Government of the Republic and local governments may establish the procedure for regulation of prices or the prices to be used or impose other conditions or obligations on an undertaking, which has a natural monopoly. Consequently buyers of goods of such undertaking or sellers of goods to such undertaking are not placed in a substantially worse situation than they would be if competition were present in that area of activity.

Separate chapters are dedicated to state aid, merger control, unfair competition and state supervision.

State aid is an advantage granted in any form whatsoever by the state, a city or rural municipality or through their resources which distorts or threatens to distort competition by favouring certain undertakings or the production or sale of certain goods. Such aid may be, for example, financial aid, postponement of payment of tax arrears, debt write-offs and the grant of loans under essentially more favourable terms than usually given to other undertakings, and other forms of aid. (10.11.1999 entered into force 01.01.2000 - RT I 1999, 89, 813)

For the purposes of this Act, state aid, except aid to shipbuilding, transport, agriculture, fisheries and export aid, is of minor importance if it does not exceed 100,000 EUR per undertaking over three subsequent years. (10.11.1999 entered into force 01.01.2000 - RT I 1999, 89, 813)

State aid, except state aid set out in a state, city or rural municipality budget, state aid provided by other Acts and state aid of minor importance, may be granted only with the prior written permission of the Minister of Finance which is published in the Riigi Teataja(RT). The aid granted for agriculture and fisheries is laid down in special Acts and specified in the State Budget Act for the year and thus does not require the prior permission of the Minister of Finance.

But all state aid, including state aid contained in the rural municipality and state budget and state aid of minor importance have to be annually reported to the Minister of Finance in the form established by him.

The Minister of Finance may require the repayment of state aid from the beneficiary if:

- the Minister of Finance is not notified of the state aid as required,
- incomplete, incorrect or misleading information has been submitted upon notification and/-or
- aid is used for purposes other than the use or purpose set out in the application.

The Competition Board in the field of administration of the Ministry of Finance supervises the implementation of competition rules (except in respect of credit institutions, securities brokers and insurance companies).

The Competition Act Amendment Act is currently in processing by the Riigikogu. The Amendment Act is to bring the principles of handling monetary support as state aid and the procedure for its granting into compliance with the EC requirements.

9.2. DETERMINATION OF CONTRACTS

Support for different rural development investments in agricultural establishments, processing and marketing enterprises, infrastructure, alternative activities and village development is granted on similar grounds. As support is granted for specific purposes, the beneficiary must confirm his receipt of support in writing together with a commitment to the rights and obligations laid down in the Agricultural Products Market Management Act and the legal acts prepared on its basis.

9.3. ENVIRONMENT PROTECTION

Harmonisation of the Estonian environmental legislation with the EU environmental policy and the administration of this process has been trusted to the Ministry of Environment. In the pre-accession process the environment use and protection provisions of 70 EU directives and 20 EU regulations (hereinafter the EU environmental acquis) are harmonised and transposed to the Estonian legislation.

The central principle of the EU environmental policy is sustainable development through high-level protection of the environment, by applying the pollution prevention and the "polluter pays" principles.

The EU environmental directives and regulations generally provide for the establishment of norms, maximum limits, standards, etc. and requirements for their implementation (enforcement procedures, measurements, sampling, analysis, information processing and communication). These are also covered by a number of horizontal directives on assessment of environmental effects, prevention and limitation of integrated pollution, availability of information, etc.

Estonia has also joined several environmental conventions, such as the Ramsar (wetlands), Bern (game, nesting areas), Rio (biological diversity), Gdansk (fishing, aquatic life protection), Basel (hazardous waste), and Montreal Protocols (ozone layer protection), Helsinki Conventions (Baltic Sea aquatic environment, industrial accidents, border water bodies), Climate Changes Convention, etc.

The Rural Development Plan for the years 2000 - 2006 has been drawn up on the principle that the applied measures guarantee:

- the implementation of the main principles of the Estonian environmental strategy;
- adherence to applicable legislation and conventions in accordance with the provisions of the EU environmental acquis;
- take into account the Baltic Sea marine environment protection measures worked out for seven economic sectors (agriculture, power engineering, fisheries, forestry, industry, tourism and transport) under Agenda 2001.

Depending on the objective of each measure, different criteria have been established for the evaluation of different projects, but the common criterion is adherence to the Estonian and EU environmental policy requirements.

Where applicable, the precondition for a project is the confirmation of a competent authority on the assessment of environmental effects, whereas projects for the building and reconstruction of production facilities are subject to environmental expertise already in the planning stage.

The legal bases for assessment of environmental impact proceed from EU Directives 85/337/EEC and 97/11/EC and the Planning and Building Act of the Republic of Estonia (RT 1995, 59, 1006).

9.4. EQUAL POSSIBILITIES FOR MEN AND WOMEN

The equality principle has been taken into account in the preparation of the Agricultural and Rural Development Plan. As can be seen in the chapter 4, the unemployment is lower among women than men in Estonian rural areas, therefore when finding the solutions to the biggest problem of our rural society, it should be addressed to both genders.

The European Community has accepted a number of recommendations, which have a direct effect of supporting women. The resolutions and recommendations concern measures for the improvement of women's positions. Estonia, having joined the respective international

conventions and the action platform of the Fourth Women's' World Conference, accepts these documents in its national activity programmes concerning equality.

The EU equality policy consists of legislation, programmes, activities, and reports of the European Court, which has determined the right of equality as a fundamental right of the Community legal system. An important policy is the equal pay policy, which is often viewed as the basis for human and fundamental rights.

The Republic of Estonia signed the Universal Declaration of Human Rights on 2 April 1996. In December of the same year the Equality Bureau was established at the Ministry of Social Affairs. The Equality Bureau supports the activities of the inter-ministerial committee established for implementation of activity programmes under UN conventions concerning issues such as the equal treatment of men and women in labour, occupational health, social, and development and training issues. The Bureau also supports the development of a collaboration network between institutions and persons engaged in equality issues, as well as works for integrating the equality issues in the legislation. The separate law on equality between men and women is under preparation by the Equality Bureau.

The Constitution of the Republic of Estonia stipulates: everyone is equal before the law (section 12). No one shall be discriminated against on the basis of nationality, race, colour, sex, language, origin, religion, political or other opinion, property or social status, or on other grounds.

Several projects and programs have started in Estonia, which are addressed at rural women and inequality problems, the biggest of them being the ILO project "More and better jobs for women" and Phare-supported project "Support to Estonian Rural Women Association". The emphasis of both projects has been on training and education.

"More and better jobs for women" (ILO)

The International Labour Organisation funded project aimed at improving employment situation for the women in rural areas. The objectives of this programme are:

- To strengthen national and local-level institutional frameworks and enhanced capacities for formulating, implementing and monitoring policies and programmes to promote gender equality and provide more and better jobs for women.
- to develop comprehensive and coherently integrated measures for improving the quantity and quality of employment for women in an economically disadvantaged region of Estonia (Valga county so far).
- systematic promotion of sharing of information and experiences among counties in Estonia, between Estonia and other countries participating in the International programme on *More and Better Jobs for Women*.

The different actions are taken on several levels: on the state level, on the regional level and on the local level. The examples of the activities include training and seminars for the employees for institutions on national and regional level, with the objective to acknowledge the gender issues. More specific training (business, legislation, etc) on the local level has the objective to improve the employment position of rural women. The project started in 1999 and it continues in year 2000.

"Support to Estonian Rural Women Association" (ILO)

Project lasted from November 1998 to September 2000, with the help of PHARE and LRF-Sweden. As in 1996 the Estonian Rural Women Association was formed on the example of LRF-Sweden, the project started in 1998 with the objective to strengthen the Association and to improve the training opportunities for rural women. Among the other activities, the project

has addressed the gender issues, as the Gender working group was formed, which has held already several seminars.

The goals for the project are to large extent fulfilled:

- the membership in the organisation is grown from 200- 700
- the training of the trainers (the program is finished)
- EU information seminar for 60 participants
- 37 local seminars organised by the trainers, held with 1136 participants
- Training seminars for elected board members of EMÜ and ETKL have been held
- Newsletter "KAJA" has been issued in four numbers

8 trainers have received a qualified education in the following topics:

- organisational development
- personal development, communication, co-operation, stress, positive thinking
- how to organise seminars, how to collect study material
- work with media
- alternative productions in the countryside,
- meet with different people, share their problems, find solutions to problem

9.5. HYGIENE, SANITARY AND PHYTOSANITARY REQUIREMENTS

The Republic of Estonia has undertaken to harmonise veterinary, phytosanitary and hygiene legislation and to establish the respective requirements by the year 2001. The majority of the measures supported under this Plan are essentially targeted to objects, the legislation covering which is harmonised with that of the EU as of 01.01.2000. **The most important laws in these areas are:**

- Prevention and Control of Animal Diseases Act
- Food Act
- Seed and Propagation Material Act
- Variety Protection Act

According to these Acts, all existing and newly constructed production facilities are subject to surveillance. The same surveillance scheme is applied to facilities co-financed by the public sector under SAPARD.

The precondition for support under measures 1–3 is the existence of a technical expert opinion on the project's compliance with applicable legislation.

In investments related to animal protection, expert evaluations proceed from the applicable EU legislation until the adoption of a national law at the end of 2000

10. ANNEXES

1. ANNEX 1 DONOR PROGRAMMING PLAN

1.1. INTRODUCTION

Foreign donors started to assist Estonia in the early nineties, soon after regaining of Estonia's independence in 1991. During these 8-9 years a lot of projects have been carried out. For example, only European Union Phare programme has carried out ca 45 different activities, which include smaller and bigger projects for technical assistance, training, study tours and procurement of equipment. Besides Phare, Scandinavian countries have been very active in finding interests for cooperation as well as Germany and the Netherlands. During the recent

years the geography of foreign assistance has widened and efforts for intensifying cooperation with other European Union countries like France and United Kingdom have been made. Several bilateral agreements and memoranda have been signed to encourage focusing of foreign assistance projects into specific fields.

While in the beginning of 1990s the assistance was oriented towards the overall recovery of Estonian economy, then in the end of the decade the clear objective is the integration to the European Union. This formulates 2 main target groups for foreign assistance: improvement of public administration and upgrading private sector. Current donor assistance projects are mostly focused on the public sector, i.e. assistance to the Ministry of Agriculture and its inspectorates and centres to bring them up to the European Union levels. However, a number of projects have also been oriented to the advising of food processing industries for upgrading them to meet the EU quality and hygiene standards. A lot of training sessions has been held to the processing sector. On the other hand, upgrading of primary production and processing sectors need huge investments. The Ministry of Agriculture has prioritised this in the upcoming EU SAPARD programme through the Rural Development Plan where necessary measures have been foreseen. Many of the bilateral projects have been initiated by the private-owned businesses and organisations by themselves.

In the recent years the funds available for donor assistance projects have decreased and more cuts can be expected due to the progress in the preparation for EU accession. More and more projects are planned to be co-financed from the Estonian state budget which results in perhaps a more Estonian-owned nature of the projects.

However, although lots of donor assistance projects have been realised in the agriculture sector, the need for further assistance from more experienced countries still remains for many years.

The Donor Programming Plan (DPP) is an initiative of the Internal Consultancy Unit of the Ministry of Agriculture⁹ to install a tool for systematic monitoring of foreign assistance to the development of the sector and identification of further needs for donor assistance. It is a single document incorporating the needs of the Ministry of Agriculture and its institutions for external assistance (funded by EU, bilateral sources or IFIs) for building up its administrative capacity in the view of the future accession of Estonia to the EU and development of rural life.

It is anticipated that the DPP will be a current document that will be updated at least in every 6 months by the Department of Foreign Relations and Trade of the Ministry of Agriculture. Although a regular review of developments and further needs for foreign assistance should be carried out, all remarks and suggestions are welcome any time. These should be sent to Mr Andres Oopkaup, Head of Department of Foreign Relations and Trade, Ministry of Agriculture, Lai Street 39/41, 15056

In the DPP, the donor assistance projects are divided into 6 groups. This is due to the structure of the Ministry and division of tasks within the Ministry and subordinate institutions. The structure of the Ministry of Agriculture is shown in Annex A to the DPP.

⁹ The Internal Consultancy Unit is a Phare funded support unit, which aims to strengthen the administrative capacity of the Ministry of Agriculture. One of the unit's responsibilities has been to coordinate the Phare assistance in the agriculture sector. The office of the ICU is located in the Ministry of Agriculture, room 207, telephone +372 641 1079, fax +372 6256 205, contact person Ms Triin Nymann. The ICU will finalise its activities on 24 February 2000.

Objectives and tasks of the Ministry, its departments, inspectorates and centres are given in Annex B.

The target group of the DPP is seen to be the donor organisations, embassies of foreign countries in Estonia, private consultancy companies interested in cooperation and international organisations.

1.2. CURRENT DONOR ASSISTANCE

Summary of current donor projects is shown in Table 1.

The main emphasis of projects currently underway is oriented to the improvement of Estonian agricultural administration to be able to cope with the responsibilities to be taken over when acceding the EU. However, bilateral assistance has been provided also to selected pilot beneficiaries from the private sector to enable them to improve the quality and hygiene of production and processing of agricultural products.

The **European Union Phare programme** has supported Estonia since 1991 when Estonia was added to the list of programme beneficiary countries together with other Baltic States.

The total amount of the assistance to the agriculture sector since then reaches MEUR.

Almost all of the projects until the Phare Country Operational Programme 1996 consisted of technical assistance, training and study tours. From 1996 there is a possibility to include also some investment projects into the programme. However, these investments have been foreseen to the public sector. So far the IT equipment and laboratory installations have been procured. The amounts allocated to the Estonian agriculture by Phare have been as follows (MECU):

1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
2,97	0,43	0,95	0,6	2,4	1+2 ¹⁰	2	2,1	-	14,45

The amount available for Estonia for 2000 is 24 MEUR. Although the Ministry of Agriculture applied for financing of 7 projects, only 1 of them was preliminary accepted by the European Commission – *Development of paying agency*. Project *development of phytosanitary control and improvement of border inspection posts*, if combined into one single project is in reserve. The final decision by the Phare management committee is expected in April 2000 with the signature of Financing Memorandum in summer 2000.

Co-operation with **Denmark** began in 1992. Three Danish long term experts have worked at the Ministry of Agriculture, the present expert will continue throughout the year 2000. The main fields of co-operation have been as follows:

- elaboration of the development plan of meat industry;
- development of food quality control measures;
- development of veterinary and food law;
- training of relevant specialists;
- development and building of the Jäneda Advisory and Training Centre;
- seed certification;
- training and advice to the border control inspectors and laboratory workers;
- pilot project on the construction of a rendering plant and the respective studies since 1994, after a short pause the project will continue in 2000;

¹⁰ 2 MEUR was earmarked for the Estonian National Land Board (Ministry of Environment)

- training of biological farming specialists;
- support to co-operative movement;
- training of leaders;
- establishment of 5 co-operative machine rings;
- training and advice to farmers;
- EU-training in the sectors of veterinary science, phytosanitation and meat and milk industry.

Up to 1997, the Danish Ministry of Food, Agriculture and Fisheries was the main financier of co-operation, in 1998, the euro-integration projects and training were provided by the Danish Ministry of Foreign Affairs and the environmental projects were financed by the Danish Ministry of Environment in co-operation with the Estonian Ministry of Environment. In recent years, great importance has been attached to the euro-integration projects, the basic sectors are the same but some additional projects in the field of biological farming and environment as well as the fertilizer and pesticide normatives etc. have been added. Denmark was and still is one of the biggest donors with whom we have long-term co-operation projects. The annual financing by the Danish side has been 10 million DKK on an average.

Co-operation with **Finland** began in 1991. Finland was one of our first donor countries. In the first years, the basic fields of co-operation were as follows:

- advice to meat and milk industry;
- training of specialists;
- transfer of technology and equipment;
- training of farmers;
- transfer of second-hand agricultural machinery and milk tanks to farmers;
- support to co-operative movement;
- training;
- sale of driers and tractors to farmers under favourable conditions.

Within 10 years, several specialists of agriculture and processing industry as well as Ministry employees have been trained. In the phytosanitary field, co-operation has included training, advice, seminars both in Estonia and Finland and training in Finland. Adavere AS and Kemira OY developed a long-term co-operation project in the course of which about 10 advisory days with about 2000 participants each were organized every year. Recently, training of the veterinary laboratory, meat and milk industry workers and heads of the county agricultural departments, related to euro-integration has been holding the first place. The latter should be continued. The number of environmental projects has also increased, this is characteristic of co-operation with all countries. In the first years, together with forestry projects financing amounted to ca 10 million FIM, lately it has decreased to 3-4 million FIM and in 1999 it was ca 1,2 million FIM together with the funds allocated by the Finnish Ministry of Foreign Affairs. Since 1998, projects have been financed through the Finnish Ministry of Foreign Affairs, before the Finnish Ministry of Agriculture and Forestry was the only financier of projects.

Co-operation with **Germany** began in 1991. In the first years, Germany was also one of the biggest donor countries. The main fields of co-operation have been as follows:

- favourable credit to farmers for the construction of cattle sheds and for the purchase of milking and milk cooling equipment;
- spare parts of agricultural machinery in the sum of 1,2 million DM as non-refundable aid;
- farmers' training and advice;

- first advisory rings in the Viljandi county, later the extension of this advisory system to the counties of Jõgeva, Tartu and Järva;
- a long-term advisor working in Estonia;
- the advisory programme for the employees of the Institute of Agrarian Economics for the elaboration of revenue accountancy and the application of test establishment system in Estonia;
- long-term co-operation between the specialists of the Performance Control Laboratory and the specialists from Mecklenburg-Vorpommern; elaboration of the system;
- co-operation between agricultural universities and vocational schools; practice, training and re-training of students and teachers in Germany;
- co-operation in the field of veterinary science and phytosanitary control; practice, training and re-training;
- euro-training, training in marketing, training and re-training of employees;
- training and advice to the employees of the Chamber of Agriculture and Commerce in Germany and Estonia.

The German Ministry of Food, Agriculture and Forestry finished the financing of our co-operation in 1998. There is still co-operation with Schleswig-Holstein, Brandenburg, Nordrhein-Westfalen, Thüring and Mecklenburg-Vorpommern. Some other federal states, such as Sachsen and Sachsen-Anhalt have also expressed their interest in co-operation.

Co-operation with **Holland** started in 1992 with the Dutch company Provimi B.V. on the transfer of know-how to produce high quality premixes and compound feed and to improve dairy management on the Estonian farms.

Since 1992, much attention has been paid to the transfer of the Dutch methods, technology and know-how of intensive grassland cultivation to Estonia, to the implementation of the grass fodder production and conservation technologies used in Holland and to the exchange of grass seeds.

Within the period 1992 to 1997, the project “Improved Feed and Farm Management” implemented the concept of pilot farms. At the same time, the modern Dutch feed supplements were tested in Estonia with the view of starting the production of suitable supplements in Estonia. In 1996, a joint venture between Provimi B.V. and Valga Terko was established.

In the first years of co-operation, the other fields of co-operation included the creation of an information system research.education-extension, the technique of virus eradication and propagation of seed potatoes, support to the Paide Dairy Plant and training of the staff of the Ministry. In 1995 to 1997, co-operation in the field of feed and farm management was continued in order to better use the results gained in previous years and to develop a profitable as well as economical dairy sector in Estonia.

During the co-operation, dairy sector has been covered the best. From 1998 to 1999, the concept of pilot farms was applied in Eastern Virumaa and support was given to Jõhvi Dairy. At present, another project is going on in the field of dairy, covering the credit possibilities for farmers, the establishment of modern dairy farms and the improvement of the genetic potential of the Estonian black and white breed.

The other ongoing projects cover the following fields:

integrated drainage and land development (partly financed by the agricultural development amelioration component of the World Bank loan);

public and private partnership in variety breeding;
development of the Estonian poultry sector;
equipping and providing technical assistance to a border point.

In 1998, the Memorandum of Understanding on Co-operation in the Field of Agricultural and Rural Policies between the two Ministries was signed by the chancellors of the two Ministries. On the basis of this Memorandum, our priorities for the training of the staff of the Ministry were identified and the working plan worked out.

Sweden. To the present, we have had long-term co-operation, the so called “Kodukant” village movement in the field of regional development. In the framework of this co-operation training, practice, seminars and study trips are being organized for the people involved in village development of all our counties. The project started in the Rapla county and spread all over Estonia. Cooperation has also included farming practice of farmers and students on the farms. Several environmental projects have been carried out in co-operation with the Ministry of Environment. Co-operation between agricultural universities has lasted for several years. We have also had some SIDA projects, as a matter of fact, agriculture is not much favoured there. Co-operation between the Ministries is weak. The Swedish Minister of Agriculture has been to Estonia but there is no co-operation agreement between the countries. Market regulation has been discussed in the framework of 3 + 3.

Co-operation with **France** began in 1996. A list of points of interest for cooperation has been presented to the French Ministry of Agriculture. For several times, our specialists have participated in seminars in France. The present co-operation in the framework of the EU Phare twinning programme deals with the development of market information system and agricultural statistics in Estonia in co-operation with German and Finnish Ministries and experts.

Co-operation between Estonia and **Flanders** began in 1997 after signing the co-operation agreement between the Government of Estonia and the Government of Flanders. In agriculture, “Development of Flax Growing in Estonia” was the first project which has continued until present. The Estonian Flax Union is the Estonian partner of the project and in spite of financial difficulties the parties have been pleased with the project. In 1999, there were negotiations in the field of meristem multiplication of fruit trees and berrybushes as well as in the sector of pedigree breeding but neither side has expressed special activity in the above mentioned issues.

Co-operation with **Italy** started in 1992 when through the Estonian-Italian Foreign Aid Fund several co-operation projects were financed. From Italy, feed grain and citrus fruit were sent to Estonia and the money generated from the sale of feed grain and citrus fruit was paid to the Fund. Price concessions were applied and interests on the loan redeemed. Several support payments were directed at agricultural schools for the purchase of study equipment and the machinery needed. The money was also used to sell tractors to the farmers under favourable terms in co-operation with AS Sampo. The last amount of ca 1 million EEK planned for supporting schools was retained in the bankrupt Maapank.

By the present time, the volume of co-operation has decreased. There is still some co-operation in the sale of the Italian agricultural machinery.

The first contacts of specialists from Estonia and **Austria** took place in 1992, co-operation between the Ministries started in 1993. In 1995, a Ministry delegation of 10 members visited

Austria in order to get acquainted with the Austrian regional policy and alternative agriculture. In 1996, a seminar on regional development with the participation of the Austrian specialists was organized in Estonia and in 1996, a study trip was organized for the leaders/specialists dealing with regional development in the counties. Further co-operation has been carried out on specialist level in the issues of animal breeding, phytosanitation, rural development, etc. Our people have participated in different symposia and seminars. The Estonian companies have good co-operation with the Austrian Commerce Representation. In 1999, several rural development specialists came to Tallinn to contribute to the elaboration of our rural development plan. There is no co-operation agreement between our two countries but the specialists are willing to develop co-operation.

Since 1984, the Congress of the U.S.A. has allocated resources for the U.S. training of the agricultural higher and medium level specialists of the developing countries dealing with agricultural trade and entrepreneurship, management, policy and marketing both in government and private sectors. Cochran Fellowship Program is carried out by the Division of Foreign Service, International Co-operation and Development and Food Industry of the U.S. Department of Agriculture. Since 1984, Cochran Fellowship Program has provided training for 4 790 people from 50 countries of the World. Every year, the Estonian Ministry of Agriculture submits its priority fields to the American side, at the same time suggesting candidates for participation in the Program. All the participants in the Program consider the training as fundamental, serious and objective. The Agribusiness Linkage Program (AgLink) is another program which promotes U.S.-Estonian joint agribusiness linkages by providing travel and short-term training assistance to qualified companies. On the 16th of January 1998, the Presidents of the U.S.A. and the Baltic States signed the U.S.-Baltic Partnership Charter. On the basis of the Charter, our co-operation with the U.S. has attained a new level as regular bilateral economic and security consultations are being organized. On the 8th of July, 1998, Memorandum of Understanding among the United States Department of Agriculture and the Ministries of Agriculture of Estonia, Latvia and Lithuania on co-operation in agricultural programs was signed. In 1999, Letter of Implementation between the Estonian Ministry of Agriculture and the United States Department of Agriculture Foreign Agricultural Service on Scientific and Agribusiness Programs was signed, including the following sectors of activities:

- Information outreach systems;
- Rural development;
- Agribusiness development;
- Biotechnology.

In January, 2000, Mr. Ivar Sikk, Head of Department of Agriculture of the MoA, Mr. Hillar Pulk from the Pedigree Breeding Inspectorate and Mr. Märt Viileberg, Director of the Chamber of Agriculture and Commerce participated in the first activity of the Dairy Enhancement Program in the United States. This activity was followed by the seminar “Enhancing Dairy Productivity and Competitiveness” on January 24-25 2000 in Tartu.

On September 10th, 1998, Memorandum of Understanding between the Republic of Estonia and the United Kingdom was signed. The Memorandum set out the areas of co-operation between the Ministry of Agriculture, Fisheries and Food of the United Kingdom and the Ministry of Agriculture of Estonia on technical assistance in the field of agricultural policy in relation to Estonia’s preparations for EU accession. The possible areas for co-operation include the following:

- The process of policy execution;
- Monitoring and control of EU budget expenditure;

- Food promotion and marketing activity;
 - The operation at regional level of the Ministry of Agriculture, Fisheries and Food.
- In February, 1999, a high level visit of civil servants to Great Britain was organized. As a result, the following sectors of interest were brought out:
- Co-operation in the form of twinning;
 - Expert assistance in the assessment of the rural development plan;
 - Marketing development;
 - Training and study trips;
 - Development of a stable administrative structure;
 - Veterinary and food control;
 - Contacts between the officials of the two countries.

Table 1 Projects in the agriculture sector (underway or commencing)

Area of activity/ Responsible department	EU	UK	Denmark	The Netherlands	Germany	Other
Agriculture/ Department of Agriculture	<p>Development of agricultural registers (hard and software)</p> <p>Development of agricultural information systems (hard and software + twinning with France, Germany and Finland)</p> <p>Assistance to the development of intervention and foreign trade systems (under European Integration Bureau)</p>	<p>Development of growing and export of oats corresponding to EU quality requirements for oats used in food industry (UK)</p> <p>Selection of high quality malting barley varieties with broad adaption to different agroecological conditions (UK)</p> <p>Breeding of late blight resistant table potato varieties and creation of system for multiplication of high quality seed potatoes (UK)</p> <p>Development of intensive technology for growing raspberries for industrial purpose (UK)</p> <p>Growing fruit trees (UK)</p>	<p>Demonstration farm project</p> <p>Improvement of legislation on fertilisers</p> <p>Establishment of a bee inspection system in Estonia</p> <p>Training on organic farming</p> <p>Organic potato production project</p> <p>Development of Røuge Dairy Cooperative</p> <p>Advisory programme for farmers</p> <p>Master plan for development of the Estonian seed production, processing and distribution sector</p>	<p>Cooperation in poultry</p> <p>Assistance to dairy development</p> <p>Drainage and land development pilot project</p> <p>Advisory programme for dairy farms</p>	<p>Cooperation in horticulture (Mecklenburg-Vorpommern)</p> <p>Pedigree breeding project for using bulls</p>	<p>Flax cultivation (Belgium)</p> <p>Market organisation (France)</p> <p>Development of research of meristems of fruit trees and berry bushes (Belgium)</p> <p>Development of alternative inspection and certification system of organic agriculture (Sweden)</p> <p>Using of pedigree material in Baltic states and parallel testing (USA)</p>

Phytosanitary control/ Department of Agriculture	Development of phytosanitary services (lab equipment + twinning with Germany, Finland and Sweden)		Testing and registering of plant protection products Support to sustainable agriculture by collaborative Internet services (AgriWise) Twinning project between the Estonian Plant Production Inspectorate and Danish Plant Directorate			
Rural development, agricultural extension and education/ Department of Rural Development	Development of rural tourism, alternative economic activities and land use policy Development of micro credit scheme Assistance to the upgrading of farm buildings Development of agri-environment scheme		Integrated advisory services as a tool to raise the quality of farm income in Estonia		Practical training of agricultural students	Assistance to village movement (Sweden) Haapsalu and Matsalu Bays' environment project (Sweden) Baltic agricultural run-off action programme (Sweden) Farm environmental managing programmes in the Estonian karst region (Finland, Sweden)
Veterinary medicine and food control/ Veterinary and Food Department	Development of integrated food quality and safety information network		Development of rendering system Veterinary seminar in Denmark Training in food inspection	Partnership in animal breeding Technical assistance to a border inspection post	Training of plant control laboratory staff in border controls	Training for staff of veterinary laboratory (Finland)

Institutional strengthening and European Integration	Institutional strengthening of MoA Policy advice to MoA	Visits of higher officials to the UK MAFF (UK)			Training of MoA staff in Germany	Training for heads of agriculture departments in counties (Finland)
Other	Development of fisheries sector					Cochran Fellowship Programme for MoA officials (USA)

1.3. COORDINATION OF DONOR ASSISTANCE IN THE MINISTRY

All donor assistance is currently coordinated by the Foreign Relations and Trade Department: Eurobureau is responsible for the EU Phare programme, and foreign relations bureau for the bilateral assistance.

1.4. DONOR ASSISTANCE IN THE FUTURE

In parallel with the economic development of Estonia all donors have decreased their assistance and involvement in cooperation projects. At the same time the responsibilities of Estonian side have increased. Year by year the co-financing of projects by Estonian state has become larger.

Although there have been lot of assistance from the foreign countries to Estonian agriculture, there are still needs for further assistance – development of the country leads to new emerging areas for assistance. The DPP aims at the common registration of these needs together with the current activities in real time.

The needs identified by Ministry departments are shown in table 2 below.

Table 2. Needs for additional donor assistance

DEPARTMENT OF AGRICULTURE	Preferred timing	Remarks
Establishment of rendering plant - study; - blueprint; - construction; - equipment.	Sept 1999-2003	
Establishment of paying agency - geographical information system; - IACS and animal registers; - Intervention system; - Training.	Sept 2000-Sept 2002	Applied from Phare 2000
Development of phytosanitary inspection services - inspection of pests; - registration and testing of pesticides; - improvement of computerised seed certification; - improvement of animal feed control; - Improvement of fertiliser control; - Training.	Sept 2000-Sept 2002	Applied from Phare 2000
Assistance to the development of state seed processing plant in Jõgeva - cleaning and packaging equipment; - seed sampling device; - training.	Sept 2000-Sept 2001	

<p>Assistance to the development of agricultural insurance system</p> <ul style="list-style-type: none"> - development of procedures and legislation; - training of staff of insurance companies; - dissemination of information to the farmers. <p>Assistance to the development of agricultural lending</p> <ul style="list-style-type: none"> - training of staff of banks involved in agricultural lending - dissemination of information to the farmers <p>Using bar codes for identification of milk samples in laboratory</p> <ul style="list-style-type: none"> - procurement and installation of bar code reading system <p>Installation of System 4000 to the milk processing industries</p>	2000-2001	
<p>Renovation and upgrading of laboratories of Plant Production Control Centre according to EU requirements</p>	2001-2002	
<p>Implementation of quality control systems in the plant health laboratory of Plant Production Control Centre and accreditation of the laboratory according to EN45001 and ISO/CEN 17025.</p>		
<p>Training of students and lecturers from Estonian Agricultural University, MoA officials and amelioration specialists on land amelioration and water management issues as follows:</p> <ul style="list-style-type: none"> - foundation of water and land associations, tasks, coordination of activities, financing system, technical control; - development of environment-friendly hydrographical network (main water supplies, drainage, irrigation, water storage, hydrotechnical constructions); - agricultural production in protected zones according to environmental requirements and conditions regulating water regime; - implementation of agro-technical methods to increase the soil fertility (liming of soils, loosening, etc); - planning of land use – landscape architecture, re-parcelling of lands; - preparation of different projects, management, reporting, drawing conclusions, development of strategies; - analysis of economic profitability of amelioration and water management; - implementation of EU requirements on land amelioration and water management. 		

Assistance to the development of organic farming using applied research <ul style="list-style-type: none"> - identification of crop rotation suitable to different kind of farm types (dairy production, plant production, mixed); - identification of plant varieties suitable for organic production; - plant protection of organic farming. 		
Establishment of a demonstration-pilot farm in Mid-Estonia for research and training purposes		
Establishment of pilot farms typical to different regions <ul style="list-style-type: none"> - development of optimal local ecological production structures; - socio-economic analysis. 		
Systematic training on organic farming of advisers and trainers in a foreign country		
Full implementation of agri-environment programme in 2 pilot areas <ul style="list-style-type: none"> - pilot agri-environment programme according to EU rules 		
Training of administrators and advisers of agri-environment programme in the member states of the EU		
VETERINARY AND FOOD DEPARTMENT		
Improvement of border posts for veterinary and phytosanitary control <ul style="list-style-type: none"> - construction of buildings; - training of inspectors. 	Sept 2000-Sept 2002 Applied from Phare 2000	Together with Department of Agriculture
Improvement of veterinary education <ul style="list-style-type: none"> - modern training programmes; - modern equipment for training purposes (incl. lab equipment); 	Sept 2000-Sept 2002	
Improvement of agricultural education system <ul style="list-style-type: none"> - optimal network of schools; - curricula and training materials; - information technology; - procurement of modern agricultural machinery 	Sept 2000-Sept 2002	
Development of inspection of food of non-animal origin <ul style="list-style-type: none"> - central register; - inspection; - training of inspectors. 	2000-2002	

Implementation of EU requirements on animal welfare - legislation; - inspection; - training.	2002-2003	
DEPARTMENT OF RURAL DEVELOPMENT		
Preparation for implementation of rural support schemes, incl. the support schemes for young farmers and early retirement - training and support system for preparation of applicable projects; - evaluation of rural development projects; - training for evaluators, applicants; - cooperation with a EU country	2000-2002	
Evaluation of present status of agricultural research and the structure of research organisation in Estonia. Assistance to the development of strategy and development plan for agricultural research.		
Reorganisation of state programme "Village movement" into a EU LEADER type project	2001-2003	
Establishment of coordination and support system for preparation of development plans in different levels (national development plan, county development plan, municipality development plan)	2000-2001	
Development of programme for landscape conservation (incl. pilot project), 3-dimension computerised planning of landscapes	2001-2004	
Assistance to rural tourism providers - financial support for establishment and 1 st year operation of non-profit Rural Tourism Organisation; - investment for development of computerised information and reservation system	2000-2004	
Promotion of direct marketing (in Võru county for piloting) - training for producers on direct marketing; - assistance to set up a day market	2000-2002	
Promotion of local marketing and assistance to the development of local producers' marketing organisations - assistance to the set up of the local marketing system - training of local producers in marketing		
Pilot project for promotion of a regional product in Estonia and abroad (cheese, for example)		

<p>Development of mutual cooperation system between agricultural schools and farms</p> <ul style="list-style-type: none"> - set up of system and procedures; - training of staff of agricultural schools and farmers 		
<p>DEPARTMENT OF FOREIGN RELATIONS AND TRADE</p>		
<p>Strengthening of non-governmental organisations</p> <ul style="list-style-type: none"> - producer and other interest groups; - facilitation of marketing, export, credits; - information systems; - cooperation with public organisations; - role of NGOs in EU. 	<p>Sept 2000-Sept 2002</p>	
<p>HORIZONTAL</p>		
<p>Strengthening of administrative capacity of the Ministry of Agriculture</p> <ul style="list-style-type: none"> - assistance to the development of organisation; - training of staff in management, language and computer skills, specific fields related to EU accession 	<p>2000-2002</p>	

2. ANNEX 2 DRAFT FOR GOOD AGRICULTURAL PRACTICE GUIDELINES

The draft for Estonian Good Agricultural Practice Guidelines consists of following chapters:

I Introduction

1. Planning's in agriculture

1.1. Building

- Project provisions
- Forming a projects
- Building
- Consideration of local conditions

1.2. Restrictions from Water Act and Act on the Protection of Marine and Freshwater Coasts, Shores and Banks

2. Manure handling

3. Plant production

3.1. Agrotechnics

- Crop rotation
- Soil cultivation

3.2. Soil reaction, regulation of soil reaction

3.3. Plant nutrients

- Soil as a resource of plant nutrients
- Removal of plant nutrients with harvest

3.4. Mineral fertilisers and manure, using of fertilisers

- Available plant nutrients in mineral fertilisers
- Leakage of plant nutrients
- Fertilising in proper time
- Fertilising technologies

4. Plant protection

- Overview of common plant weeds and diseases
- Overview of pesticides
- Methods of plant protection
- Timing of plant protection works
- Dosing of pesticides
- Spraying techniques
- Etc.

5. Wastewater management

6. Biodiversity

In following 5 pages the content of each chapter is briefly revised.

Introduction gives an overview about Estonian water resources, problems with water quality, main sources of pollution and stress necessity for water protection.

2.1. PLANNING'S IN AGRICULTURE

During the agricultural production we may be in contact with composing of different types of planning's with aim to be sure that new initiative activity is not risky from people health, environment and economical point of view. This chapter give an overview of planning's on what farmers should deal with.

Short term's plans, such as fertilisation and plant protection, annual animal keeping and feeding, loans for year activities and etc.

Long lasting plans, such as farm management, needs for investments on buildings and machinery, crop rotation, and etc.

2.1.1. Building

According to Act on Planning and Building is allowed to construct new buildings or expand existing buildings only according to terms given by local municipality permission.

This paragraph sets main demands on construction and integration of farm buildings.

The farm situation plan should be design so that all farm buildings are integrated. Farm purpose buildings should be in production yard and living houses in living yard. Farm relief should be design so that surface water cannot to flow into silage and manure storage and to not run counter to buildings foundations. All barn floors must be waterproof and ventilation of barn should be equal to keep under control of harmful gas concentration, relative humidity and temperature.

It is recommendable to locate barns and other similar buildings before the wind compared with living zones (in Estonia are dominating Southwest and West winds) and after wind compared with manure storage's and composting areas. Farm roads must be enough wide with enough strong covering and weatherproof.

2.1.2. Restrictions from Water Act and Act on the Protection of Marine and Freshwater Coasts, Shores and Banks

This paragraph describes main demands set by law on agricultural activities in named areas. Main restrictions by laws, shortly.

Any economical activity is not allowed in inland water protection zones (10 or 20 m), except haymaking, reed cutting and animal grazing. To graze animals in these areas which are covered with ligneous plants is not allowed.

It is not allowed to establish graveyards and animal burial places to those zones.

It is not allowed to apply manure or sewage sludge, in some circumstance usage of mineral fertilisers and plant protection products too, in periodically overflowed areas of the shores and banks.

According to Water Act water intake places have sanitary protection zones 30 m or 50 m, where is allowed only to service water intake buildings, taking care of forests, haymaking and water monitoring.

2.2. MANURE HANDLING

Correctly stored and managed manure is good resource of plant nutrients, which improves soil fertility, physical and chemical characteristics and restores resources. Applying of manure to arable land is the most environmentally friendly and economically reasonable way to utilise it.

This chapter gives an overview of different types of manure, main demands and recommendations for planning of manure handling systems on farm level, such as systems in barns, manure storage (in farm yards and fields), manure quality and applying.

In Estonia is allowed to keep in farms per one hectare of arable land max 1,5 animal units.

Manure handling in barn (also bedding), storing and applying to fields should be settled at the same time during the planning of manure handling system on complex way.

By legislation all animal buildings with more than 10 animal units must have manure storage. The minimum storing period is 8 months for cattle, horse, sheep barns and 10 months for pig and poultry barns. Urine pit storing capacity must be at least 10 months.

Manure and urine storage must be designed, constructed and maintained so, that it will not cause pollution of ground and surface water, water from roofs or surface water will not flow into manure storage and stored manure can not flow out from manure storage. Application of manure is allowed with right type and in good working order of manure spreaders.

In field storage is allowed to store only solid manure.

2.3. PLANT PRODUCTION

This chapter describes main scientific and practical recommendations for successful and environment- friendly plant production, management planning and arrangement on farm level.

2.3.1. Agrotechnics

Crop rotation is very important factor for the saving of soil fertility, plant protection, economical fertilising, harvest and quality of harvest.

This paragraph gives main principles on planning of crop rotation systems in the fields. Set main recommendations for farmers on selection of plants for rotation. As the rule, it is recommended to **keep during the winter period (1. November - 1. April) min 20% of arable land under green crops** what helps to reduce possible erosion and plant nutrients leakage.

Certain attention is paid in recommendations to usage of green fertilisers for soil fertility restoration and improvement of crop rotation and as a good organic fertiliser.

Soil cultivation gives the basic preconditions for successful plant production and yield.

This paragraph gives main tasks and recommendations on soil tillage.

Besides the description of traditional methods it is recommended to use more environment-friendly methods, one of them is so called minimised soil cultivation.

Using of the minimised soil cultivation methods helps to increase humus content of soil, improve soil structure and amount of worms, reduce soil compaction and is more cost efficient.

Attention is paid to the problems of soil erosion caused by wind and waterflow and how to avoid it.

It is recommended to reduce risk of erosion by growing of special plants, using of crop rotation and special cultivation methods.

2.3.2. Soil reaction, regulation of soil reaction

Prerequisite of plant production and among this efficient usage of mineral fertilisers is adequate soil reaction (acidity level).

This paragraph gives direct recommendation on necessary soil reaction according to demand of main agricultural crops. It is stressed that in acid soils there are soil organisms activity and possessitivity of the main plant nutrients lower, mobility of the most microelements and heavy metals is higher, except molybdenum. Accumulation of heavy metals to growing plants is possible to reduce by liming of soils according to recommendations given. Soil liming improves plant nutritional conditions.

2.3.3. Plant nutrients

The aim of modern fertilising is to use fertilisers so that together with increasing of yield and yield quality will increase soil fertility and will not cause pollution of environment and reduction of soil plant nutrients. Soil is the basic resource of plant nutrients.

This paragraph gives main information on content of plant nutrients in soil and its removal by plants with yield per year.

Total content of main plant nutrients in sowing layer of Estonian soils is rather big (0,1...0,2%N, 0,04...0,07%P and 1,2...3,0%K). In our climatic conditions amount of the available nitrogen in sowing layer of soils from total will be for grain crops 0,5...1,5% (20...45 kg/ha) and for intertilled crops 1...2% (40...80 kg/ha) per year. Crops in crop rotation in average will remove from soil 9...13% (5...7 kg/ha) of phosphorus and 20...23% (30...40 kg/ha) of potassium per year.

In table is given uptake of main plant nutrients from soil for 100 kg of yield.

2.3.4. Mineral fertilisers and manure, using of fertilisers

The main goal for using of fertilisers is to keep field soils fertility and plant nutrients content in balance with crop demands and follow restrictions on amounts and application timing set by legislative acts.

This paragraph gives main guidelines to farmers/producers for making fertilisation plans according to crop rotation schemas and field soil analyses.

The table given set recommended fertilisation rates (N P K) for different type of soils according to mains agricultural plants demand and planned yields.

Attention is paid to different types of mineral fertilisers and manure and its proper using. It is recommended that all fields should be periodically fertilised with organic fertilisers.

Besides the recommendation on fertiliser using is given certain important restrictions set by legislative acts in order to prevent water pollution from nutrient leaching. Some most important restrictions of them are given below.

Allowed amount of the total nitrogen, summary of the manure's organic and mineral nitrogen and mineral fertilisers, applied is max 170 kg per one hectare of arable land per year, of which up to 120 kg per hectare allowed with mineral fertilisers.

Application rate of phosphorus with mineral fertilisers is max 30 kg per hectare of arable land per year.

Application of liquid manure or slurry and urine or effluent from silos are not allowed in period of 1. September - 31. October into sowed fields, except fields with growing vegetation.

It is not allowed to apply any type of manure, mineral fertilisers, urine or effluent from silos on snow or frozen land (period 1. November - 31. March).

Strong attention is given to the fertiliser's application methods where fertiliser's application deepness, fixation of nutrients by soil and plants or nutrient leakage depends on methods and application timing.

Using of local (spot) fertilising plant nutrients are with help of favourable place in soil easily available to the plants. This method reduces amount of fertiliser's needs by 15...20% and reduces essentially nutrient leaching from fields.

It is strongly recommended that farmers and producers should have, hold and save field record book, where are included field plans, crop rotation plan, fertilising plan and annual usage, and plant protection plan.

2.4. PLANT PROTECTION

This chapter gives short overview of common plant weeds and diseases, plant protection products and methods of plant protection.

This chapter describes main scientifically proven practical recommendations for successful and environment- friendly plant protection; management planning and arrangement on farm level.

It is recommended to implement integrated plant protection system, which saves environment and is a summary of methods giving efficient and ecologically clean production. Description of main topics of this method and timing is given.

It is stressed that only specially trained persons who have special certificate could buy registered plant protection products for professional usage.

The usage of pesticides must be described registered in the farm field record book.

Local beekeepers and other local people must be informed before the starting to use of pesticides.

In environmentally sensitive areas, such as carst areas and areas close to water bodies etc., it is recommended to desist from growing plants which need very often usage of pesticides.

Storing of plant protection products should follow existing demands on safety.

2.5. WASTEWATER MANAGEMENT

This chapter gives description of possible sources for wastewater from different agricultural activities, its types and possible recommendations for wastewater management to avoid environmental pollution.

For each case (farm, processing enterprises and facilities, slaughterhouses, and etc.) and type of wastewater is given shortly principles for certain possibilities for cost effective solutions. It is stressed that according to legislative acts any case of discharge of wastewater to environment needs the special permission from local environmental authority.

2.6. BIODIVERSITY

The agriculture has always been the main direct user and designer of landscapes. This chapter describes mainly the reasons why it is obvious need today for management of different elements of agricultural landscape to protect wildlife and habitats. It is stressed that for saving of biodiversity and landscape values farmers support thorough necessary activities strongly needed.

3. ANNEX 3 - CONSULTATIONS WITH SOCIAL PARTNERS

3.1. *THE SOCIAL PARTNERS OF RDP DEVELOPMENT PROCESS*

Estonian	English
Liikumine "Kodukant"	Kodukant – Village movement
Eestimaa Põllumajandustootjate Keskliit	Central Union of Agricultural Producers
Eestimaa Talupidajate Keskliit	Estonian Farmers Union
Eesti Ühistegeline Liit	Union of Cooperative Activities
Eesti Erametsaliit	Private Forestry Union
Eesti Konsulentide Ühing	Rural Advisory Union
Eesti Aiandusliit	Horticulture Union
Eesti Lihaliit	Meat Union
Eesti Piimaliit	Milk Union
Veskiomanike Liit	Mill Union
Eesti aianduse ja mesinduse keskselts	Horticulture and Beekeepers Central Union
Karusloomakasvatjad	Estonian Fur-breeders Association
Kalaliit	Fishery Union
Toiduainetetööstuse Liit	Food Processing Union
Sihtasutus Lõuna Eesti Turism	Association of South-Estonian Tourism

3.2. REPRESENTATIVES OF VARIOUS STATE INSTITUTIONS

Estonian	English
Laiendatud töögrupp (ministeeriumite esindajad)	Extended workgroup with other ministries
Maaelu Arengu Nõukogu (MAN)	Rural Life Development Council
Maavalitsused (arendus/põllumajandusosakonna juhatajad)	County Governments
Tartu maakond	Tartu County
Jõgeva maakond	Jõgeva County
Pärnu maakond	Pärnu County
Lääne Virumaa	Lääne-Viru County
Hiiumaa	Hiiu County
Harjumaa	Harju County
RK Rahanduskomisjon	Parliament Financial Commission
RK Maaelukomisjon	Parliament Rural Life Commission
RK Eurokomisjon	Parliament Commission on EU
RK Majanduskomisjon	Parliament Economic Commission
Valdade Liit	Local Governments Union
Vabariigi Valitsuse kabinet	Government Cabinet

3.3. THE RESULTS – QUESTIONS, COMMENTS AND PROPOSALS – TAKING THEM INTO ACCOUNT

In Measures 3 and 4 some remarks are not relevant as content of measure has been subject to significant modification during the RDP development process.

Key:

- **Bold:** proposal included in RDP and measures
- Underline: proposal partly included in RDP and measures
- *Italic:* proposal not suitable for RDP and measures

Organisation	General	Measure No 1	Measure No 2	Measure No 3	Measure No 4
Estonian Fisheries Union	1. Under which measure are investments in agricultural units/enterprises and are inland fish hatcheries agricultural holdings?	1. <i>Eligibility of fishery enterprises under this measure.</i> 2. Is no support available for fishery enterprises or are they not listed here?	1. No exclusions for the fisheries sector. 2. Little information on processing products from third countries. Is a percentage relationship or an analogue available?	1. <i>Structure of measure: reconstruction of ports and fish unloading points together with the necessary infrastructure (cold stores, ice machines, port services, etc).</i> <i>Amount and rate of support: reconstruction of ports and fish unloading points together with the necessary infrastructures up to 75 %.</i>	
Estonian Associations Union	1. Estonian Associations Union should be added under economic and social partners in the RDP implementation procedures. 2. <i>RDP provides no support for animal breeding. Import of pedigree material is very expensive.</i> 3. <i>More than 10% contribution rate should be applied to associations under</i>	1. <i>To add adjustment of animal breeding to EU rules.</i> 2. <i>To add submeasure: Adjustment of animal breeding and insemination centres to OECD and EU requirements.</i>	1. <i>To prefer associations of enterprises, as this enables the greatest benefits for producers.</i>		1. <i>We support a 10% increase in the contribution rate of support for associations.</i>

	<p><i>all measures.</i></p> <p><i>4. Estonia could implement a sample measure for financial services to develop savings and loan associations.</i></p>				
<p>Development and Planning Department of Jõgeva County Government</p>	<p>1. Overlap: a) Measure 4 provides for the development of non-agricultural enterprises, which may include e.g. the food industry and its activities that are not supported under measure 2, e.g. production of processed products. Does this conflict the SAPARD principles? An applicant may apply for support under both measures. Does the applicant have the right to do so? b) Common action under measures 4 and 1: diversification of agricultural production. 2. How are SAPARD funds distributed between the 4 measures? 3. What will the relations between SAPARD and the Estonian national regional and rural development measures and use of these funds be? 4. Procedures for the programmes and different measures between institutions (on the county level: SAPARD-ARIB and committees set up by the county governor)</p>				<p><i>1. If the local government performs activities such as improvement of land use and land value, and incurs the related expenses, can the project be submitted only by a land and water association?</i></p> <p><i>2. The term "integrated land development" should be defined, i.e. which activities it contains.</i></p>

	<p>5. How is normal market outlet measured? This should be specified under measure 1 (general project selection criteria II).</p> <p>6. Pursuant to Planning and Building Act, there are 4 plans which do not include rural municipality plan (measure 4, specific criteria, existence of plans).</p>				
Hiiu County Government					<p>1. Proposal for amendment to the objectives part: to contribute to the improvement of land use in sparsely populated areas concerning investments in the construction of drainage systems and roads in private (farm) forests and areas discarded from agricultural use. The objective is to improve non-agricultural land use.</p>
Estonian Chamber of Agriculture and Commerce	<p>1. The amount and rates of support should be similarly explained for all measures</p> <p>2. There are similarities and overlaps between some measures (3 and 4)</p>				
Estonian Farmers Central Union			<p>1. Subparagraph 4.2.3. – last but one indent: who should the investment project be approved by (co-ordinated with)?</p>		

			<p>Subparagraph 4.2.4. – first indent: who and how decides if market outlets are normal or not? Is an export outlet considered?</p> <p>2. Paragraph 4.3. – should Competition Act be added?</p> <p>3. <i>It is not clear what the criterion is for distribution of support between sectors of the processing industry. The relative share of meat industry in support should be 40% (cf. TUI materials)</i></p> <p>4. Paragraph 9.2. – why is 15 the number of approved projects (in 7 years)?</p> <p>5. Paragraph 10.1. – who of the approved agricultural advisors is competent to decide on the content of the investment projects of the processing industry?</p> <p>6. Subparagraph 10.2.1. – to which projects is the technical assessment requirement extended? what are the requirements for the provider of independent technical assessment? A set of forms should be prepared to simplify the assessment and selection of the submitted investment projects.</p> <p>7. The measures should include principles such as: *how to make amendments and additions during the</p>		
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			<p>application period of the measures (7 years!)</p> <p>*what is the procedure when a sector has no need/opportunity to use the entire extent of the support designated for it?</p> <p>*how can support be concentrated to one sector during a certain period if necessary?</p> <p>9. Can/may production/processing enterprises (Saaremaa LPT, Talleg, REY) simultaneously apply for support under all measures? The project requires editing, e.g. in Estonian processing=reprocessing. Processing industry (agricultural products) is therefore sufficient.</p>		
Estonian Meat Union	<p><i>1. We do not agree with the distribution of support for the processing industry across sectors. The relative share of the meat sector should be at least 40%.</i></p> <p><i>2. Proposal for the detailed discussion of measure 2.</i></p>				
Regional seminars 06-08.07.99	<p>1. The concept "agricultural holding/producer" has not been explained.</p> <p>2. An Estonian association is often not an association in EU terms.</p>	<p>1. Under main objectives: improvement of the quality of agricultural products</p> <p>2. Maintenance of the existing production and its adjustment to EU animal protection and</p>	<p>1. To specify the producer as priority No 1 for the measure – the investment shall guarantee long-term benefits for the primary producer.</p>	<p>1. Objective of the measure should be development of business environment.</p> <p>2. It is important that businesses are</p>	<p><i>1. Construction and repair of roads belonging to producers should be added to municipal roads.</i></p> <p>2. To define the term "private roads" – a road</p>

	<p>3. The concept of "agricultural holding/producer" should be related to the income of the owner (or member of association), i.e. according to the main source of income.</p> <p>4. The priority order of the measures should be changed: 1,3,2,4.</p> <p><i>5. Young farmers should be supported under all measures by increasing the public sector contribution rate.</i></p> <p><i>6. Financing decisions should be made on the rural level. The deciding committee has to be competent.</i></p> <p>7. Self-financing is unclear concerning the relative share of monetary and non-monetary output.</p> <p><i>8. The following condition should be imposed for financing: if the annual maximum rates are applied, at least 30% of the defined target group has to receive support.</i></p> <p>9. Capital support and regional support should be kept separate and not be included in support under SAPARD concerning state financing. Agricultural production in south Estonia and e.g. Järva and Harju counties should be distinguished between.</p>	<p>environmental requirements.</p> <p><i>3. To support production based on Estonian capital, to exclude foreign capital at least until accession.</i></p> <p>4. To support only efficient production.</p> <p><i>5. To facilitate European-type association activities under all measures.</i></p> <p><i>6. To pay support for improving efficiency where the production profile is changed.</i></p> <p>7. Under plant production technology, to provide for support for investments in buildings and facilities.</p> <p><i>8. Investment support for covered crops.</i></p> <p><i>9. To ensure the adequacy of the potential of an area – to be prepared by foreign experts.</i></p> <p>10. During the transitional period, not to require of an applicant professional education, but working experience, results, and the existence of an advisory contract.</p> <p><i>11. Transitional period for adoption of new education requirements - 10 years.</i></p> <p>12. The word "farm" to be replaced with "agricultural holding" and "agricultural enterprise".</p> <p>13. To adjust the education requirement so that it is adequate with experience.</p>	<p><i>2. To promote milk industry owned by milk producers.</i></p> <p>3. To create a business environment by various supporting activities, incl. investment.</p> <p><i>4. To include grains, starch, fruits and vegetables as entitled to support.</i></p> <p>5. Expansion, strengthening and introduction of domestic food products.</p> <p><i>6. An export slaughterhouse owned by an association is needed and should be supported.</i></p> <p><i>7. Support is necessary to train the consumer.</i></p> <p><i>8. To exclude the increase of production capacity, except for association enterprises.</i></p> <p>9. To exclude pork from exclusions.</p> <p><i>10. Not to impose restrictions on processing volumes, especially concerning associations.</i></p> <p>11. To relate the payment of support to debts: not to support processors who owe to producers.</p> <p><i>12. To prefer industries which are associations when paying support.</i></p> <p><i>13. Industries which are public limited companies</i></p>	<p>located in rural areas, for this, favourable conditions and environment need to be created.</p> <p><i>10. To stress timber processing in rural areas.</i></p> <p>11. The concept of private forests should include both farm and family forests.</p> <p>Financing:</p> <p>5. Financing under development of non-agricultural production: up to 50% for machinery.</p> <p>6. Under diversification of agriculture: public sector support to purchase of special machinery and technology should be amended to be 50%.</p> <p>7. To be supported by region, total amount to be divided depending on the location, less for the Tallinn area.</p> <p>8. Both processing and servicing associations should be financed.</p> <p><i>9. To stress that less favoured areas have to be taken into account when granting support to rural areas.</i></p> <p>Criteria:</p> <p><i>10. Upon restructuring,</i></p>	<p>possessed by a farmer, agricultural producer or enterprise.</p> <p><i>3. Investments in the heating systems and boiler plants of rural settlements, liquidation of old boiler plants.</i></p> <p><i>4. To adjust the internal electricity systems of enterprises to EU requirements.</i></p> <p>To adopt an integral approach to electricity issues, e.g. association activities concerning electricity supply.</p> <p>To support the production of alternative electrical power.</p> <p>To add the concept "rural production unit" to submeasure 2.</p> <p>Substations are in the wrong place.</p> <p>Investments in the development of the living environment.</p> <p>Inter-village activities should be promoted.</p> <p><i>More finances should be allocated to measures 3 and 4 on account of the processing industry.</i></p> <p>Not only land and water associations, but natural persons should also be able to submit project applications.</p>
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		<p>14. Profitability proved in the existence of a business plan with a positive outcome.</p> <p>15. The receiver of support must be a producer who is entered in the commercial register and owns production means.</p> <p>16. <i>To introduce regional differences for financing.</i></p>	<p>must have valid contracts with all producers – deadlines for payments to producers, <i>minimum prices throughout the year.</i></p> <p>14. <i>Limits of net sales?</i></p> <p>15. <i>Net sales per person – which limits?</i></p> <p>16. Profitability requirement – to be explained.</p> <p>17. <i>Added value per person is a good indicator. High added value, low price for the producer.</i></p>	<p><i>local people and enterprises should be preferred to non-local.</i></p> <p>11. <i>Processing associations to be added in the criteria.</i></p> <p>12. Production activities have to be pursued in a rural area.</p>	<p>The application need not depend on the rural municipality development plan, but must be approved by the local government.</p>
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4. ANNEX 4 - ANALYSIS OF REVISED RDP COMPARED TO COMMISSION REMARKS AND EX ANTE EVALUATION

	Commission remarks	Evaluator re-commendations ¹	Changes made in RDP ²	Satisfy Com/evaluator comments	Changes made in RDP ³
1.	Insufficient focus on land reform	Some issues are left out in the RDP in spite of the fact that they are important elements... including the land reform process (p. 84)	The original section on land reform is now supplemented by a description of a national scheme illustrating the procedure for accelerating the slow land reform process (section 5.5.7)	Yes Cf. proposal for textual input in chapter 3 of this note	Revised note to date on land reform is now included, however, procedural questions excluded during modification of document structure.
2.	Labour market issues are poorly described	-	Changes have been made in section 3.4 (general labour market) mainly related to the employment period and education levels and section 5.3 (agricultural labour market) and chapter 6 (rural-urban differences)	Yes Labour market issues are now more thoroughly described both in general, in relation to agriculture, and in relation to rural-urban differences	
3.	The description of the environmental situation should be more detailed (negative and positive effects)	The RDP should explicitly explain how elements of the Environmental Strategy have been incorporated (no. 8, 9 and 15)	Changes have been made in section 4.4, in particular 4.4.6.1 on agriculture and environment	Yes However, one important remark is made in chapter 3	An environmental matrix now included
4.	Better description of the forestry sector, including justi-	Why no measure on forestry included in the strategy (pp. 7, 48 and 57 and	The original forestry description was largely insufficient. The re-	Yes- a better description of the situation is now provided Yes – a descrip-	A forestry Measure is now included as measure 8

	Commission remarks	Evaluator recommendations¹	Changes made in RDP²	Satisfy Com/evaluator comments	Changes made in RDP³
	fication of integrating forestry into measures 3 and 4	no. 25)	vised RDP (section 5.8) contains a highly elaborated description/analysis + included in the SWOT	tion of the policy related to the protection of forests (4%) is provided <i>No</i> – on timber cutting activities, cf. below in chapter 3	
5.	Rural Credit to be addressed	-	A section on agricultural credit has been included as section 3.9.2	Yes The section on agricultural credit describes adequately how private funding will be made accessible	
6.	Focus on intra Estonian Rural-Urban disparities	-	A description of rural-urban disparities has been included in chapter 6 supplementing thereby the EU-Estonian disparities analysis	Yes See elaboration below in chapter 3	The maps provide overview of intra-regional population density
7.	A more detailed SWOT analysis including the fish processing industry	The food processing industry deserves a much more comprehensive description (point 3, p. 82)	The SWOT analysis – chapter 7 – has been revised and elaborated	Partly See elaboration below in chapter 3	SWOT analysis revised including summary
8.	Include the main results of previous actions with Community assistance, including results/impacts (esp. fish processing industry)	The description of lessons learned should be improved, including results/impacts of previous actions (pp. 36-37, no. 16-18)	No changes have been made, except the inclusion of Long term credit resources (8.1.2.6)	No Cf. below in chapter 3	Summary note on early lessons included
9.	Relationship to programmes im-	The cohesion of the selected SAPARD meas-	With regard to national non-SAPARD	Yes – with regard to the relationship to national	Details provided, link between advi-

	Commission remarks	Evaluator recommendations¹	Changes made in RDP²	Satisfy Com/evaluator comments	Changes made in RDP³
	plemented by other international institutions (notably the WB)	ures and other national and international programmes are only very loosely described (no. 25)	measures, considerable changes have been made in chapter 9	programmes <i>No</i> – with regard to the relationship to international programmes. The RDP only very briefly mentions a World Bank Loan (p. 150) without explaining how this will interact with SAPARD	sory component and Priority 3, drainage rehabilitation and Priority 2, Food & Veterinary Control and Priority 1
10.	On strategy, cf. Evaluation remarks	The RDP lacks a clearly formulated strategy that links problems, objectives and measures (no. 23, 24, 27 and 28)	Significant changes have been made in chapter 9 (chapter 10 is unchanged)	Yes See comment below in chapter 3	Links between problems, objectives and measures further strengthened
11.	Highlight the elements contributing to human capital	Analysing disparities with the EU in a more structured way, including human resources (no. 2 and 7)	Changes have been made in section 5.2	Yes	Possible use of Technical assistance – issue to be addressed in Technical Assistance Plan
12.	Include more detailed information on the quantification of objectives	The RDP does not contain a systematic quantification of targets in the form of quantified, operational objectives related to the measures (no. 42)	Changes have been carried out in annex II on measures	Partly <i>See comment below in chapter 3</i>	Revised
13.	Clarification on matters related to rural infrastructure (relation to ISPA)	-	No changes have been made with a view to clarify the relationship to other future infrastructure measures, e.g.	No	Revised chapter on Rural Infrastructure including relation with ISPA

	Commission remarks	Evaluator recommendations¹	Changes made in RDP²	Satisfy Com/evaluator comments	Changes made in RDP³
			the ISPA instrument		
14.	Geographical focus of measures	Clarification of the definition of <i>eligible regions</i> (no. 11)	No changes have been made in this respect in annex II	<i>No</i> – comments on the geographical focus of the individual measures should be included	<i>Each measure sheet includes reference to geographical allocation</i>
15.	More information on the extent to which the ex ante evaluation has been taken into account	(-)	The concluding chapter of the evaluation report is including in the revised RDP (section 9.11), and it is stated, “some of the [following] comments has been taken into account”.	No See comment below in chapter 3	Schedule summarizes recommendations provided on ex-ante evaluation
16.	More developed ex ante quantified assessment (assessment of economic, environmental, and social impact)	The RDP does not include any impact assessment, and it is therefore recommended to do so and to structure it in line with the SWOT analysis, i.e. economic, environmental and social impact (no. 39)	A new table 53 has been included in section 11.7	No See comment below in chapter 3	Included revised impact table and also environmental matrix
17.	More details on the financial plan	The financial plan needs further argumentation as to why a specific amount has been allocated to a specific measure (no. 29 and 30)	Not changed significantly	<i>Not relevant – future discussions with the Commission</i>	<i>Rational and justification chapter added</i>
18.	A better definition of final beneficiaries and clarification	- The RDP does not convincingly distinguish be-	Final beneficiaries have been defined for measure 3	<i>Partly</i> – definition of final beneficiaries are missing for	<i>Final Beneficiaries and Eligibility criteria’s de-</i>

	Commission remarks	Evaluator recommendations ¹	Changes made in RDP ²	Satisfy Com/evaluator comments	Changes made in RDP ³
	tions on eligibility criteria	tween selection criteria and eligibility criteria (no. 51)	Minor changes have been made in relation to eligibility criteria	measures 1 and 4. <i>No</i> – it is still unclear which criteria will be used to render beneficiaries <i>eligible</i> on the hand, and which criteria will be used to <i>select</i> the applicants (cf. the evaluation)	<i>fined for each measure</i>
19.	More information on the environmental dimension: (i) why agri-environmental pilot projects will not be supported (ii) application of GAP (iii) compliance with national environmental law (iv) adoption of central EU Directives (Nitrates and Natura 2000)	On of the main reservations of the evaluation is that the RDP does not sufficiently take the protection of the environment into account, especially since some measures potentially could aggravate the existing environmental problems (cf. pp. 7, 48, 55, 57-59, 70 and no. 15 and 34-35). Compliance with EU environmental requirements is not clearly described (no. 37)	The following changes have been made: (i) New section 4.4.7 on agri-environmental plans (ii) Cf. equally section 4.4.7 (iii) Comments included in section 4.4.6 on Natura 2000 Directive and 4.4.7 on the Nitrates Directive	Yes Cf. comment below in chapter 3	New environmental matrix included; Annex on GAP included Agri-environment measure now included
20.	Allocation of funds must be presented in relation to Measure 2	-	Included in Annex II, measure 2	Yes	
21.	Exclusions included in Measure 2	-	Included in Annex II, measure 2	Yes	
22.	More detailed information	It is unclear who will be the re-	No changes have been made	No	New chapter on manage-

	Commission remarks	Evaluator recommendations¹	Changes made in RDP²	Satisfy Com/evaluator comments	Changes made in RDP³
	on controls and penalties	sponsible authority for the control activities (p. 76)			ment and implementation included
23.	Results of consultations of competent authorities and partners as well as future involvement of the partners	The RDP does not specify the relevant stakeholders to be involved in the implementation of the programme (p. 77 and no. 48)	A new annex III has been drafted containing the results of the consultation process	(the original annex III has not been available to the consultant during the ex ante evaluation)	Annex 3 revised
24.	Coherence between RDP and NDP and their priorities	The RDP should include a description of how RDP is consistent with the NDP (pp. 42, no. 32)	No specific section addresses this issue	<i>No</i> (as stated by Pat Collier in Concluding Cover Note) See comment below	<i>Included short section clarifying coherence between NDP and RDP</i>

¹ P = page in evaluation report; No = No. of recommendation in evaluation report

² References made to sections in the RPD refer to the numbering in the *new* RDP, which differs from the original version.

³ Changes made in revised RDP after 10.05.2000

5. ANNEX 5 SWOT ANALYSIS FOR RURAL DEVELOPMENT PROGRAM

5.1. AGRICULTURE

Strengths	Weaknesses
<ul style="list-style-type: none"> - a relatively good structure – 75% of agricultural products are produced by technologically viable units; - a relatively large cultivated land stock and natural preconditions for growing traditional crops and remaining competitive; - the relatively good professional skills and development potential of farmers; - employment in the agricultural sector reduced from 16,0% (1991) to 6,8% (1998) compared to EU average of 5%; rate of employment corresponds to current market demand. 	<ul style="list-style-type: none"> - very low investment level during the last 5 years (outdated means of production), and a general non-compliance of the sector with the EU requirements; - the low profitability in the agriculture sector lead to decrease of livestock (cows: 2,5 times) and agricultural land use (arable from 1,12 million to 0,8 million ha); - the poor availability and use of professional information in changing economic environment; vocational and higher education in agriculture does not meet current requirements; - the weak development of co-operative activities and influence of producers' organisations in the organisation of common economic activities; - the low use of certified seed material, poorly developed seed propagation system (defined seed centres do not meet EU requirements yet); - the low popularity of the sector, largely caused by the low income and the specific historical nature of sector
Opportunities	Threats
<ul style="list-style-type: none"> - the further development and establishment of an optimum farming structure and rapid improvement of agricultural technology; diversification of production and primary processing by the primary producer; - development potential for applied research in co-operation with other countries, particularly in priority areas. - Development of common supply and marketing organisations; 	<ul style="list-style-type: none"> - lack of reproduction (the investment need for reproduction exceeds actual investments by nearly 3 times); - the slow pace of the land reform – uncertainty of agricultural producers on land and degeneration of lands out of active agricultural use; - the continuing loss of skilled labour from the sector; - the breeding of new animal breeds is decelerating, the re-launching of livestock production is time-consuming

- to expand extensive sustainable environment-friendly farming on the available land stock;	
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5.2. FORESTRY

Strengths	Weaknesses
<ul style="list-style-type: none"> - Estonia's large forest area (about 50% of total land territory); - Strong state forest management system; - Relatively high number of skilled people; - different kind of wood processing industry (modern sawmills, furniture, ski and construction). 	<ul style="list-style-type: none"> - Insufficient capacity (management skills) of private forestry related organisations; 1/3 of private forest owners lack forest management plans; small forest properties due to land reform scheme; no viable economic use of fuel wood in quantities, available in Estonian forests; - inadequate afforestation of the areas, which have fallen out of agricultural production and reforestation volume has been considerably smaller than the clear cutting area in need of reforestation, resulting with poor quality stands; - local road network in private forests have not been properly maintained within last 10 years and private forest amelioration scheme has not been started; - slow development of local small-scale wood processing industry; lack of capacity for low-valued timber (grey alder etc)
Opportunities	Threats
<ul style="list-style-type: none"> - consolidation of private forest lands, and common economic activities on forest management and primary wood processing; - development of effective vocational training and advisory system; - afforestation and reforestation; - additional income in rural area; - optimisation of tax system. 	<ul style="list-style-type: none"> - non-sustainable forest management leads to poor living environment; delay in certification of private forest management may close access to main markets of full forestry sector; - large areas of young stands have not been tended resulting with poor stand structure resulting with lack of raw materials for wood processing industry; - forest growth rate too small due to lack of forest amelioration - poor quality and lack of local forest road network (demolished with heavy machinery) leads to non-proportional felling (good-quality cut-aged stand remains in forest) and harm to environment.

5.3. FISHERY

Strengths	Weaknesses
<ul style="list-style-type: none"> - 37 well located ports equipped for receiving trawlers and long shoreline for coastal fishing; - relative high number of skilled people; - sizeable inland fishery sector providing income to rural coastal areas, however, inadequately described in official statistics. 	<ul style="list-style-type: none"> - General management weaknesses in sector - Quality: outdated fish farming technology and fishing vessels, with low quality and efficiency, incompatible to EU requirements - Quantity: low competitiveness with quality fish farming because low volumes of fish farming
Opportunities	Threats
<ul style="list-style-type: none"> - With local flexible fishery regulations to achieve within 5-6 years the stable catch and thus sustainable management of coastal and inland fish resources; - development of fish farming to cover local consumption; including using industrial warm water resources (North-East region); - crayfish farming development (mostly for Nordic markets); - common economic activities (marketing and supply). 	<ul style="list-style-type: none"> - Continuation of present fishing strategy leads to significant decrease of resources; - lack of Euro-compatible fishing equipment (ships, boats, engines, nets etc) may cancel further marketing of fish and products; - extreme weather conditions may harm inland fish hatchery sector; - reliance on CIS markets (on some species)

5.4. PROCESSING SECTOR

Strengths	Weaknesses
<ul style="list-style-type: none"> - consumers prefer Estonian products due to the low additives content, traditional taste, healthiness and competitive price; - the existence of some upgraded enterprises which meet EU requirements in milk and especially - fish processing sector; - good reputation of Estonian food products in CIS markets; - quality raw material from local producers 	<ul style="list-style-type: none"> - the excessive number of enterprises and the resulting surplus capacity and low efficiency, in turn causing difficulties in paying for raw material and making investments; - weak management skills; - lack of adequate specific processing waste management capacities; - the openness of the Estonian food market to subsidised imports (causing unfair competition); the low competitiveness (narrow assortment and small quantity) of products and the lack of export opportunities, pre-

	accession access to EC market is limited
Opportunities	Threats
<ul style="list-style-type: none"> - bringing the processing conditions of whole sector into compliance with various EU requirements, enabling usage of the existing and expanding EU export quotas, also raising competitiveness in other markets; - restructuring of the processing industry (reduction of the number of enterprises) and thereby an improved efficiency, as enterprises could then operate with an optimum capacity; - the establishment of a cooperative export organisation to export to those markets which so far have been out of reach; - improved competitiveness on both domestic and foreign markets through product development. 	<ul style="list-style-type: none"> - the enterprises will be not able to compete due to overcapacity and related low profitability meet EU requirements, which seriously restricts their marketing possibilities; - the takeover of key-enterprises by foreign investors to close the production of possible rival of mother-enterprise ; - lack of low-level(vertical) co-operation inside of sector; the reduction (decrease in availability) of domestic raw material, caused by abnormally low price levels of distorted market.

5.5. RURAL DEVELOPMENT ACTIVITIES

Strengths	Weaknesses
<ul style="list-style-type: none"> - the labour-force from decreasing agricultural sector is open for other rural activities, for which there are available natural resources (clean environment, forest, picturesque landscape etc.); - the heritage of state and collective farms: vacant and semi-vacant production buildings 	<ul style="list-style-type: none"> - Lack of jobs in rural areas, long-term structural unemployment reducing labour-force quality; - Small size of local market, - Outmigration of young people; - the weakness or lack of representative organisations and the resulting difficulties in organising training and marketing; - the lack of and difficulty in accessing investment means, insufficient advisory system to cover needs of sector
Opportunities	Threats
<ul style="list-style-type: none"> - development of favourable investment environment; - dynamic development of new enter- 	<ul style="list-style-type: none"> - the lack of qualified advice and unfavourable investment environment, which may prevent the carrying out

<p>prises, based on former agricultural production buildings with good infrastructure and taking advantage on available natural resources;</p> <ul style="list-style-type: none"> - establishment of co-operative organization for rural banking, insurance, training, marketing and economic activities; - diversification of rural activities implementing achievements of modern technology; - development of rural tourism and recreational activities, based on diverse landscape, fauna and flora, as this provides jobs in related sectors: local food production and processing, catering, recreational activities; - further development of agricultural advisory system to cover alternative activities. 	<p>ideas;</p> <ul style="list-style-type: none"> - the low income of rural inhabitants, which together with insufficient management skills may be an obstacle to getting loans; the credit institutions' lack of trust in loan collateral; - price fluctuations on the world market; - environmental protection restrictions and low-level technologies used in waste processing in certain geographical areas (ca 15% of Estonian territory is under various special restrictions).
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5.6. SOCIAL & PHYSICAL INFRASTRUCTURE

Strengths	Weaknesses
<ul style="list-style-type: none"> - good infrastructure (paved roads, water, electricity, communication) in rural central settlements; - relatively short distances from main cities, relatively good road network coverage, wide power network, modern mobile phone network coverage - a rapidly developing third sector in rural areas, educational framework, (rural information centres, local governments, schools etc.), mainly targeted at public sector development; - essential investments made in land amelioration improving agricultural quality of land, supported by developing Land and Water Associations, established to maintain the drainage systems;. 	<ul style="list-style-type: none"> - Weak or insufficient infrastructure in peripheral areas, not meeting the requirements of changed economic and demographic situation; - the outdated and amortized water systems capacities do not match the decreased population; - the insufficient infrastructure maintenance by landowners, lack of integration between land management activities and local infrastructure, land reform not completed, - uneven network of rural information facilities; - weak third sector; the lack of investments for establishment of community centres, etc. to offer socialising opportunities for rural people and to develop joint activities.

Opportunities	Threats
<ul style="list-style-type: none"> - Based on existing infrastructure and good connections, support the entrepreneurship; - within 1-hr driving zone from larger cities to develop living areas, attractive for people with urban employment (pendulum-migration); - development of teleworking environment, improvement the information exchange through development of Rural Information Centres; - strong third sector establishes basis for local (bottom-up) initiative in the development process and provides preconditions for joint village activities (LEADER); - to develop land and water associations, responsible for regular maintenance of drainage, extending their area towards integrated land management activities; - to maintain the functioning infrastructure systems and to maintain or improve the environmental and economic condition; to implement cheaper and sustainable technology of water treatment; 	<ul style="list-style-type: none"> - the moving out of active people leading to unattractive social environment and social imbalances within the rural population; - weakness of third sector organisations leads to vulnerability of democratic society; uneven information facilities lead to regional development disparities (information ghettos); - drainage systems and local roads will not be maintained, resulting in increase of operating costs, possible environmental pollution, shortening of the vegetation period and complicates transportation; - sparse population results reduces the availability and development of services; - the lack of joint activities and socialising opportunities hinders village development and constraints the development of local initiative; - environment pollution due to insufficient financing of water treatment systems; - power network capacity doesn't meet requirements of consumers.

5.7. ENVIRONMENT

Strengths	Weaknesses
<ul style="list-style-type: none"> - Rich diversity of natural habitats, flora and fauna; - Large forest area; - Reduced air pollution; - System of National Parks, nature reserves and protected areas; - Varied and attractive coastal and inland scenery and archipelago of islands - Rich historical and archaeological features 	<ul style="list-style-type: none"> - Pollution and eutrophication of surface water bodies, deterioration of aquatic ecosystems including a decrease in reproduction and deterioration of the quality of fish stock; - waste disposal causing environmental pollution; - threats to biological and landscape diversity (including eco-network, nature reserves, protected species, and sites) as a result of inadequate eco-

features	<p>conomic activities and the land reform;</p> <ul style="list-style-type: none"> - Past pollution caused by industrial, agricultural and military activities, which have posed a threat to ground and surface water quality, and damaged landscapes; - Decrease in water quality and quantity due to irrational use of ground water resources; - Inadequate forest management and manure management
Opportunities	Threats
<ul style="list-style-type: none"> - Implementation of National AEP; - Effective implementation of SAPARD plan enables improvement of environmental conditions through better resource management 	<ul style="list-style-type: none"> - Threat to ground and surface quality and landscape from past pollution; - risk from unfavourable farming practices; low agricultural use leads to spreading of weeds and brushes and loss of biodiversity on semi natural biotopes.

6. ANNEX 6 MEASURES

MEASURE NO 1. INVESTMENT IN AGRICULTURAL HOLDINGS

1. RATIONALE

The need for this measure relates to the strategy established with the Rural Development Plan (henceforth the RDP). The purpose of the measure is to provide a sound basis for financing projects co-financed by the European Union and are aimed at taking the agricultural sector to a quality level matching European Union requirements.

Due to the situation at global market of agricultural products, insufficient market regulation and low level of state support, most of the fixed assets available in agricultural sector of Estonian have been depreciated over the last decade. With no support, the sector won't also be able to meet the required level of investment in the mid-term perspective.

The need for additional investment in agricultural sector also relates to harmonising Estonian legislation with corresponding EU legal acts, whereas special attention is being given to veterinary, phyto-sanitary, animal welfare, hygiene and environmental requirements.

Support to this type of investments gains special importance in relation to mid-term and long-term development of competitive agricultural holdings.

As the result of agricultural and land reforms, considerable changes have taken place in the structure of agriculture – numerous relatively small agricultural holdings with low competition capacity in milk, meat or grain production have been established. In order to support income originating from agricultural activities and to cut down unemployment in rural areas, the measure focuses on small and medium-sized agricultural enterprises engaged in agricultural diversification. To meet this objective, support will be given also to establishment and expansion of fruit and berry cultivation.

The requirements set for investment projects are used to make a clear distinction between measures 1 and 3.

The planned relative importance of Measure no. 1 in relation to measures being financed under SAPARD is approximately 45% (see the Financial Plan).

2. OBJECTIVES

The long-term objective of the measure is to support agricultural sector in meeting their commitments related to implementation of EU legislation and policies (*acquis communautaire*), but also to use rural diversification as a tool stabilising rural economy and maintaining jobs in rural areas. During the implementation of the measure, support is given to following investments:

- 1) Investments aimed at bringing agricultural production into conformity with different European Union requirements, including:
 - a) investments in milk production technologies matching EU veterinary and hygiene requirements aimed at increasing the share of milk meeting minimum EU requirements,
 - b) investments in barns meeting animal welfare and environmental requirements,

- c) investments in crop protection, manure spreading and seed propagation technologies meeting phyto-sanitary requirements;
- 2) investments aimed at diversification of agricultural production, including:
 - a) investments in certified plant propagation materials for orchards and berry plantations,
 - b) purchase of irrigation systems for new orchards and berry plantations.

3. DESCRIPTION AND SCOPE

The measure will be implemented on common principles all over Estonian rural territory; the principles being the criteria established for granting support to projects. Within the framework of this specific measure, support will be provided for the following activities (one or more):

3.1. Milk production

Investment support to purchase of milking equipment, milk coolers and renovation of water supply and sewerage systems required to take the production activities into conformity with European Union veterinary and hygiene requirements.

3.2. Animal barns

Investment support for construction and renovation of cattle, pig and sheep barns and investments in electricity and ventilation systems, manure storage and removal facilities required to take the production activities into conformity with European Union environmental and animal welfare requirements.

3.3. Crop protection, manure spreading and seed propagation

Investment support for purchase and reconstruction of crop protection, manure spreading and seed propagation technologies, including crop protection spraying equipment, technologies for hay and grain seed processing (sorting, disinfection and cleaning, packaging) and manure spreading equipment required to take the production activities into conformity with European Union requirements.

3.4. Crop cultivation

Investment support for purchasing crop cultivation equipment (tractors, grain harvesting combines, forage production technology, hay and grain seed drills and ploughs) aimed at reduction of environmental damages, improving the technology level and quality of production.

3.5. Diversification of agricultural production

Investment support for diversification of agricultural production is provided for purchase of certified plant propagation materials for establishment and expansion orchards (apple, plum, cherry, dwarf stock seedlings) and berry plantations (strawberry, black currant, sea-buckthorn, red currant, raspberry, blackberry and cloudberry seedlings) and purchase of irrigation systems (pumps, pipelines) for new orchards and berry plantations.

4. FINAL BENEFICIARIES

Applications for investment support in agricultural holdings will be received from agricultural producers, who can demonstrate at least 50 per cent of net sales during the year preceding the submission of application accounting to agricultural production; or who can

state at least 50 per cent of his/her receipts (minus receipts accounting to sale of fixed assets and state support) accounting to agricultural production during the year preceding the submission of application; on condition that the share of state in the stock of the holding does not exceed the limit of 25 per cent.

5. ELIGIBILITY CRITERIA

5.1. Requirements for the potential beneficiary

- (1) the potential beneficiary must prove his/her capacity for economic continuity during at least three years following the investment. Correspondence to this criterion will be assessed on the basis of the Methodology for Investment Support Application and Business Plan Assessment;
- (2) the potential beneficiary has no outstanding national tax debts; or the debts have been deferred;
- (3) sole proprietor or a board/management member of the company or any person authorised to manage a trading company must have records of having received agricultural vocational or high education or professional service records of having been working in an agricultural production holding on relevant speciality for least two years;
- (4) the farm livestock belonging to the potential beneficiary applying for investment support listed under sections 3.1 and 3.2 have been registered in the national registry of farm animals and the dairy cows are under the milk recording;
- (5) the potential beneficiary complies to all the national standards regarding the environment, hygiene and animal welfare;
- (6) the investment object must meet the EU quality and hygiene standards after investment;
- (7) sole proprietor having a cash basis accounting records must take a commitment of transferring to accrued accounting records during the year following the investment.

5.2. Required documents

The potential beneficiary eligible for investment support in agricultural holdings must submit the following documents:

1. Application;
2. business plan;
3. copy of the document stating the competence of the potential beneficiary (diploma of vocational professional education or university degree in specialities related to agriculture or professional service record);
4. annual report for the previous year, except:
 - sole proprietor who will provide the balance sheet and income statement for the previous accounting year;
 - sole proprietor who has cash basis of accounting records meeting the requirements stated in the Accounting Law, will provide consolidated reports on his/her entrepreneurial revenues and expenditures for the previous accounting year, based on the data of the accounting registers;
5. a valid Letter of Confirmation from the Tax Department stating that the potential beneficiary has no outstanding state tax debts; or that the debts have been deferred;

6. a Letter(s) of Confirmation stating the potential beneficiary's long-term liabilities, accompanied by a valid payment schedule;
7. Copy of the valid Registration Card and document certifying the Power of Attorney of the representative and copy of the personal identification document. Sole proprietors not being registered in Business Register will provide a copy of the Letter of Confirmation from the Register for Taxpayers and Tax holders;
8. for companies, the list of shareholders whose share in the company exceeds 20% of the stock, stating the proportion of their shares;
9. valid Licence for Construction, copies of the title page of the construction project and of all the required approvals, and the budget of the construction in case the object of the investment is being a construction;
10. three copies of the Invitations for Procurement and at least two price quotations accompanied by the list of technical requirements, stating the technical specification and country of origin;
11. the list of fixed assets used in the business entity as stated at the end of previous accounting year;
12. in case of investments listed under sections 3.1 and 3.2:
 - Registry Certificate on registered livestock stating the situation on the month preceding the submission of the application;
 - Approval issued by the Veterinary and Food Board, proving that the investment object will meet EU relevant norms after the investment;
13. in case of investments listed under sections 3.1, 3.2, 3.3 and 3.5, an Environmental Memorandum approved by the regional Environmental Department;
14. In case of capital lease is foreseen the price quotation suggested by leasing company, accompanied by a sample capital lease contract and payment schedule.

6. INVESTMENTS NOT ELIGIBLE FOR SUPPORT

Within the framework of this specific measure, no support will be provided for investments listed as "not eligible" under the SAPARD-programme multi-annual financing agreement.

7. GEOGRAPHICAL ALLOCATION

This specific measure will be implemented on common principles in rural areas of the Republic of Estonia.

8. ASSESSMENT CRITERIA

Applications for investment support will be processed and the decision on whether to grant the subsidy or not will be taken on the basis of the eligibility criteria and according to the order of receiving the applications, considering the total amount of funding allocated for the measure in a given year.

9. ELIGIBLE EXPENDITURES

As eligible expenditures will be considered expenditures made by the beneficiary for the following investments, approved and controlled by SAPARD-agency:

- 1) the construction and renovation of buildings (section 3.2)
- 2) new machinery and equipment, including integrated information technology (computer hard- and software) (sections 3.1, 3.3, 3.4 and 3.5)

3) certified plant propagation materials (seedlings) (section 3.5)

All the goods and services purchased must be of European Union or candidate state origin.

10. INTERVENTION RATE

10.1. Contribution rates

Public sector support granted for investments specified in sections 3.1, 3.2, 3.3 and 3.5 is up to 50% of the total investment amount eligible for support. For the investments specified under section 3.4 public sector support is up to 30%.

The specific contribution rates will be specified in accordance to the cash and loan deficit originating from the business plan submitted by the potential beneficiary, but support must not exceed the limits specified under section 11 for particular beneficiary.

10.2. The indicative distribution of support across actions

Section 3.1	20%
Section 3.2	30%
Section 3.3	10%
Section 3.4	30%
Section 3.5	10%

ARIB will organise supervision over the indicators for implementation of the specific measure. Program implementation authority will submit any information relevant to the program Monitoring Committee. In case as the result of SAPARD-program implementation considerable increase in production capacities will be noted in sectors sensitive for European Union, the Monitoring Committee will make suggestions for corresponding program modifications.

10.3. SAPARD contribution rates

SAPARD-contribution rates under this measure shall be distributed as follows:

Republic of Estonia contribution	– 25% of total public sector contribution
EU contribution	– 75% of total public sector contribution

11. MAXIMUM CONTRIBUTION RATES PER HOLDING

The maximum investment support per one agricultural producer may amount to 150,000 EUR per year, but must not exceed 400,000 EUR for one holding under the duration of the programme. The maximum support of investments, specified under section 3.3 may amount to 100,000 EUR for one holding per year, not exceeding 250,000 EUR for one holding under the duration of the programme. The maximum support of investments, specified under section 3.5 may amount to 30,000 EUR for one holding per year, not exceeding 75,000 EUR for one holding under the duration of the programme.

Agricultural producers may submit several projects annually, presuming the total amounts eligible are not exceeded.

The maximum eligible investments, specified under section 3.5, for purchase of plant propagation materials must not exceed the amounts shown in the following table:

Fruit or berry seedlings	Maximum eligible no of units per hectare	Maximum eligible cost per unit (EUR)
Apple trees	420	3.20
Cherries and plums	1,250	3.20
Dwarf root stock	1,250	3.90
Black currant	3,570	0.50
Red currant	3,200	0.50
Raspberry	5,000	0.50
Strawberry	42,000	0.10
Sea-buckthorn	1,250	2.00
Blackberry	8,300	0.40
Cloudberry	10,000	0.90

12. GOVERNMENT INSTITUTIONS RESPONSIBLE FOR IMPLEMENTATION OF THE MEASURE

This specific measure shall be implemented in accordance to the SAPARD administration scheme specified in the Rural Development Plan. The central institution responsible for implementation of this measure is the Agricultural Register and Information Board.

The Veterinary and Food Board, the Plant Production Inspection and the **local** Environment Services are also involved in implementation of this measure, acting as competent authorities participating in technical and environmental assessment.

If required because of specific nature of project, the ARIB may engage additional expertise to evaluate some of the projects submitted.

13. TIME SCHEDULE

This measure will be implemented over the entire period for SAPARD-programme implementation.

14. QUANTIFICATION OF IMPACT (INCLUDING MONITORING AND EVALUATION)

To evaluate the impact of project, the beneficiary is responsible to provide ARIB necessary data through questionnaires, within three-year period after investment.

14.1. Public sector contribution in section of years and activities (MEUR)

		2000	2001	2002	2003	2004	2005	2006	In total
Activities	Share	7,27	7,26	6,78	6,78	6,78	6,78	6,78	48,41
3.1. Milk production	20%	1,45	1,45	1,36	1,36	1,36	1,36	1,36	9,68
3.2. Animal barns	30%	2,18	2,18	2,03	2,03	2,03	2,03	2,03	14,52
3.3. Crop protection, manure spreading and seed propagation	10%	0,73	0,73	0,68	0,68	0,68	0,68	0,68	4,84
3.4. Crop cultivation	30%	2,18	2,18	2,03	2,03	2,03	2,03	2,03	14,52
3.5. Diversification of agricultural production	10%	0,73	0,73	0,68	0,68	0,68	0,68	0,68	4,84

14.2. The estimated minimum number of projects to be supported

	2000	2001	2002	2003	2004	2005	2006	IN TOTAL
The total number of projects supported	94	94	87	87	87	87	87	624
Of which:								
3.1. Milk production	13	13	12	12	12	12	12	86
3.2. Animal barns	19	19	18	18	18	18	18	129
3.3 Crop protection, manure spreading and seed propagation	10	10	9	9	9	9	9	65
3.4. Crop cultivation	19	19	18	18	18	18	18	129
3.5. Diversification of agricultural production	32	32	30	30	30	30	30	215

14.3. The scope of projects supported

	2000	2001	2002	2003	2004	2005	2006	In total
3.1. No of animal places in barns	8000	8000	5000	5000	5000	5000	5000	41000
3.2. No of animal places in barns								
of which cattle	2000	2000	2000	2000	2000	2000	2000	4000
pigs	2000	2000	1500	1500	1500	1500	1500	11500
sheep	4000	4000	1000	1000	1000	1000	1000	13000
3.3. No of crop protection sprayers	15	15	15	15	15	15	15	105
No of manure spreading equipm.	10	10	5	5	5	5	5	45
No of seed propagation centres	1	1	1	1	1	1	1	7

3.4. No of tractors	25	25	20	20	20	20	20	150
No of combine harvesters	10	10	8	8	8	8	8	60
No of agricultural machines	35	35	30	30	30	30	30	220
3.5. No of plantations established (ha), of which with irrigation	30	60	60	60	60	60	60	390
	15	30	30	30	30	30	30	195

14.4. The impact of projects supported on holdings

	2000	2001	2002	2003	2004	2005	2006	In Total
3.1. Milk production								
Elite milk production in holdings supported	80%	85%	95%	100%	100%	100%	100%	
3.2. Animal barns								
No of animal places meeting EU animal welfare requirements in holdings supported	22%	33%	42%	53%	70%	85%	100%	
3.3. Crop protection, manure spreading and seed propagation								
Production of certified seed in holdings supported	80%	80%	85%	85%	85%	90%	90%	
3.4. Crop cultivation								
The importance of new agricultural machinery	40%	45%	50%	55%	60%	65%	70%	
3.5. Diversification of agricultural production								
The share of horticulture from the arable land (%)	1,3%	1,3%	1,3%	1,4%	1,4%	1,5%	1,5%	

14.5. Impacts to the sector

The importance of elite milk	50%	55%	60%	65%	70%	75%	80%	
The importance of animal places meeting EU animal welfare requirements	15%	20%	25%	30%	35%	40%	45%	
The importance of new crop cultivation machinery (up to 10 years)	1,5%	3%	5%	8%	10%	12%	15%	
The share of horticultural production in agriculture	1,5%	1,5%	1,6%	1,7%	1,7%	2,0%	3,0%	

15. LEGISLATION RELATED TO THE MEASURE

15.1. National legislation concerning the implementation of this measure:

- Government Order applying to Investment Support, Processing of Applications and Granting Support;
- Government Order concerning The Extent and Procedures for Monitoring the Intended Use of Investment Support and the Reclaiming and Repayment of Support;
- Government Order concerning The Methodology for Assessment of Investment Support Application and Business Plan.

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15.2. Core legislation establishing eligibility requirements for investments:

- Planning and Building Act
- Food Act, corresponding to the following EU regulation acts 89/397/EEC, 93/99/EEC; 93/43/EEC, 89/107/EEC, 89/109/EEC, 315/93/EEC, 79/112/EEC, 92/46/EEC, 89/437/EEC, 91/493/EEC, 91/492/EEC, 92/116/EEC, 64/433/EEC.
- Animal Protection Act, corresponding to the following EU regulation acts: 91/628/EEC; 93/119/EEC; 78/923/EEC; 88/166/EEC; 91/629/EEC; 91/630/EEC; 94/96/EEC; 88/306/EEC; 86/609/EEC.
- Seed and Plant Propagation Material Act, corresponding to the EU regulation act: 93/34/EEC.
- Environmental Impact Assessment and Environmental Auditing Law.

All the legal acts listed above have been published in the State Gazette.

16. FINANCIAL TABLE FOR MEASURE (million EUR)

Year	Total eligible cost	Public sector contribution						Private sector contribution (at least)	
		In total		EU		Estonia		EUR	%
	EUR	EUR	%	EUR	%	EUR	%	EUR	%
1	2=3+9	3=5+7	4=3/2	5	6=5/3	7	8=7/3	9	10=9/2
2000	17,45	7,27	42%	5,45	75%	1,82	25%	10,18	58%
2001	17,45	7,26	42%	5,45	75%	1,82	25%	10,17	58%
2002	16,26	6,78	42%	5,08	75%	1,69	25%	9,49	58%
2003	16,26	6,78	42%	5,08	75%	1,69	25%	9,49	58%
2004	16,26	6,78	42%	5,08	75%	1,69	25%	9,49	58%
2005	16,26	6,78	42%	5,08	75%	1,69	25%	9,49	58%
2006	16,26	6,78	42%	5,08	75%	1,69	25%	9,49	58%
Total	116,18	48,41	42%	36,31	75%	12,10	25%	67,77	58%

MEASURE NO 2 IMPROVING THE PROCESSING OF AGRICULTURAL AND FISHERY PRODUCTS AND AGRICULTURAL PRODUCTS MARKETING

1. RATIONALE

The need for this measure relates to the strategy established with the Rural Development Plan (henceforth the RDP). The purpose of the measure is to provide a sound basis for financing projects co-financed by the European Union. This specific measure will be implemented in dairy, fish and meat (beef, pork, lamb, poultry) **processing** sector.

The measure is targeted at improving the conditions for agricultural and fishery products processing and marketing in order to enhance their competitiveness on both domestic and foreign markets. To achieve competitiveness and processing efficiency, the EU requirements must be met. The food industry has to be rendered more effective and flexible to meet the changing market requirements and consumers' demands, this can be done by increasing the production of value added products and thus providing primary agricultural producers with benefits.

In dairy sector there already exists a number of enterprises meeting the EU standards. The main problem constraining the development of dairy sector is over-capacities that should be optimised. Processing facilities are in need of updating; it is also necessary to develop new technologies and new products. Investments, which will be aimed at increasing milk powder and butter production capacities already available, are not supported.

In meat sector, there are no enterprises meeting the EU standards. The meat processing industry is characterised by a big number of enterprises with low capacities. As there is also over-capacity in slaughtering and the sector has low productivity, investments aimed at increasing processing efficiency will be supported. Special attention must be given to attaining compliance with the EU requirements, achieved by developing new technologies, new products and waste handling issues.

In fish sector, there are many enterprises meeting the EU requirements. Therefore, investments are to be made mostly in product development.

This specific measure is meant to restructure food-processing industry in the sectors mentioned above, simultaneously avoiding increase of capacities available.

Share of measure in achieving the overall objectives of the Rural Development Plan:

The planned relative importance of Measure no. 2 in relation to measures being financed under SAPARD is approximately 20% (see the Financial Plan).

2. OBJECTIVES

The purpose of this measure is to contribute to the implementation of the *acquis communautaire* contributing to the common agricultural policy and related policies, focusing on specific problems of processing industry. In implementation of the measure, support will be granted to investments for product development, marketing and product quality improvement, bringing processing facilities in conformity with relevant EU standards.

Specific objectives:

- 1) Production guidance in line with new market developments, finding new marketing outlets for agricultural and fishery products and marketing outlets improvement.
- 2) Improvement of processing facilities and increase of efficiency.

- 3) Providing agricultural producers with benefits.
- 4) Improvement of agricultural products manufacturing and packaging, better utilisation and/or elimination of by-products and/or waste.
- 5) Implementation of new technologies.
- 6) Facilitation of innovative investments.

3. DESCRIPTION AND SCOPE

The measure will be implemented on common principles all over Estonian rural territory; the principles being the criteria established for granting support to projects. Support will be provided for investments aimed at improving processing facilities, modernisation of technologies, product development. Within the framework of this specific measure, support will be provided for the following activities:

3.1. Dairy processing

Investment support for construction or renovation of milk production facilities, purchase of machinery, equipment, technology and technological lines aimed at bringing the dairy products' manufacturing in compliance with comprehensive market demand, new products' development, organisation of logistics, quality control system implementation, facilitation of compliance with environmental protection rules, environment pollution reduction, waste handling, sustainable use of energy and more efficient utilisation of by-products.

3.2. Meat processing

Investment support for construction or renovation of meat production facilities (including slaughterhouses), purchase of machinery, equipment, technology and technological lines (including cleaning equipment, water supply and power engineering systems, packaging lines facilitating the use of new, environment-friendly packaging materials) aimed at bringing the meat products' manufacturing in compliance with corresponding EU requirements and comprehensive market demand, new products' development, environment pollution reduction, waste handling and more efficient utilisation of by-products.

3.3. Fish processing

Investment support for construction or renovation of fish production facilities, purchase of machinery, equipment, technology and technological lines (including cleaning equipment, water supply and power engineering systems, packaging lines facilitating the use of new, environment-friendly packaging materials) aimed at bringing the fish products' manufacturing in compliance with corresponding EU requirements, quality control system implementation, new products' development, facilitation of compliance with environmental protection rules, environment pollution reduction, waste handling and elimination, sustainable use of energy and more efficient utilisation of by-products.

4. FINAL BENEFICIARIES

Applications for investment support in agricultural and fishery products' processing will be received from **enterprises** processing dairy, meat or fishery products and marketing of produced dairy, meat or fishery products, provided the trading company employs at least ten full-time employees; on condition that the share of state in the stock of the holding does not exceed the limit of 25 per cent.

5. ELIGIBILITY CRITERIA

5.1. Requirements for the potential beneficiary

The requirements set for the business activities of the potential beneficiary before and after the investment:

- (1) the potential beneficiary must prove his/her capacity for economic continuity during at least five years following the investment. Correspondence to this criterion will be assessed on the basis of the Methodology for Investment Support Application and Business Plan Assessment;
- (2) by the end of month before submission of application, the potential beneficiary has paid the producers at least 95% of the outstanding bills for milk, meat or fish bought from them in money terms;
- (3) the potential beneficiary has no outstanding national tax debts nor have the debts been deferred;
- (4) as a result of the investment, the turnover of the dairy, meat or fish commodities will increase compared to the year before investment;
- (5) the origin of raw material processed by the potential beneficiary must be in accordance to EU rules (EC No 2759/1999), during the next three years following the investment;
- (6) the potential beneficiary will continue with economic activities stated in the business plan for at least five years following the investment.

5.2. To apply for the investment support, the potential beneficiary must submit the following documents:

- (1) application;
- (2) business plan;
- (3) Copy of the valid Registration Card and document certifying the Power of Attorney of the representative and copy of the personal identification document;
- (4) Audited accounting reports for the last three years;
- (5) a Letter(s) of Confirmation stating the potential beneficiary's long-term liabilities, accompanied by a valid payment schedule;
- (6) a valid Letter of Confirmation from the Tax Department stating that the potential beneficiary has no outstanding state tax debts;
- (7) for companies, the list of shareholders whose share in the company exceeds 20% of the stock, stating the proportion of their shares;
- (8) valid Licence for Construction with all the required approvals, and the budget of the construction;
- (9) copy of the Invitation for Procurement and at least two price quotations accompanied by the list of technical requirements, stating the technical specification and country of origin;
- (10) Approval issued by the Veterinary and Food Board, proving that the investment object will meet EU relevant norms after investment;
- (11) an Environmental Memorandum approved by the regional Environmental Department;

- (12) In case of capital lease is foreseen the price quotation suggested by leasing company, accompanied by a sample capital lease contract and payment schedule.

6. INVESTMENTS NOT ELIGIBLE FOR SUPPORT

Within the framework of this specific measure, no support will be provided for investments listed as “not eligible” under the SAPARD-programme multi-annual financing agreement.

Investments not eligible for support under this measure are also:

- a) investments directly increasing available capacities for milk powder and butter production;
- b) investments in the primary processing of the fish on vessels (cutting, beheading, cooling, freezing);
- c) investments in fishery and aquaculture products intended to be used and processed for purposes other than human consumption, with the exception of investments exclusively for the treatment, processing and marketing of fishery and aquaculture product waste.

7. GEOGRAPHICAL ALLOCATION

This specific measure will be implemented on common principles all over the territory of the Republic of Estonia.

8. ASSESSMENT CRITERIA

For ranking the projects meeting eligibility criteria as defined under section 5 the assessment criteria listed below will be used. The ranking should be done separately by every sub-measure. Based on assessment of financial-economic indicators, the maximum scores for section 8.1 can be 18 points and for the investment (section 8.2) also 18 points, the total maximum per project therefore being 36 points.

Scores presented under sections 8.1 and 8.2 will be summed up for each applicant separately; the potential beneficiaries will be ranked according to their final scores.

- 8.1. The criteria for assessing the financial-economic indicators of the applicant for the period of three years prior the year of applying

Financial-economic indicators will be calculated as an arithmetic mean based on the data relating to three year preceding the submission of application, as follows:

- 8.1.1. yearly solvency over short-term liabilities (current ratio);
- 8.1.2. annual average liquidity ratio (quick asset ratio);
- 8.1.3. net turnover per employee;
- 8.1.4. net profit to net turnover (profit margin);
- 8.1.5. rate of return on assets;
- 8.1.6. debt/equity ratio

Financial-economic indicators	
Ratio	Value
8.1.1 Current Ratio	For the scale from ratio value 1,0 to 4 every additional 0,1 units rates for 0,1 points (value 1,0 = 2,0 points), total sum not exceeding 3 points
8.1.2 Quick Asset Ratio	In the area from ratio value 0,6 to 1.4 every additional 0,1 units rates for 0,25 points (value 0,6 = 1,0 points), total sum not exceeding 3 points
8.1.3 Net turnover per employee	Dairy sector: starting from value 38 462 EUR, every additional 641 EUR rates for 0,1 points (38 462 = 1 point), total sum not exceeding 3 points. Meat sector: starting from value 32 051 EUR every additional 641 EUR rates for 0,1 points (32 051 = 1), total sum not exceeding 3 points. Fish sector: starting from value 19 231 EUR every additional 641 EUR rates for 0,1 points (19 231 = 1), total sum not exceeding 3 points.
8.1.4 Profit Margin	Starting from the ratio value 1% every additional 0,1 per cent point rates for 0,05 points (1% = 1,0 points), total sum not exceeding 3 points
8.1.5. Return on Assets	Starting from the ratio value from 1% every additional 0,1 per cent point rates for 0,05 points (1% = 1,0 points), total sum not exceeding 3 points
8.1.6 Debt/Equity Ratio	Starting from the ratio value from 2,3 every decreasing 0,1 units rates for 0,1 points (value 2,3 = 0,1 points), total sum not exceeding 3 points

8.2. The criteria for assessing the potential beneficiary's investment

- 8.2.1. Construction and renovation. Points for investment support will be granted for building of new or renovation of old constructions. Investment in new buildings or renovation of an old building is to be made with a purpose to improve the quality and hygienic situation of all product groups; the potential beneficiary may also improve the quality and hygienic situation of one or more products groups (the potential beneficiary also qualifies under improvement of all products' quality if it produces only one product – the maximum score will be still given).
- 8.2.2. Product development extends to new products and product innovation including package development, with the exclusion of intervention products. Product development in this context means purchase of new production technologies and equipment meeting EU standards. Applicant must provide technical descriptions about both the old and new technology and outline any significant technological developments. In case of any doubt, independent expertise will be provided.
- 8.2.3. Improvement of implementation of environment protection requirements. Securing compliance with environmental protection rules, cutting environment pollution to a level exceeding the minimum requirements, waste elimination. Points will be provided to potential beneficiaries with a business stating investments in cleaning

technology, central heating systems to reduce air pollution, waste treatment or environment-friendly freezing equipment.

- 8.2.4. Closing down the available over-capacities extends to closing down the processing capacities not meeting EU standards. Points are given to potential beneficiaries closing down independent processing unit or processing plant.
- 8.2.5. Reduction of production costs per unit. Increasing of the efficiency through reducing production costs. As a result of the investment production costs per production unit must decrease.
- 8.2.6. Contracts with producers. The potential beneficiary has concluded contracts with agricultural producers (independent producers, owners of the enterprise potentially benefiting from the investment or applicant enterprise having the title of farm producing agricultural raw material) or other enterprises having concluded contracts with producers. The potential beneficiary has concluded the contracts for at least 40% of the raw material used within one year starting from the year of applying.
- 8.2.7. Contribution rate. Points are given if the aid rate is 40% or less of the eligible investment for which support is applied for.

The criteria for assessing the beneficiary's investment	
Criteria	Value
8.2.1. Building and renovation	Maximum 4 points
<ul style="list-style-type: none"> • New producing plant • Renovation of production plant with the purpose of improving general hygiene situation and production quality • Renovation of producing plant with the purpose of improving hygiene situation and production quality of at least one product group 	<p style="text-align: center;">4 points</p> <p style="text-align: center;">3 points</p> <p style="text-align: center;">2 points</p>
8.2.2. Product development	2 points
8.2.3. Improvement of environment protection exceeding basic requirements	2 points
8.2.4. Closing down over-capacities	3 points
8.2.5. Reduction of production costs	2 points
8.2.6. Contracts with producers	Maximum 3 points
<ul style="list-style-type: none"> • 40% -60% • up to 80% • up to 100% 	<p style="text-align: center;">1 point</p> <p style="text-align: center;">2 points</p> <p style="text-align: center;">3 points</p>
8.2.7. Contribution rates	Maximum 2 points
<ul style="list-style-type: none"> • 40%-30% • below 30% 	<p style="text-align: center;">1 point</p> <p style="text-align: center;">2 points</p>

9. ELIGIBLE EXPENDITURES

As eligible expenditures will be considered expenditures made by the beneficiary for the following investments, approved and controlled by SAPARD-agency:

- the construction and renovation of buildings;
- new machinery and equipment, including integrated information technology (computer hard- and software).

All the goods and services purchased must be of European Union or candidate state origin.

10. INTERVENTION RATE

10.1. Contribution rates

Public sector support granted for investments specified in this measure is up to 50% of the total investment amount eligible for support. The specific contribution rates will be specified in accordance to the cash and loan deficit originating from the business plan submitted by the potential beneficiary, but it must not exceed the limits specified under section 11 per applicant.

10.2. The indicative distribution of support across actions:

- a) dairy sector 40%
- b) meat sector 30%
- c) fish sector 30%

ARIB will organise supervision over the indicators for implementation of the specific measure. Program implementation authority will submit any information relevant to the program Monitoring Committee. In case as the result of SAPARD-program implementation considerable increase in production capacities will be noted in sectors sensitive for European Union, the Monitoring Committee will make suggestions for corresponding program modifications.

10.3. SAPARD-contribution rates under this measure shall be distributed as follows:

Republic of Estonia contribution – 25% of total public sector contribution

EU contribution – 75% of total public sector contribution

In case the planned annual support amounts for a sector (meat, fish and/or dairy) can't be committed, the support amounts outstanding will be summed up and a new public competition will be announced for finding beneficiaries. The beneficiary will be **selected** on the basis of the evaluation criteria and general ranking.

11. MAXIMUM CONTRIBUTION RATES PER HOLDING

The maximum investment **support**, eligible per one agricultural or fish product processor may amount to 1 million EUR per project per year and must not exceed 2.5 MEUR for one **applicant** under the duration of the SAPARD-programme.

12. GOVERNMENT INSTITUTIONS RESPONSIBLE FOR IMPLEMENTATION OF THE MEASURE

This specific measure shall be implemented in accordance to the SAPARD administration scheme specified in the Rural Development Plan.

The central institution responsible for implementation of this measure is the Agricultural Register and Information Board (ARIB).

The Veterinary and Food Board and the county Environment Services are also involved in implementation of this measure, acting as competent authorities participating in technical and environmental assessment.

If required because of specific nature of project, the ARIB may engage additional expertise to evaluate the projects submitted.

13. TIME SCHEDULE

This measure will be implemented over the entire period for SAPARD-programme implementation.

14. QUANTIFICATION OF IMPACT (INCLUDING MONITORING AND EVALUATION)

To evaluate the impact of project, the beneficiary is responsible to provide ARIB necessary data through questionnaires, within three-year period after investment.

14.1. Public sector contribution in section of years and activities (MEUR)

	year	2000	2001	2002	2003	2004	2005	2006	In total
Sector	Share	3,23	3,23	3,07	2,90	2,90	2,74	2,74	20,82
Dairy	40%	1,29	1,29	1,23	1,16	1,16	1,10	1,10	8,33
Meat	30%	0,97	0,97	0,92	0,87	0,87	0,82	0,82	6,24
Fish	30%	0,97	0,97	0,92	0,87	0,87	0,82	0,82	6,24

14.2. The estimated minimum number of projects to be supported

	2000	2001	2002	2003	2004	2005	2006	In total
The number of projects supported (at least)	4	4	4	4	4	4	4	28
incl milk sector	2	2	2	2	2	1	1	12
meat sector	1	1	1	1	1	1	1	7
fish sector	1	1	1	1	1	1	1	7

14.3. The impact of projects supported

14.3.1. Economic-financial indicators related to enterprises being supported (will be filled in the course of the project)

Current ratio								
Profit margin								
Return on assets								

Return on equity								
Net turnover per employee								
Inventory turnover (times)								

14.3.2. Percentage on enterprises meeting EU standard

(Presuming that Estonia will join EU 01.01.2003, all the enterprises processing milk and fish at that moment must meet EU standards)

	2000	2001	2002	2003	2004	2005	2006	In total
Dairy sector	12%	50%	100%	100%	100%	100%	100%	
Meat sector	0%	10%	15%	20%	25%	30%	100%	
Fish sector	15%	30%	100%	100%	100%	100%	100%	

The number of enterprises meeting EU requirements

Dairy sector	7			All	All	All	All	2*
Meat sector	0						All	3*
Fish sector	19			All	All	All	All	2*

14.3.3. Average financial indicators for food processing industry

Added value in sector				0,2			0,25	
Current ratio				0,85			1,2	
Profit margin				3			5	
Return on assets				5			10	
Return on equity				15			20	
Net turnover per employee				41,67			64,10	
Inventory turnover (times)				24			30	

* - that can be related to SAPARD-support (at least)

15. LEGISLATION RELATED TO THE MEASURE

15.1. National legislation on implementation of this specific measure:

- Government Order applying to Investment Support, Processing of Applications and Granting Support;
- Government Order concerning The Extent and Procedures for Monitoring the Intended Use of Investment Support and the Reclaiming and Repayment of Support;
- Government Order concerning The Methodology for Assessment of Investment Support Application and Business Plan.

15.2. Core legislation establishing eligibility requirements for investments:

- Planning and Building Act and the related secondary legislation
- Food Act, corresponding to the following EU regulation acts: 89/397/EEC, 93/99/ EEC, 93/43/ EEC, 89/107/ EEC, 89/109/ EEC, 315/93/ EEC, 79/112/ EEC, 92/46/ EEC, 91/493/ EEC, 91/492/ EEC, 92/116/ EEC, 92/116/ EEC, 64/433/ EEC.
- Animal Protection Act, corresponding to the following EU regulation acts: 88/306 EEC, 91/628EEC, 93/119 EEC.
- Environmental Impact Assessment and Environmental Auditing Law corresponding to the following EU regulation acts: 96/91/EC, 89/369/EEC, 89/429/EEC, 94/67/EEC, 1993/31/EC, 76/464, 93/72/EEC, 93/389/EEC, 98/83/EC.

The legislation providing the basis for implementation of this measure (including legislation laying down the procedure for application) is published in the State Gazette.

16. FINANCIAL TABLE FOR MEASURE (million EUR)

Year	Total eligible cost	Public sector contribution						Private sector contribution (at least)	
		In total		EU		Estonia		EUR	%
	EUR	EUR	%	EUR	%	EUR	%	EUR	%
1	2=3+9	3=5+7	4=3/2	5	6=5/3	7	8=7/3	9	10=9/2
2000	6,46	3,23	50%	2,42	75%	0,81	25%	3,23	50,0%
2001	6,45	3,23	50%	2,42	75%	0,81	25%	3,23	50,0%
2002	6,13	3,07	50%	2,30	75%	0,77	25%	3,07	50,0%
2003	5,81	2,90	50%	2,18	75%	0,73	25%	2,90	50,0%
2004	5,81	2,90	50%	2,18	75%	0,73	25%	2,90	50,0%
2005	5,49	2,74	50%	2,06	75%	0,69	25%	2,74	50,0%
2006	5,49	2,74	50%	2,06	75%	0,69	25%	2,74	50,0%
Total	41,63	20,82	50%	15,61	75%	5,20	25%	20,82	50,0%

MEASURE NO 3 DEVELOPMENT AND DIVERSIFICATION OF ECONOMIC ACTIVITIES IN RURAL AREAS

1. RATIONALE

The need for this measure relates to the strategy established with the Rural Development Plan (henceforth the RDP). The purpose of the measure is to provide a sound basis for financing projects co-financed by the European Union that are aimed at development and financing of alternative economic activities in rural areas.

During the last ten years, the unemployment rate has risen during the last ten years from 1.2% to 11.7% in rural areas. Mostly this is due to the reducing number of jobs in agricultural sector. Regardless of the fact that many people have found new jobs in the cities, the living standards of rural population have dropped and the process of social rejection has become more intent. Therefore, the present measure was developed create new jobs and mitigate the tense labour situation in rural areas of Estonia.

One of the important opportunities for additional job creation is rural tourism also providing for a number of indirect jobs in rural areas. Rural tourism sector also offers good job opportunities for women.

The main obstacle for rural tourism is the lack of investment means; therefore, the providers of the service fail to provide their customers with safe and hygienic service of required quality. The accreditation requirements set in Estonia are relatively high.

Another important factor is the development of small and medium-size enterprises specialising in provision of services or using mostly local raw materials for handicraft, production of niche food products, etc. Small- and medium enterprises offer **flexibility** for the rural employment, supporting the life style characteristic of rural areas.

The requirements set for investment projects are used to make a clear distinction between measures 1 (Investments in agricultural holdings) and 2 (investment support for agricultural processing).

The planned relative importance of Measure no. 3 in relation to measures being financed under SAPARD is approximately 20 % (see the Financial Plan).

2. OBJECTIVES

The objective of this measure is to contribute to solving problems related to abrupt decrease in employment rates of rural areas and sustainable conversion of the rural areas in Estonia accompanied by increased employment opportunities. The measure is also intended to support activities based on local initiative, supporting establishment of diversified economic activities in rural areas, creation of additional jobs providing for additional income.

3. DESCRIPTION AND SCOPE

The measure will be implemented on common principles all over Estonian rural territory; the principles being the criteria established for granting support to projects. Within the framework of this specific measure, support will be provided for the following activities (one or more):

3.1. Rural tourism and related activities

Investment support for starting or expansion of rural tourism or improving the quality of tourist services, including establishment or expansion of businesses related to recreational activities or improving the quality of the services or for establishment and/ or expansion/modernisation of catering businesses.

3.2. Handicraft activities

Investment support for starting or development of activities related to handicraft (purchase of weaving looms and weaving machines, purchase of wood processing machinery and **instruments**, purchase of ovens and other equipment for ceramics, but also construction and renovation of buildings required for pursuing listed activities).

3.3. Service enterprises

Investment support for establishment or expansion of servicing activities aimed at agricultural producers, forest owners and rural population (eg: purchase of agricultural and forest machinery, storage facilities, special equipment services necessary for local inhabitants, construction and renovation of buildings required for listed service activities, child-care facilities).

3.4. Crayfish and fish farming

Investment support for establishment and renovation of crayfish and fish farming ponds (including equipment required for construction and renovation of hatcheries).

3.5. Food processing in small enterprises

Investment support for small enterprises (up to 9 employees) for establishment, expansion or modernisation of businesses processing speciality/niche food products for local market (construction and renovation of processing facilities and purchase of installations).

4. FINAL BENEFICIARIES

The target group for this measure are sole proprietors and trading companies pursuing business activities in rural areas, including agricultural producers, intending to start non-agricultural activities; on condition that the share of state in the stock of the holding does not exceed the limit of 25 per cent.

5. ELIGIBILITY CRITERIA

5.1. Requirements for the potential beneficiary

- (1) the potential beneficiary must prove capacity for economic continuity during at least three years following the investment. Correspondence to this criterion will be assessed on the basis of the Methodology for **Assessment** of Investment Support Application and Business Plan;
- (2) the potential beneficiary has no outstanding national tax debts; or the debts have been deferred;
- (3) the potential beneficiary meets all the environment and nature protection requirements;
- (4) in case of establishment or expansion of activities listed under section 3.1 to 3.4, the applicant will provide at least two additional full-time jobs except on:
 - side-activity of agricultural production – at least 0,5 additional full-time job, and

- replacement of agricultural production with the activities listed under current measure – maintain same employment
- (5) in case of establishment or expansion of activities listed under section 3.5, all the planned buildings, constructions and technological processes must match corresponding EU requirements;
 - (6) in case of an enterprise pursuing activities listed under section 3.5, it may employ up to 9 full-time employees;
 - (7) In case of investments listed under section 3.4, the potential beneficiary must have vocational, vocational higher or higher education on biology, zoology or fishery; or at least one year working experience on crayfish- or fish-farming speciality; or contract with certified advisor of same speciality is required from a beneficiary-sole proprietor. In case the potential beneficiary being an enterprise, at least one of its full-time employees must meet these requirements;
 - (8) in case the investment support is being applied for expanding any activities listed under section 3.5 the sole proprietor or the employees of his/her company or these of a company must have a training required for working in specialities stated in the business plan.

5.2. Required documents

The potential beneficiary eligible for investment support in agricultural holdings must submit the following documents:

- (1) application;
- (2) business plan;
- (3) annual report for the previous year, except:
 - sole proprietor who will provide the balance sheet and income statement for the previous accounting year;
 - sole proprietor who has cash basis of accounting records meeting the requirements stated in the Accounting Law, will provide consolidated reports on his/her entrepreneurial revenues and expenditures for the previous accounting year, based on the data of the accounting registers;
- (4) a valid Letter of Confirmation from the Tax Department stating that the potential beneficiary has no outstanding state tax debts; or that the debts have been deferred;
- (5) a Letter(s) of Confirmation stating the potential beneficiary's long-term liabilities, accompanied by a valid payment schedule;
- (6) Copy of the valid Registration Card and document certifying the Power of Attorney of the representative and copy of the personal identification document. Sole proprietors not being registered in Business Register will provide a copy of the Letter of Confirmation from the Register for Taxpayers and Tax holders and copy of the personal identification document;
- (7) for companies, the list of shareholders whose share in the company exceeds 20% of the stock, stating the proportion of their shares;
- (8) valid Licence for Construction, copies of the title page of the construction project and of all the required approvals, and the budget of the construction in case the object of the investment is being a construction;

- (9) copy of the Invitations for Procurement and at least two price quotations accompanied by the list of technical requirements, stating the technical specification and country of origin;
- (10) the list of fixed assets used in the business entity as stated at the end of previous accounting year;
- (11) in case of investment listed under section 3.5, approval issued by the Veterinary and Food Board, stating that the investment object will meet EU relevant norms after the investment;
- (12) in case of investment listed under section 3.4, copy of diploma or document proving the qualification of employee or a copy of an agreement concluded with an advisor;
- (13) in case of investment listed under section 3.5, a copy of diploma or document proving the qualification;
- (14) Letter of Confirmation from a County Government stating the investment being in compliance with valid planning and zoning restrictions;
- (15) an Environmental Memorandum approved by the regional Environmental Department;
- (16) In case of capital lease is foreseen the price quotation suggested by leasing company, accompanied by a sample capital lease contract and payment schedule.

6. INVESTMENTS NOT ELIGIBLE FOR SUPPORT

Within the framework of this specific measure, no support will be provided for investments listed as “not eligible” under the SAPARD-programme multi-annual financing agreement.

7. GEOGRAPHICAL ALLOCATION

This specific measure will be implemented on common principles in rural areas of the Republic of Estonia.

8. ASSESSMENT CRITERIA

Applications for investment support will be processed and the decision on whether to grant the subsidy or not will be taken on the basis of the eligibility criteria and according to the order of receiving the applications, considering the total amount of funding allocated for the measure in a given year.

9. ELIGIBLE EXPENDITURES

As eligible expenditures will be considered expenditures made by the beneficiary for the following investments, approved and controlled by SAPARD-agency:

- 1) the construction and renovation of buildings;
- 2) new machinery and equipment, including integrated information technology (computer hard- and software);

All the goods and services purchased must be of European Union or candidate state origin.

10. INTERVENTION RATE

10.1. Contribution rates

Public sector support granted for investments specified under this measure is up to 50% of the total investment amount eligible for support. The specific contribution rates will be specified in accordance to the cash and loan deficit originating from the business plan submitted by the potential beneficiary, but it must not exceed the limits specified under section 11 per applicant.

10.2. The indicative distribution of support across actions

Section 3.1	30%
Section 3.2	20%
Section 3.3	10%
Section 3.4	20%
Section 3.5	20%

ARIB will organise supervision over the indicators for implementation of the specific measure. Program implementation authority will submit any information relevant to the program Monitoring Committee.

10.3. Sapard-Contribution rates

SAPARD-contribution rates under this measure shall be distributed as follows:

Republic of Estonia contribution	– 25% of total public sector contribution
EU contribution	– 75% of total public sector contribution

11. MAXIMUM CONTRIBUTION RATES PER HOLDING

The maximum investment **support** eligible per one agricultural producer for activities listed under section 3.2 and 3.4 may amount to 50,000 EUR per year, but will not exceed 125,000 EUR for one holding under the duration of the SAPARD-programme.

The maximum investment **support** eligible per one agricultural producer for activities listed under section 3.1, 3.3 and 3.5 may amount to 30,000 EUR per year, but will not exceed 75,000 EUR for one holding under the duration of the SAPARD-programme.

12. GOVERNMENT INSTITUTIONS RESPONSIBLE FOR IMPLEMENTATION OF THE MEASURE

This specific measure shall be implemented in accordance to the SAPARD administration scheme specified in the Rural Development Plan. The central institution responsible for implementation of this measure is the Agricultural Register and Information Board.

The county Environment Services are also involved in implementation of this measure, acting as competent authorities participating in technical and environmental assessment.

If required because of specific nature of project, the ARIB may engage additional expertise to evaluate some of the projects submitted.

13. TIME SCHEDULE

This measure will be implemented over the entire period for SAPARD-programme implementation.

14. QUANTIFICATION OF IMPACT (INCLUDING MONITORING AND EVALUATION)

To evaluate the impact of project, the beneficiary is responsible to provide ARIB necessary data through questionnaires, within three-year period after investment.

14.1. Public sector contribution in section of years and activities (MEUR)

		2000	2001	2002	2003	2004	2005	2006	IN TOTAL
Total number of projects supported	Share	3,23	3,23	3,07	2,90	2,74	2,58	2,58	20,33
3.1. Rural tourism	30%	0,97	0,97	0,92	0,87	0,82	0,77	0,77	6,10
3.2. Handicraft and related activities	20%	0,65	0,65	0,61	0,58	0,55	0,52	0,52	4,07
3.3. Servicing activities	10%	0,32	0,32	0,31	0,29	0,27	0,26	0,26	2,03
3.4. Crayfish and fish-farming	20%	0,65	0,65	0,61	0,58	0,55	0,52	0,52	4,07
3.5. Food processing in SME-s	20%	0,65	0,65	0,61	0,58	0,55	0,52	0,52	4,07

14.2. The estimated minimum number of projects to be supported

	2000	2001	2002	2003	2004	2005	2006	IN TOTAL
Total number of projects supported	121	120	114	108	102	96	96	759
3.1. Rural tourism	43	43	41	39	37	34	34	271
3.2. Handicraft and related activities	17	17	16	15	15	14	14	108
3.3. Servicing activities	14	14	14	13	12	11	11	90
3.4. Crayfish and fish-farming	17	17	16	15	15	14	14	108
3.5. Food processing in SME-s	29	29	27	26	24	23	23	181

14.3. The scope of projects supported (will be filled during the implementation)

	2000	2001	2002	2003	2004	2005	2006	IN TOTAL

The number of new jobs created as the result of investment support

3.1. Rural tourism and related activities	86	86	82	77	73	69	69	542
3.2. Handicraft and related activities	34	34	33	31	29	28	28	217
3.3. Servicing activities	22	22	20	19	18	17	17	136
3.4. Crayfish and fish-farming	17	17	16	15	15	14	14	108
3.5. Food processing in SME-s	43	43	41	39	37	34	34	271
Number of beds created/ improved at accommodation enterprises (no)	0	380	380	300	300	250	250	1860
Increase in fish production (tons)	-	-	50	75	75	100	100	
Increase in crayfish production (units)					20000	25000	50000	

14.4. The impact of projects supported

Impact	2000	2001	2002	2003	2004	2005	2006	IN TOTAL
Creation of new jobs	10	150	300	500	550	600	600	
Unemployment rates in rural areas	13%						10%	
Per cent of certified accommodation enterprises	60	80	95	100	100	100	100	

15. LEGISLATION RELATED TO THE MEASURE

15.1. National legislation concerning the implementation of this measure:

- Government Order applying to Investment Support, Processing of Applications and Granting Support;
- Government Order concerning The Extent and Procedures for Monitoring the Intended Use of Investment Support and the Reclaiming and Repayment of Support;
- Government Order concerning The Methodology for Assessment of Investment Support Application and Business Plan.

15.2. Core legislation establishing eligibility requirements for investments:

- Planning and Building Act and the related secondary legislation

- Food Act, corresponding to the following EU regulation acts 89/397/EEC, 93/99/EEC; 93/43/EEC, 89/107/EEC, 89/109/EEC, 315/93/EEC, 315/93/EEC, 79/112/EEC, 92/46/EEC, 89/437/EEC, 91/493/EEC, 91/492/EEC, 92/116/EEC, 64/433/EEC.
- Environmental Impact Assessment and Environmental Auditing Law
- The Commercial Code
- The Waste Treatment Act
- The Shore and Coastline Protection Act
- The Procedures for Environment Expertise Execution, Regulation No 314 of the Republic of Estonia.

The legal acts listed above have been published in the State Gazette.

16. FINANCIAL TABLE FOR THE MEASURE (million EUR)

Year	Total eligible cost	Public sector contribution						Private sector contribution (at least)	
		In total		EU		Estonia		EUR	%
	EUR	EUR	%	EUR	%	EUR	%	EUR	%
1	2=3+9	3=5+7	4=3/2	5	6=5/3	7	8=7/3	9	10=9/2
2000	6,47	3,23	50%	2,42	75%	0,81	25%	3,23	50,0%
2001	6,45	3,23	50%	2,42	75%	0,81	25%	3,23	50,0%
2002	6,13	3,07	50%	2,30	75%	0,77	25%	3,07	50,0%
2003	5,81	2,90	50%	2,18	75%	0,73	25%	2,90	50,0%
2004	5,49	2,74	50%	2,06	75%	0,69	25%	2,74	50,0%
2005	5,16	2,58	50%	1,94	75%	0,65	25%	2,58	50,0%
2006	5,16	2,58	50%	1,94	75%	0,65	25%	2,58	50,0%
Total	40,66	20,33	50%	15,25	75%	5,08	25%	20,33	50,0%

MEASURE NO 4 INVESTMENT SUPPORT FOR DEVELOPMENT AND IMPROVEMENT OF RURAL INFRASTRUCTURE

1. RATIONALE

The need for this measure relates to the strategy established with the Rural Development Plan (henceforth the RDP). The purpose of the measure is to provide a sound basis for financing projects co-financed by the European Union, aimed at development of rural infrastructures.

Rural infrastructures are better developed in central settlements being the centres of former collective farms. At the same time, the territories with scattered settlements suffer from insufficient infrastructures also being an obstacle for development of entrepreneurship. The main problems are related to water supply and sewerage, electricity networks, access roads and telephone and data communication. In most cases, the problems with development of entrepreneurship can be related to one or two of the factors listed above. Besides traditional components of infrastructure, telecommunication (e-mail and Internet services) is playing an increasingly important role in scattered entrepreneurship. To make the economy more efficient, businesses need on-line Internet access, providing them with efficient production and marketing via www-services.

The planned relative importance of Measure no. 4 in relation to measures being financed under SAPARD is approximately 13 % (see the Financial Plan).

2. OBJECTIVES

The general purpose of this specific measure is to solve the priority and specific problems relating to the infrastructure of scattered settlements in rural areas.

The measure is implemented to support rural entrepreneurship on the territory of villages. As entrepreneurship environment improves, the competitiveness will also be enhanced in the renewed environment, the economic efficiency will be raised and economic security improved.

The measure is developed to promote the construction and reconstruction of private rural infrastructure including roads, electricity, telephone and data communication, water supply and waste treatment related to development of economic activities of agricultural holdings or rural enterprises.

3. DESCRIPTION AND SCOPE

The measure will be implemented on common principles all over Estonian rural territory on the territory of villages the principles being the criteria established for granting support to projects. Within the framework of this specific measure, support will be provided for the following activities (one or more):

3.1. Electricity supply systems

Investment support for purchasing equipment necessary for merging energy distribution network or reconstruction of electricity systems, including connection charges.

3.2. Access roads

Investment support for building and reconstruction of access roads.

3.3. Water supply and sewage

Investment support for building or reconstruction of water supply and sewage systems (including **joining** a common **sewerage** network) and purchase and/or construction of systems required for treating waste water.

3.4. Telecommunications

Investment support for building and reconstruction of telecommunication systems (also **joining** public telephone and data communication networks).

4. FINAL BENEFICIARIES

The target group for this measure are sole proprietors and **enterprises** pursuing business activities **on the territory of villages** in rural areas, including agricultural producers, having registered their activities in rural areas; on condition that the share of state in the stock of the holding does not exceed the limit of 25 per cent.

5. ELIGIBILITY CRITERIA

5.1. Requirements for the potential beneficiary

- (1) the potential beneficiary must prove capacity for economic continuity during at least three years following the investment. Correspondence to this criterion will be assessed on the basis of the Methodology for Assessment of Investment Support Application and Business Plan;
- (2) the potential beneficiary has no outstanding national tax debts; or the debts have been deferred;
- (3) the potential beneficiary meets all the environment protection requirements;
- (4) the planned investment is related to the business activities of the potential beneficiary;
- (5) the planned investment is located on the territory of villages in a rural area;
- (6) the project is being supported by local municipality;
- (7) in case of an investment listed under section 3.1, no investment support is being applied for under sub-measure 3.2 of measure 1 – Investment support for agricultural holdings;
- (8) in case of an investment listed under section 3.3, no investment support is being applied for under sub-measure 3.1 of measure 1 – Investment support for agricultural holdings;
- (9) in case of an investment listed under section 3.1 – reconstruction of electricity systems, joining energy distribution network or purchase of electric on the territory of villages its installations, the support can be applied for in the following cases:
 - the voltage deviations exceed 10% of the nominal voltage;
 - as the result of the investment, power capacity will increase;
 - the low voltage lines constructed or re-constructed won't extend for more than 600 metres;
- (10) the investment object will meet EU requirements after the investment has been completed.

5.2. Required documents

- (1) application;
- (2) business plan;
- (3) annual report for the previous year, except:
 - sole proprietor who will provide the balance sheet and income statement for the previous accounting year;
 - sole proprietor who has cash basis of accounting records meeting the requirements stated in the Accounting Law, will provide consolidated reports on his/her entrepreneurial revenues and expenditures for the previous accounting year, based on the data of the accounting registers;
- (4) a valid Letter of Confirmation from the Tax Department stating that the potential beneficiary has no outstanding state tax debts; or that the debts have been deferred;
- (5) a Letter(s) of Confirmation stating the potential beneficiary's long-term liabilities, accompanied by a valid payment schedule;
- (6) Copy of the valid Registration Card and document certifying the Power of Attorney of the representative and copy of the personal identification document. Sole proprietors not being registered in Business Register will provide a copy of the Letter of Confirmation from the Register for Taxpayers and Tax holders and copy of the personal identification document;
- (7) for companies, the list of shareholders whose share in the company exceeds 20% of the stock, stating the proportion of their shares;
- (8) valid Licence for Construction, copies of the title page of the construction project and of all the required approvals, and the budget of the construction in case the object of the investment is being a construction;
- (9) copy of the Invitation for Procurement and at least two price quotations accompanied by the list of technical requirements, stating the technical specification and country of origin, with exception of one price quotation on connection charges of networks when area is covered by single service provider;
- (10) the list of fixed assets used in the business entity as stated at the end of previous accounting year;
- (11) in case of investments listed under sections 3.2 and 3.3, an Environmental Memorandum approved by the regional Environmental Department;
- (12) an official **support** Letter of Confirmation from the local authority;
- (13) in case of investments listed under section 3.1, the Letter of Confirmation from the local electricity distributor, stating the power capacity and voltage **deviation**;
- (14) In case of capital lease is foreseen the price quotation suggested by leasing company, accompanied by a sample capital lease contract and payment schedule.

6. INVESTMENTS NOT ELIGIBLE FOR SUPPORT

Within the framework of this specific measure, no support will be provided for investments listed as “not eligible” under the SAPARD-programme multi-annual financing agreement.

7. GEOGRAPHICAL ALLOCATION

This specific measure will be implemented on common principles in rural areas, on the territory of villages of the Republic of Estonia.

8. ASSESSMENT CRITERIA

Applications for investment support will be processed and the decision on whether to grant the subsidy or not will be taken on the basis of the eligibility criteria and according to the order of receiving the applications, considering the total amount of funding allocated for the measure in a given year.

9. ELIGIBLE EXPENDITURES

As eligible expenditures will be considered expenditures made by the beneficiary for the following investments, approved and controlled by SAPARD-agency:

- the construction and renovation of buildings and facilities, roads, power and telecommunication lines, water and sewerage pipelines;
- new machinery and equipment, including integrated information technology (computer hard- and software)
- **connection charges for networks of electricity, telecommunication, water and sewerage.**

All the goods and services purchased must be of European Union or candidate state origin.

10. INTERVENTION RATE

10.1. Contribution rates

Public sector support granted for investments specified under this measure is up to 50% of the total investment amount eligible for support. The specific contribution rates will be specified in accordance to the cash and loan deficit originating from the business plan submitted by the potential beneficiary, but it must not exceed the limits specified under section 11.

10.2. The indicative distribution of support across actions

Section 3.1	20%
Section 3.2	30%
Section 3.3	40%
Section 3.4	10%

ARIB will organise supervision over the indicators for implementation of the specific measure. Program implementation authority will submit any information relevant to the program Monitoring Committee.

10.3. SAPARD-Contribution rates

SAPARD-contribution rates under this measure shall be distributed as follows:

Republic of Estonia contribution – 25% of total public sector contribution

EU contribution

– 75% of total public sector contribution

11. MAXIMUM CONTRIBUTION RATES PER HOLDING

The maximum investment support, eligible per one applicant may amount to 30,000 EUR per year, but must not exceed 75,000 EUR for one holding for duration of program. The maximum investment support, eligible per one applicant for investments under section 3.1 and 3.4 may amount to 10,000 EUR per year, but must not exceed 25,000 EUR for one applicant for a duration of program

The potential beneficiaries may submit several projects annually, presuming the total amounts eligible are not exceeded.

12. GOVERNMENT INSTITUTIONS RESPONSIBLE FOR IMPLEMENTATION OF THE MEASURE

This specific measure shall be implemented in accordance to the SAPARD administration scheme specified in the Rural Development Plan. The central institution responsible for implementation of this measure is the Agricultural Register and Information Board.

The county Environment Services are also involved in implementation of this measure, acting as competent authorities participating in technical and environmental assessment.

If required because of specific nature of project, the ARIB may engage additional expertise to evaluate the projects submitted.

13. TIME SCHEDULE

This measure will be implemented over the entire period for SAPARD-programme implementation.

14. QUANTIFICATION OF IMPACT (INCLUDING MONITORING AND EVALUATION)

To evaluate the impact of project, the beneficiary is responsible to provide ARIB necessary data through questionnaires, within three-year period after investment.

14.1. Public sector contribution in section of years and activities (MEUR)

		2000	2001	2002	2003	2004	2005	2006	In total
Activities	Share	2,10	2,10	2,10	1,94	1,94	1,94	1,94	14,04
3.1. Electricity	20%	0,42	0,42	0,42	0,39	0,39	0,39	0,39	2,81
3.2. Access roads	30%	0,63	0,63	0,63	0,58	0,58	0,58	0,58	4,21
3.3. Water supply and sewage	40%	0,84	0,84	0,84	0,77	0,77	0,77	0,77	5,62
3.4. Telecommunication	10%	0,21	0,21	0,21	0,19	0,19	0,19	0,19	1,40

14.2. The estimated minimum number of projects to be supported

	2000	2001	2002	2003	2004	2005	2006	In total
The total number of projects supported	331	331	331	305	305	305	305	2215
3.1. Electricity	84	84	84	77	77	77	77	562
3.2. Access roads	126	126	126	116	116	116	116	842
3.3. Water supply and sewage	37	37	37	34	34	34	34	250
3.4. Telecommunication	84	84	84	77	77	77	77	562

14.3. The scope of projects supported

	2000	2001	2002	2003	2004	2005	2006	In total
No of rural enterprises connected into electricity networks/ improved quality	84	84	84	77	77	77	77	562
Roads built / reconstructed (km)	63	62,9	62,9	58,1	58,1	58,1	58,1	421
No of rural enterprises with new or reconstructed water supply or sewage system	37	37	37	34	34	34	34	250
No of enterprises/households with high speed Internet connection	252	252	252	232	232	232	232	1685

14.4. The impact of projects supported

	2000	2001	2002	2003	2004	2005	2006	In total
% of enterprises using Internet services in rural areas	2	5	10	20	30	40	50	
% of farms with 6 ton capacity access roads	30	35	40	45	50	55	60	
% of farms with electricity	98	98	99	99	99	100	100	
% of rural enterprises treating waste water in accordance to EU requirements	5	15	25	35	45	55	65	

15. LEGISLATION RELATED TO THE MEASURE

15.1. National legislation concerning the implementation of this measure:

- Government Order applying to Investment Support, Processing of Applications and Granting Support;

- Government Order concerning The Extent and Procedures for Monitoring the Intended Use of Investment Support and the Reclaiming and Repayment of Support;
- Government Order concerning The Methodology for Assessment of Investment Support Application and Business Plan.

15.2. Core legislation establishing eligibility requirements for investments:

- Planning and Building Act and the related secondary legislation
- Water Act
- Environmental Impact Assessment and Environmental Auditing Law

The legislation listed above is published in the State Gazette.

16. FINANCIAL TABLE FOR MEASURE (million EUR)

Year	Total eligible cost	Public sector contribution						Private sector contribution (at least)	
		In total		EU		Estonia		EUR	%
	EUR	EUR	%	EUR	%	EUR	%	EUR	%
1	2=3+9	3=5+7	4=3/2	5	6=5/3	7	8=7/3	9	10=9/2
2000	4,20	2,10	50%	1,58	75%	0,53	25%	2,10	50,0%
2001	4,19	2,10	50%	1,57	75%	0,53	25%	2,10	50,0%
2002	4,19	2,10	50%	1,57	75%	0,52	25%	2,10	50,0%
2003	3,87	1,94	50%	1,45	75%	0,48	25%	1,94	50,0%
2004	3,87	1,94	50%	1,45	75%	0,48	25%	1,94	50,0%
2005	3,87	1,94	50%	1,45	75%	0,48	25%	1,94	50,0%
2006	3,87	1,94	50%	1,45	75%	0,48	25%	1,94	50,0%
Total	28,08	14,04	50%	10,53	75%	3,51	25%	14,04	50,0%

Indicative outline of remaining measures:

The financial plan attached to this Plan makes provision for the introduction of four additional measures under Priorities 2 and 3. An indicative outline is provided below of the rationale for these measures, their objectives and likely scope, beneficiaries along with an indicative allocation of EU support across each measure. In all cases precise details for these measures will be defined and elaborated in consultation with the European Commission ensuring at the same time that the relevant Community legislation is respected.

MEASURE 5: TECHNICAL ASSISTANCE

In order to assist with the monitoring and implementation of the programme, a technical assistance measure will be introduced. An Action plan to be drawn up outlining the specific areas and priorities for support under this measure taking account of the progress achieved and experienced gained from the implementation of the other measures. The accreditation of this measure should not prevent the practical application of the other measures in the Plan which may become fully accredited in advance of this measure.

Objectives:

The main objective of implementation of the measure will be to disseminate knowledge concerning the SAPARD programme including the general principles and procedures involved for granting support to those living in the rural areas. The measure should also help to strengthen the administration of the programme. In support of these aims, a range of objectives will be set to include for example the following:

- to ensure an adequate flow of information and publicity
- to provide support for the monitoring of the programme
- to support studies related to the strategy and implementation of the programme.
- to provide support for external expertise.

Scope of the measure

Under this measure, potential beneficiaries will be informed about the support measures available, rates of assistance, including the obligations arising from the monitoring and evaluation requirements associated outlined with the SAPARD regulation. A range of actions for support will be selected. These may include: the publication of printed materials about the programme, the preparation of guidance materials, studies including research on particular themes or sectors. Provision may also be made to provide training support for agricultural advisers and extension specialists.

Eligibility Conditions

Preconditions for granting support under this measure will include the establishment of an Action Plan for the use of technical assistance. This will include plans for organising specific publication campaigns; training plans as well as plans for monitoring, evaluation and other studies. Costs incurred by public administration, including salaries of national and local civil servants employed on day-to-day management, monitoring and control are not eligible for finance under SAPARD, including SAPARD-agency or MOA employees and civil servants. It should be noted that projects shall only be implemented after consultation with the Commission.

Final beneficiaries

Final beneficiaries are: the potential beneficiaries of support schemes, professional organisations, social and economic partners, non-government organisations and other interest groups.

Intervention rate:

The actions under this measure may be financed from the Community contribution by up to 100% as provided for in Article 8(1) of Regulation 1268/199. In such cases justification for the application for Community contribution higher than 75% will have to be submitted to the Commission for approval prior to its application.

MEASURE 6: REGENERATION AND DEVELOPMENT OF VILLAGES

The socio-economic analysis contained in the RDP highlighted the impact of low employment levels on the income basis of the rural areas. High structural unemployment, low-income levels and poor quality local services combine to cause young people to leave rural areas which has consequences for the social structure of Estonia's rural settlements. Set within this context, Estonia has witnessed since the 1980s the rapid development of a number of third sector organisations. These offer new opportunities for the development of local economic initiatives enabling local people to become more involved at village level in the development of their own communities. SAPARD offers an opportunity for these and other organisations to develop integrated rural development plans and actions aimed at developing both the physical as well as the social and economic fabric of small village settlements and local communities. Recognising the scale of the changes likely to occur over the next few years in the agri-food industry, this measure would help to complement the impact of local plant closures as well as other changes experienced at the local level.

Objectives:

This measure would have the following objectives:

- to promote the development of integrated rural development initiatives in rural Estonia
- to promote the development and renovation of village settlements
- to enhance the economic, environmental, tourism and cultural potential of the rural heritage

Scope of the measure

Under this proposed measure, activities would be supported based on local initiative in order to increase the social, cultural and natural value of the living environment. Specific actions which will be considered for inclusion within the measure are:

- (i) investment support for the construction and renovation of commonly-used village buildings; including the reconstruction and conservation of buildings with architectural or historic value.
- (ii) investment support for the establishment and renovation of village parks, children's playgrounds, hiking paths which form part of either a village enhancement strategy or local community development plans.
- (iii) investment support for the development or establishment of IT centres with internet access and information points etc.

Eligibility Criteria:

A pre-condition for such support would be a local community development plan, or village development strategy.

Geographical scope:

The measure will be applicable in all rural areas.

Final beneficiaries

The final beneficiaries of this measure will be non-governmental organisations and individual entrepreneurs.

MEASURE 7: AGRI-ENVIRONMENT

Agriculture is a major influence upon the rural environment and can both create and destroy the quality of natural resources and countryside features. While traditional agriculture originally contributed to the creation of varied rural landscapes and valuable wildlife habitats, changes in modern farming methods have resulted in major damage to environmental resources, including the loss of many landscape features, damage to valuable wildlife habitats and the pollution of air and water.

Some of the environmental problems caused by agriculture can be dealt with through the encouragement of “good agricultural practice”, backed up where necessary by legal restrictions. However, in many cases the achievement of real environmental benefits requires farmers to significantly change their farming methods and this often entails reductions in productivity combined with additional and costly work. Generally few farmers can afford to do this without any compensation. For this reason, payments from public funds are essential to achieve the high environmental benefits that may be wanted from farmers.

The opportunity for candidate countries, such as Estonia, to benefit from EU co-financing for the implementation of a national agri-environment programme is potentially very important for their rural areas and should greatly improve their long-term prospects in terms of the:

- protection and enhancement of the rural environment;
- development of a sustainable rural economy (including the training and education of farmers), and;
- encouragement of alternative economic activities.

Objectives

The purpose of the measure is to provide a sound basis for financing projects co-financed by the European Union, aimed at protection and enhancement of the rural environment, development of a sustainable rural economy (including the training and education of farmers) and encouragement of alternative economic activities.

The planned relative importance of this measure in relation to measures being financed under SAPARD is approximately 3% (see the Financial Plan) yearly starting from year 2003. The overall aim of the Pilot AEP Project should be to implement the full set of measures proposed for the National AEP in three clearly defined and contrasting regions of Estonia.

The main objectives of the measure are:

- to encourage environmentally-friendly farming practices
- to avoid damage to semi-natural and natural habitats and landscape elements on the farm
- to improve the visual appearance of the farm
- to protect the features of historical and archaeological interest

The specific objectives of the Pilot Project are to:

- a) test the practical implementation of an AEP in the Estonian context
- b) evaluate the effectiveness of the proposed national AEP measures

- c) refine the management prescriptions of the AEP measures to deliver more fully the objectives of the scheme
- d) to review the relationship between the undertakings of the AEP measures and the emerging concept and Code of Good Agricultural Practice for Estonia;
- e) gain an indication of the average AEP payments per farm business
- f) demonstrate and promote the concept of an AEP in Estonia amongst farmers, policy makers, politicians and members of the general public.

Taking account of the complexity of the measure and the nature of the pilot actions involved, precise details for the measure will be defined and elaborated in consultation with the European Commission.

Scope of the measure

Within the framework of this specific measure, AEP pilot project consists of four connected schemes and support will be provided for following activities:

(i) Environmentally-friendly Production Scheme (EPS)- where the aim is to encourage producers to adopt environmentally-friendly farming practices, whilst also avoiding particularly damaging practices to wildlife habitats and landscape features; improving the visual appearance of the farm, and; protecting features of historical and archaeological interest.

(ii) Supplementary Measures Scheme (SMS) – this offers additional area payments to farmers who have an EPS management agreement and wish to undertake one or more supplementary measures that go beyond the simple maintenance of the farm environment and extend to the additional protection, enhancement or re-creation/restoration of specific resources and/or features. Farmers may undertake any combination, of the following supplementary measures:

SM 1 Organic Farming – providing support for both existing organic farmers and those wishing to convert to organic methods.

SM 2 Local Endangered Breeds and Traditional Crop Varieties – providing support to farmers in the EPS who own or rear animals of endangered local breeds (Estonian Native Cattle and Estonian Native Horse) or who use traditional crop varieties in danger of extinction.

SM 3 Natural Diversity (Special Habitats and Landscapes) – promoting the maintenance, enhancement and establishment of valuable habitats and landscapes (or landscape elements) which are dependent upon the continuation of traditional farming practices.

SM 4 Creation of Ponds and Wetlands – improving bio-diversity and introducing new landscape features by taking relatively small areas of land out of production to create semi-natural or artificial wetlands and ponds.

(iii) Abandoned Land Scheme (ALS)- this aims to encourage farmers to manage abandoned land in an environmentally-friendly manner (e.g. annual mowing, grazing) in order to increase biodiversity, improve the aesthetic value of the landscape, and to decrease the risk of fire and the spread of weeds.

(iv) Training and Demonstration Scheme (TDS) – which will support the uptake and implementation of the practical agri-environment schemes (EPS, SMS and ALS) by: for example increasing the environmental awareness of farmers; providing farmers with the necessary technical knowledge for compliance with the agri-environment measures or supporting demonstration projects (e.g. demonstration farms) for the transfer of practical information on the agri-environment measures.

Eligibility Criteria

All land entered into the programme must be registered in the land cadastre. In addition, the potential beneficiary must meet all the environment protection requirements. Projects must also be supported by the local municipality.

Geographical Allocation

The pilot project will be commenced from 2001 based on funding from the Government of Estonia. This will cover three pilot areas (municipalities). Additional areas may be added from 2002 depending on demand and budget structure. Based on the results of these projects, additional areas will be included from 2003 which will be co-funded within SAPARD. The qualitative scope of measure is equal in all areas, however, the actual sub-activities selected will depend on individual pilot areas and will be based on Farm Agri-environment Plans.

Aid level

Calculations to determine the precise levels of aid are not yet completed and will be subject to approval by the Commission. The premium shall be set taking into account costs incurred and income forgone as a result of applying farming practices above the normal good agricultural practices. As this measure will be implemented in 2003 following consultation with the Commission on detailed provisions, the aid intensity will be fixed at that stage respecting the relevant Community legislation.

MEASURE 8: FORESTRY

During the last decade, due to socio-economic reasons, land use intensity in Estonia has drastically dropped. Despite the occurrence of natural forest regeneration afforestation is needed to create productive forests in Estonia. Approximately 50% of Estonia is already covered by woodland. However the rapid and unregulated establishment of forest plantations can result in the loss of valuable landscapes, reduce biodiversity and damage existing landscape aesthetics. Intensive afforestation may cause considerable harm to natural diversity. The identification of criteria for excluding areas from afforestation would contribute towards the maintenance of natural diversity, key habitats, valuable landscapes and other natural values which would otherwise be damaged by unregulated forest plantations.

It is envisaged that as a result of ongoing land reform and land restitution in Estonia, there will be a continuing interest in the afforestation of abandoned low value/ low productive agricultural lands. Greater expertise is needed in respect of both state-owned and private land property to establish selection criteria for the selection of previous agricultural lands which would benefit from afforestation and at the same time would avoid conflict with nature protection and the sustainability of Estonia's natural diversity.

Analysis of the forestry sector indicated there are a large number of small, low-fertility agricultural land plots, overgrown grasslands and scrub areas in Estonia which could be developed into valuable forest areas through forest planting, partial improvement cutting and road construction. It is estimated that there are approximately 100,000 hectares of former agricultural lands suitable for afforestation. In addition, private forest area in Estonia currently amounts to approximately 600,000 hectares. It is expected that this will increase to 1.4 million ha with the completion of land reform.

Around 5% of the private forestry area is clear-cut each year accounting currently for around 30,000 ha per year). Approximately 3% of that area (900 ha) is afforested yearly and about 10% (3000 ha) has excellent natural conditions, allowing natural reforestation to occur with good stand structure. Other final cut area should be reforested and only 10% follows the natural process of reforestation providing good forest structure. In short about 87% of the clear-cut area lacks reforestation. On current rates of felling Estonia's private forest stand structure will significantly change within 15 years, not providing sawmill industry with necessary quality raw materials (conifer will be replaced with low-value broadleaves), on other hand, the renewal process will be slower and the bio-mass production significantly lower on natural reforestation process.

Objectives and scope

Recognising that forestry is an alternative for agriculture, it influences rural areas and their developments providing additional incomes for rural entrepreneurship and also additional jobs, the SAPARD programme provides an opportunity for Estonia to pursue through this measure the following objectives:

- to promote afforestation and sustainable forest management
- to encourage effective forestry management practices through the implementation of forestry management plans
- to increase rural job opportunities in forestry sector.

This measure will provide support for investments in forestry sector development.

Precise details for this measure will be defined and elaborated in consultation with the European Commission.

Under this measure, support may be granted for afforestation to cover the costs of plant materials. Afforestation costs are estimated as follows:

Estimated afforestation costs per hectare:			
Task	Costs		Share %
	EEK/ha	Euro/ha	
Ground preparation	666	42,7	4,7%
Plants	4020	257,7	27,8%
Planting	1815	116,3	12,6%
Improvement	798	51,2	5,5%
Fertilizing	1205	77,2	8,3%
Protection of young stands	3942	252,7	27,3%
Transport	660	42,3	4,5%
Other costs	1340	85,9	9,3%
TOTAL	14446	926	100,0%

In Estonia, forestry is regulated by the Forest Act and related acts. In order to manage forests in a sustainable manner and in order to obtain advice on how to manage forests, it is recommended that every forest owner has Forest Management Plans (FMPs) – which are obligatory in state forests but voluntary in private forests. These Forest Management Plans contain:

- 1) a woodland plan with a detailed forest description
- 2) a statement outlining aims including forest categories covered, restrictions and possible ways on how to manage the forest in a sustainable way.
- 3) an outline of ways to sustain biodiversity, including methods, volumes and details
- 4) parameters for the management of activities in the forests

In state forests the existence of FMPs is a precondition for forest management. No cuttings are allowed without a plan. In contrast, in the case of private forests, only about 400,000 ha out of 600,000 ha of registered forests have plans or relevant recommendations. It is estimated that around 900,000 ha need to be covered by forests in the coming years.

Eligibility Conditions

To be eligible for grants, all projects must be fully consistent with forest management plans or forest management recommendations. In addition the potential beneficiary must meet all the environment and nature protection requirements.

Final beneficiaries

The final beneficiaries of this measure are private sole proprietors- forest owners, private forest owners associations pursuing activities in the rural areas of Estonia.

7. ANNEX 7 - MAPS

Figure 22 Rural population density

Figure 23 The rural population density and rural population share in total

Figure 24 The distribution of land resources by counties

Figure 25 Arable land quality by municipalities

Figure 26 The share of drained agricultural lands