

FACTORS INFLUENCING THE DEVELOPMENT OF BUSINESS ACTIVITIES AND SERVICES IN ESTONIA AFTER THE ADMINISTRATIVE REFORM¹

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INTRODUCTION

This is a topical subject as elections of local councils (on 15 October 2017) and the administrative-territorial reform (hereinafter referred to briefly as administrative reform) were among the most important changes in the Republic of Estonia in 2017. Many small municipalities disappeared as a consequence and were merged into larger municipalities. Such major changes always have their pros and cons, thus the impact of the administrative-territorial reform on the development of business activities and provision of services, also on the welfare of people in towns, small settlements and

villages may be either positive or negative. The specific consequences of this activity will probably be evident most clearly only years later as it is not possible to assess all impacts immediately.

The regional distribution of the Estonian population is very uneven. This trend has increased during the last decades, and in addition, rural population has rapidly decreased. Continuation of these processes may lead to a situation where some areas remain without any population, businesses lack labour, and organisation of rural life will become very expensive, even impossible, both for the state and local governments. Business development and organisation of the activities of local gov-

¹ This article is based on the graduation paper of Tõnu Aavasalu Factors Influencing Business Activities: the Case of the North Sakala Rural Municipality which was successfully defended in the Pärnu College of the University of Tartu (UT) in June 2019. The supervisor was Professor, PhD (Doctor of Philosophy, Candidate of Economics) Matti Raudjärv who is both listed in the literature used for the joint paper by Aavasalu and Raudjärv published at the end of 2019 (see the sources of literature used for this article – references: 2; the full paper in Estonian is on the CD and its summary in English on five pages) and the author of this article with the consent and cooperation of the author of the above-mentioned graduation paper, Tõnu Aavasalu.

The graduation paper was also partly represented in the discussions conducted at the round table “Administrative Reform – Positive and Negative Results. Problems and Unsolved Issues. The Future” with the participation of Estonian local government leaders (on 03.07.2019 at Jämeda) at the XXVII International Scientific Conference on Economic Policy “Economic Policy in the EU Member States – in 2019” held in Estonia from 3 to 5 July 2019 in which Tõnu Aavasalu actively participated with substantial contributions (the round table was chaired by Sulev Mäeltsemees (Professor Emeritus of the Tallinn University of Technology) and by the main organiser of the conference (since 1984) Matti Raudjärv). The discussion of these issues will continue also at the round table that will be held at the XXVIII conference which will take place at Jämeda from 25 to 27 June 2020.

Also the graduation paper of Karita Lepiste Impact of Administrative Reform on the Provision of Public Services in Small Settlements which was successfully defended in the Pärnu College of the University of Tartu (UT) in June 2019 (also supervised by Matti Raudjärv) was used in writing this article. The joint paper by Kariste and Raudjärv was published at the end of 2019 on the basis of the graduation paper (see the sources of literature used for this article – references: 7; the full paper in Estonian is on the CD and its summary in English on seven pages) with the consent and cooperation of Karita Lepiste. Karita Lepiste was a student of the Pärnu College of the University of Tartu from which she graduated in 2019 with a diploma; e-mail: karita.lepiste@gmail.com

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ernments in rural areas largely depend on the national regional development policy. Regional development policy can help to reduce the trend of areas becoming peripheries by supporting business activities and rural development. For that purpose, the state has planned special activities which should contribute to the development of rural areas with different support measures and reduce the development gap with urban areas.

The objectives of this article are firstly, to determine the factors favouring and impeding the business activities of the North Sakala Rural Municipality after the administrative reform and to make suggestions to the local rural municipality government in order to improve the competitiveness of the region and reduce the trend of becoming a periphery to improve the business environment for local businesses and prevent the relocation of business activities to larger centres of attraction by entrepreneurs, and secondly,¹ *to determine the impact of the administrative reform on the provision of services in small settlements, analysing the opinions of the population of villages, towns and small towns and making suggestions on the basis of the results for making changes in the range of services offered by local governments.*

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

to study and provide an overview of the impact of regional development policy, administrative reform and rural business activities on the development of the local business environment;

- to study and assess the current business situation of the North Sakala Rural Municipality;

- to conduct a survey among heads of businesses of the North Sakala Rural Municipality and to analyse the results obtained;

- *to examine and provide an overview on the impact of the administrative reform on the provision and organisation of public services by local governments;*²

- proceeding from the research results to make suggestions for the improvement of the business environment and welfare of the local population.

This article presents research results on the possible developments in business activities and partly also services after the administrative reform. The objects studied were businesses of the North Sakala Rural Municipality in the Viljandi County and the situation of services provided to the population of small settlements of the Jõgeva County.³ Despite the large invest-

ments already made, the populations of both the North Sakala Rural Municipality and small settlements of the Jõgeva County are decreasing every year according to the information of Statistics Estonia. This has also an important impact on businesses which need labour. Also the availability of services provided to the population often depends on business development. Many entrepreneurs have the choice of either expanding their operations in a rural area or moving their enterprise to an area with enough labour. This may deprive the local population also of some of the services. Some businesses have started to support local life themselves to become better known among the community, acquire more labour, be attractive and community-friendly. Entrepreneurs have invited people to live in rural areas and offered a pleasant work environment. This supports both community development and the capacity of the local government and the broader choice of services necessary for the population – the quantity and better quality.

Regional development policy, administrative reform and rural business development are very closely interrelated and have a joint impact on the integrated development of the area. The services, including public services, should then be added as an area with an important role in regional development and raising the quality of life of the population. The decrease in the Estonian rural population and the proportion of the gross domestic product (GDP) of rural areas in the national GDP is continuing and businesses lack labour as a consequence of all these factors. These subjects need to be addressed and fast solutions have to be found. With the continuing decrease in rural population, local governments will not be able to provide services, since the cost of a service per individual becomes very expensive and businesses will not find labour, particularly top-level specialists, from the local area, which also makes the provision of services more complicated for them.

1. On the impact of regional development policy and the administrative reform on rural business activities

1.1 Regional development policy and its objectives

The Estonian administrative reform has a significant role and importance for business development and for the provision of services to the population both

on the Jõgeva County in the east). According to Statistics Estonia, both counties are a part of South Estonia, being the northernmost counties of South Estonia. The Jõgeva County is located between the Viljandi County, incl. the centre of continental Estonia, and Lake Peipus, bordering on Lake Peipus in north-east and the Tartu County in the south. We can also tell the reader for the sake of clarity – the North Sakala Rural Municipality is located in Central Estonia, and the Jõgeva County is located east of the North Sakala Rural Municipality, they are almost neighbours.

1 See also footnote 5 on the next page.

2 The secondary objective (in *Italics*) mentioned above and the respective research task (services, in *Italics*) have been treated only briefly in this article because of the limited volume of this article. However, the article on services, which has already been published (References: 7), will be developed further into a separate publication – the second part of this article. We can also say – this and the planned article will be closely interconnected.

3 The North-Sakala Rural Municipality is located in the northern part of the Viljandi County (the Viljandi County borders

from the aspects of the state as a whole and the regional development policy. They are closely interconnected, however. The administrative reform should support business development and better provision of services, and business development and the market of services in their turn should favour the progress and implementation of the administrative reform. These processes will not be completed overnight but unfortunately their progress is slow and will take time. It requires also flexibility and necessarily taking into account local interests and needs and opportunities. Also planning and implementation of the state reform in Estonia makes its corrections here. We can also say that everything mentioned above is closely connected to regional development policy which is a part of one of the main areas of economic policy – structural policy (next to order policy and process policy).

The objective of regional development policy is the balancing of the state and its regions. A region is deemed to be an area which is an integrated part of a state territory as determined for administrative, political or analytical purposes on the basis of internal connections and similar properties. According to Sternberg, the EU regional development policy should support both cohesion and competitiveness more than it currently does. Regional development policy has to support the increase of activeness of business activities, considering the specific needs of each state and each region (Sternberg 2012: 589).

Regional development policy has an important role in the decentralisation of the geographical distribution of the population. Concentration of business activities creates strong centres which attract businesses and labour from less attractive regions. It is possible to make a redistribution with activities proceeding from objectives of regional development policy, by allocating resources to less developed regions.

Implementation of measures which develop competitiveness of businesses is important for less developed regions. Regional development policy has to enable uniform development in the whole state, integrated and balanced development targeted at the quality of life. Differences between the GDPs of different states are considerable, and on the other hand, GDPs of regions within countries also vary quite significantly. Such differences are lower in developed countries where regional development policy has been implemented longer and is more carefully considered and takes into account the peculiarities of regions. GDP of different EU Member States per inhabitant varies by several times among the states. For instance, in Estonia, the GDP per inhabitant accounts for only 61.4% of the average indicator of the EU; the same indicator for Liechtenstein, however, is 507% (European Commission, 2019)

Although Estonia is small in territory, the development of its regions considerably varies. The trend of relocation of the population to larger urban areas around

Tallinn and Tartu is continuing. The national regional development policy of Estonia needs to find solutions to reduce the gap which has deepened in the state in the recent years. Regional differences within Estonia are considerably higher compared to many other European countries. The investment capacity of local governments has been low in comparison to the government sector. The revenue base of local governments does not allow them to make sufficient investments for the reduction of regional differences, and the gap has become deeper in the recent years (Taat 2018: 6).

Considering the current Estonian regional development policy, it can be concluded that more attention should be paid to the state financing of regional development, business activities in rural areas should be considerably more supported. More integrated solutions should be supported on the local level, proceeding not only from basic needs. Development strategies of the counties are inadequate as they lack regulated connections with the state, county and local plans (Taat 2018: 18).

Different regions of the state require different measures for economic development. Regional development policy targeted at infrastructures is the most important strategy for less developed regions. A strategy is a long-term planned system of development opportunities of regions, which is implemented bearing in mind the peculiarities of the necessary tasks and the region. The Estonian Regional Development Strategy defines the intended development trends, bases for the national regional development and the bases for impacts. Organisation of the Estonian regional development policy proceeds from the guiding principles and policies of the EU regional development policy. According to the monitoring report of the Ministry of Finance, the fulfilment of the planned objectives of regional development policy has only partially succeeded. Considerable differences persist and the necessary activities have not been sufficiently justified (Ministry of Finance 2018: 3). Differences between the development and quality of life of the region of the capital Tallinn and the rest of Estonia persist and have even increased. In regional development, the proportion of larger cities is increasing, the potential of knowledge and skills is concentrating in them. The state, not the EU, should be able to find sufficient resources for the fulfilment of the objectives to direct regional development in the future. This is currently not the case yet but Estonia is surely moving in that direction.

1.2 Impact of the administrative reform on the local government as the developer of the business environment and on business development

According to Pawel Swianiewicz, three major waves of administrative-territorial reforms have taken place in Europe. Mergers of administrative units started in

the 90s of the last century and during the first decade of this century in the countries of both Western and Eastern Europe and are still continuing. They became more intensive after the financial crisis of 2008. The mergers took place both in waves of voluntary or compulsory mergers and in the form of one-time reforms. Pawel Swianiewicz has conduc-

ted different surveys on whether the mergers of municipalities have an impact on the development of the region (Swianiewicz 2017: 2).

The results of the mergers of the last 20 years were studied by Antonio Tavares who classified their impacts into three categories: 1) economic efficiency and cost-effectiveness; 2) administrative impacts and 3) impacts of mergers on democracy. According to him, several studies have pointed out making compromises between efficiency and democracy in the organisation of reforms with mergers. Although earlier studies conducted before 2000 showed the dependence of success on the history and spatial and economic situation of the region, these studies were very general according to his evaluation. Economic efficiency was mainly seen in general administrative expenses but no high returns to scale would be created according to his evaluation (Tavares 2018: 9).

It depends on the capacity of the local government to what extent the objectives of regional development policy can be achieved. The local government needs enough resources to ensure integrated development of the local region. Activities proceeding from objectives are very important – particularly when making large investments. According to the concept of the administrative reform, the minimum population of municipalities would be 5,000 inhabitants to have capacity for the preparation and implementation of projects of living environment and infrastructure and provision of public services (Concept of the administrative reform 2015: 7). This is the minimum population which ensures a local government the capacity to organise efficiently the services imposed on it with laws and to develop the municipality and the living environment (Ministry of Finance 2015: 79)⁴

There were 213 municipalities in Estonia before the administrative reform. As regions with less than five

thousand inhabitants were deemed to be small municipalities, we can say that there were 169 small municipalities in Estonia. After the reform there were changes both in the sizes and number of municipalities. By now there are 79 municipalities in Estonia (Results of local... 2019). The following table (see Table 1) shows the number and population of municipalities in Estonia before the administrative reform and the same figures after the mergers of municipalities.

Due to the administrative reform, the problems of provision of public services in small settlements is very topical. Many municipalities have become larger, municipality centres for many villages, towns and small towns are located further away, the people in the administration of municipalities have changed,

in some municipalities the provision and availability of public services has changed. The population of small settlements of municipalities is always the best source of information when determining the positive and negative aspects of the provision of public services (Lepiste, Raudjärv 2019: 139 (CD)). (see table N1).

The Green Paper on the Organisation of Public Service points out some problems related to the provision and use of public services.. One of the main problems is the administration of public services on all levels – both on the political and the local level. Concerning problems related to the use, one large problem is the unawareness of people about what public services are and what are the public services provided by local governments. There are also the problems that people live far from the centres and possible points/sites of provision of services; also the conformity of the services with the needs of the population (Avalike teenuste ... 2013: 6–11).

Based on the current practice, in the opinion of the authors, specialisation of officials is possible above all in larger municipalities. For instance, larger municipalities (unlike smaller ones) are able to organise the preparation of financial analyses and perform better personnel work, communication and many other tasks. A larger municipality is able achieve more integrated development of the region, proceeding from the established development plans, and maybe also the adoption of unreasonable decisions can be avoided more often. The success of rural areas depends on counteractive processes which are difficult to direct and which require coordinated cooperation, resources and time. Agriculture and forestry have historically played an important part in rural development in Estonia. Both plant production and animal production, including dairy production, have been important in Estonian agriculture, their produce mostly comes from rural areas.

Rural life is largely influenced by the communities which had also an important role in the administrative reform, and their impact is certainly increasing. Considering the objectives of the administrative reform, local

4 Besides, M.R. (Matti Raudjärv): considering that the service society and extensive provision of services have been functioning for a long time both in the EU and in the rest of the world (Bullinger, 1997), this should become normal development also in Estonia in the next few years. Fortunately, this has already been started (both in practical economic activities and in education, for instance, two curricula in the master studies of the Pärnu College of the University of Tartu – Wellness and Spa Service Design and Management (daytime study, in English) and Service Design and Management (sessional study). This will surely contribute to the formation of the service society and implementation of the Estonian regional development policy.

**TABLE 1. CHANGES IN THE NUMBER AND POPULATION
OF MUNICIPALITIES IN THE COURSE OF THE ADMINISTRATIVE REFORM**

Population of municipalities	No. of municipalities before the reform	No. of municipalities after the reform
Less than 5,000 inhabitants	169 municipalities	15 municipalities
5,000–11,000 inhabitants	28 municipalities	36 municipalities
Less than 11,000 inhabitants	16 municipalities	28 municipalities
Total No. of municipalities	213	79

Source: (Results of local... 2019).

governments should be able to organise regional development. According to the results of different studies, mergers increased the capacity of local governments to organise life in the region. A larger municipality is able to organise better well-considered development which takes into account regional peculiarities and does not have overlapping activities. According to the conclusions of different studies, the prices of the services provided may decrease in a larger municipality. Decrease in political activeness during elections and increasing distance of the local government from local people were deemed to be the most important disadvantages.

1.3 Rural business activities

Business activities, including production, are the basis for the economy of any country. Many factors favouring or impeding business development have been shaped by entrepreneurship policy. Different studies have been conducted on the impact of business activities on economic development. For instance, Harshana Kasseeah found in her study that business activities are increasingly viewed as a factor influencing the development of the region. She also found that countries which value and favour business activities, have faster economic development (Kasseeah 2016: 907).

Business environment largely depends on how the state plans its decisions on economic policy which have different impacts on business activities. From the aspects of the business environment, main areas of economic policy can be viewed as factors influencing the business environment. Regional and municipal policy can shape together the conditions which enable business activities. Supporting of the infrastructure policy is important in shaping the business environment in order to ensure the infrastructure network required for business development.

Sternberg stressed in his article that besides business activities also the attitudes of the community contribute to regional development. These may influence people to be too careful to start business activities or also increase their fears of failures (Sternberg 2012:

8). Rural business activities require a well-considered strategic approach to increase the activeness of business activities in peripheries.

Business activities are very important for community development. Entrepreneurs have a considerable impact on local economy, creating jobs, increasing the incomes and wealth of the population. According to the trends of recent decades, people prefer to live in larger centres. Therefore also the population in Tallinn and Tartu and their immediate vicinity has increased. Rural population has, however, decreased every year, according to the information of Statistics Estonia on an average 1–2% annually. The same applies to smaller settlements where the population of rural municipality centres decreases more slowly or remains the same at most but the population of more distant villages is decreasing faster. Municipalities are not able to pay equal attention to centres and smaller villages. Decrease in population has also led to closing many government agencies and increasing the distance to services. Long distances, a low number of jobs and distance from centres make people start rural business activities themselves and offer jobs also to others, if possible.⁵

According to Rivo Noorkõiv and Garry Raagmaa, communities should not remain passive in the organisation of regional life, and they consider the activities of Leader regions important for favouring cooperation between the public sector, businesses and citizens' associations, to ensure new development and jobs. Rural business activities have undergone a huge structural change in the course of which earlier kolkhozes-sovkhozes have been replaced by small businesses. Approximately 90% of agricultural jobs have disappeared in rural areas since the regaining of independence of Estonia until now. The number of businesses has increased in rural areas but the number of employees has constantly decreased (Noorkõiv and Raagmaa 2013: 43).

⁵ M. R.: On the other hand, such a necessity is useful for people as they will get a job themselves and will offer jobs also to other members of their family or community. A person does not always have to be a contractor and employee-worker, after all. Therefore – people themselves would be more active then as well. Obviously, also certain favourable conditions would be required.

Larger (M.R.: also wealthier) counties can offer more resources which makes starting business activities easier and more flexible. Infrastructure and also availability of labour are better near large cities, which are very important preconditions from the aspects of business activities (Ministry of Agriculture / Estonian University of Life Sciences 2012: 18).

The role of businesses has considerably changed in the society in the recent years. Businesses are not only expected to follow laws and ethical standards but the manner of their positioning themselves in the society and balancing the expectations of different stakeholders have become more important.

It is the task of the local government to create a business environment and living environment where entrepreneurs can produce goods and provide services according to the conditions created and the employees would like to live. The local government has to preserve and value the cultural, historical and natural heritage of the region and favour cooperation between entrepreneurs and research institutions and government agencies. The responsibilities of entrepreneurs are no less important – to care for the environment and their employees, valuing the environment and bearing in mind that profits are not the only objective.

2. Factors influencing rural business activities: the case of North Sakala Rural Municipality – survey among heads of businesses and analysis of results

The main focus of the survey consisted in the changes that had taken place in the business activities of four former municipalities of the Viljandi County – Kõo, Kõpu and Suure-Jaani rural municipalities and the Võhma Town (which merged into the North Sakala Rural Municipality) – in 2014–2017, description of business activities and conduction of a survey among heads of businesses.

The survey questionnaire was sent to 96 entrepreneurs and 36 of them, i.e. 38% responded to the survey.

The businesses selected had at least one employee, positive sales results and an e-mail address. The selection was made from among businesses operating in 2017.

The survey was based on the quantitative research method and the questionnaire consisted of three parts, the first of which focused on gathering general information. The second part (I) required an evaluation of the activities, future and connection with the community of businesses, the third part (II) inquired about the main problems and obstacles of the businesses and their expectations from the local government or the state.

As of the beginning of 2017, 345 businesses were operating in the North Sakala Rural Municipality according to the information from the Commercial Register (excluding self-employed entrepreneurs). Most

businesses, i.e. 95%, were microenterprises with less than 10 employees. 27 small businesses had 10–49 employees and three medium-sized enterprises in the region had more than 50 employees. The company Eesti Hõõvellist OÜ alone had more than 200 employees. There were no large businesses with more than 250 employees in the rural municipality.

The number of businesses has changed in the course of the four years studied (350 ... 368 ... 382 ... 345). While during the first three years the number of businesses increased, their number decreased by 10% in 2017 compared to 2016. At the same time, the sales and profits of businesses increased by 5% and 68%, respectively. Despite the decrease in the number of businesses in 2017, the average increase in the sales of businesses was 15%.

40% of the businesses surveyed were engaged in agriculture and forestry, 11% in construction, 10% in wholesale and retail trade and 8% in processing. Development of agriculture in the North Sakala Rural Municipality has been favoured by highly fertile agricultural lands of the region. Businesses of processing and agriculture had the highest profits in 2017. Accommodation and food service businesses operated with a loss. According to the information of the Tax and Customs Board, the average salaries and wages of the businesses of agriculture and forestry and processing in the North Sakala Rural Municipality were higher than the average level in Estonia in 2019.

The main questions and opinions of the survey:

Part I of the survey: Activities, future and connection with community of businesses

Has the business made significant investments from own funds during the last five years?

The responders could choose: product development, human capital, productivity, marketing and have not made investments. 30% of responders had invested in productivity, followed by investments in human capital and product development in which 28% and 26% of businesses had invested, respectively. 4% of businesses had not made investments. Investments in human capital were made above all by new and older businesses. For larger microenterprises, investments in product development were most important.

Has the business used EU or state support during the last five years?

Above all businesses which have been operating longer have applied for support. Medium-sized businesses were more active in applying for support. According to the survey, 67% have not applied for any support within the last five years. 5% had applied for them but had not received. Support had been applied by businesses operating in the fields of tourism, accommodation and food service, industry, other services and forestry.

Does the business plan investments for the next five years?

Three of every four respondents (77%) will rather invest or definitely invest within the next five years. 17% of businesses do not plan any investments. Smaller businesses and those which have operated for 6–12 years are less certain about making an investment compared to others.

Labour requirement of businesses in 2019–2020?

36% of businesses need more labour, i.e. a little more than every third of all businesses which responded. 3% of businesses plan to reduce their labour. New businesses plan to hire labour most and businesses at medium age the least. Businesses which currently have up to three employees have more labour needs.

How many employees of the businesses live in the North Sakala Rural Municipality?

With the growth in the size of businesses the proportion of employees from other municipalities increases. All labour of businesses at medium age is from the local municipality. The proportion of employees from outside the municipality was the highest in larger businesses. 10% of small businesses do not know the home address of their employees.

Whether and how has the business supported local life and community development in the last five years?

The response choices were: monetary contribution of more than 1,000 euros, monetary contribution of up to 1,000 euros, non-monetary contribution, or the business has not separately supported the development of local life.

According to the results of the survey, 42% of businesses, including small and new businesses (20%), had made non-monetary contributions. On an average, 22% of businesses have made no contribution to community development. Older and medium-sized businesses (19% in total) have made a larger monetary contribution (more than 1,000 €) or up to 1,000 € (the same, in total 17%). However, in total, approximately 80% of businesses have made different contributions to community development. For instance, some businesses have provided free transportation as a non-monetary contribution.

Part II of the survey: Problems and expectations from local government

Please evaluate the importance of the following problems for your business.

Problems were divided into three main groups: 1) infrastructure and environment; 2) problems related to the business; 3) the state, local government and the community.

The most problematic areas according to the evaluation of entrepreneurs are the internet, mobile coverage and roads. The responders evaluate more positively the transaction of affairs at the local government, availability of land for business activities, attitude of the

local government and availability of water and sewage systems.

Smaller microenterprises have evaluated many topics more positively compared to others. For them, availability of specialists is the most important problem. The most important differences arising from the size of businesses are related to the internet and specialists. Smaller businesses evaluate problems in these two topics as very critical. Roads are the biggest problem for larger microenterprises.

The transaction of affairs by the local government concerning plans, permits and other proceedings has been evaluated most highly by businesses. The attitudes of the local government towards entrepreneurs have also received a rather high evaluation. The lack of own funds for investments and also the lack of qualified specialists received critical evaluations in the activities of the businesses themselves.

The region was considered to be secure, and issues related to land and the water and sewage system of the rural municipality are of no concern. The local government together with the water undertaking have built approximately 90% of the water and sewage system of the rural municipality.

What could the rural municipality government do to support your business or for business development more generally in the rural municipality?

In total, the suggestions and wishes were as follows:

- to continue the established business support practices;
- to develop and ensure fast data communication (internet and mobile coverage);
- lack of high-quality living space (for rent and purchase);
- lack of modern rental apartments;
- maintenance of gravel roads from spring to autumn should be regular;
- cooperation with large businesses for the improvement of the living conditions of the labour;
- to improve the public transport;
- it would be important to respect the law – the rural municipality should not be able to do what it wants;
- to support small businesses of the rural municipality;
- faster development of the industrial sector;
- joint marketing in the field of tourism;
- the rural municipality should use the services of local businesses, not purchase cheap and often sub-standard services from large companies.

The rural municipality government has to treat all businesses on an equal basis. If rural small businesses can maintain sufficient quality and standards, also the population continues to live and work in rural areas.

Factors arising from both the micro-environment and macro-environment have an impact on business activities in rural areas. In many EU countries and re-

gions where regional development policy has been pursued for decades, support of business activities is considerably more effective and regional disparities are smaller than in Estonia. As a result of the administrative reform, local governments have more capacity for making the business environment more attractive. The sense of responsibility of a business itself is very important in the organisation of local life and the activities of the whole community. It has been found as a result of different surveys that in addition to earning profits, the social responsibility of businesses for local development has increased.

Analysis of the information obtained from the survey showed that businesses are generally doing well in the rural municipality. The situation is better in manufacturing, agriculture and construction. Accommodation and food service businesses have a more difficult situation and operated with a loss.

CONCLUSION

As a result of assessment of regional development policy of different Estonian regions we have to state that several indicators of regional development have aggravated within Estonia and the gaps have become deeper. Despite different types of regional support there are too high regional socio-economic differences. Population is decreasing in peripheries and concentrating mainly to the regions of larger cities, Tallinn and Tartu.

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

The article discussed three very interrelated subject areas⁶:

- firstly – regional development policy which should support the development of the region and reduce inequalities both within the EU and within Estonia;

- secondly – administrative reform which should re-

6 According to the results of the fourth subject area of the survey (services), the impact of the administrative reform on the provision of public services has unfortunately been negative in the opinion of the population of small settlements as very many services have become less accessible for the population of villages, towns and small towns after the merger of municipalities. The reason for this result is mainly the transfer of the necessary services which used to be close-by, to a larger centre of attraction of the municipality, with poor public transportation opportunities. Another main reason was the unsuitability of times, i.e. while the establishment which provided the service earlier had been open five days a week, the opening hours were now shortened to three or two days after the reform in some municipalities (Lepiste, Raudjärv 2019: 151 (CD)). The problems related to the public services will be more extensively covered in a future publication.

sult in sufficiently large municipalities which are capable of organising regional development;

- thirdly – rural business activities and business environment which allows making contributions to the area to make it sufficiently attractive to businesses.

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

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

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

It has been planned to perform in-depth analyses of the comprehensive impact of the administrative reform on the Estonian economy and the welfare of the population in 2017–2021 and to draw conclusions (the next elections of local councils will take place in the autumn of 2021, 2025 and 2029). In 2021–2025 the next stage of the administrative reform and another stage of mergers of municipalities will be prepared, and the reform activities developed as a result of the preparations will be implemented in 2025–2029.

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