



**Rural diversification and change in the Baltic countryside
rural inhabitants and businesses in Latvia and Estonia - a local perspective**

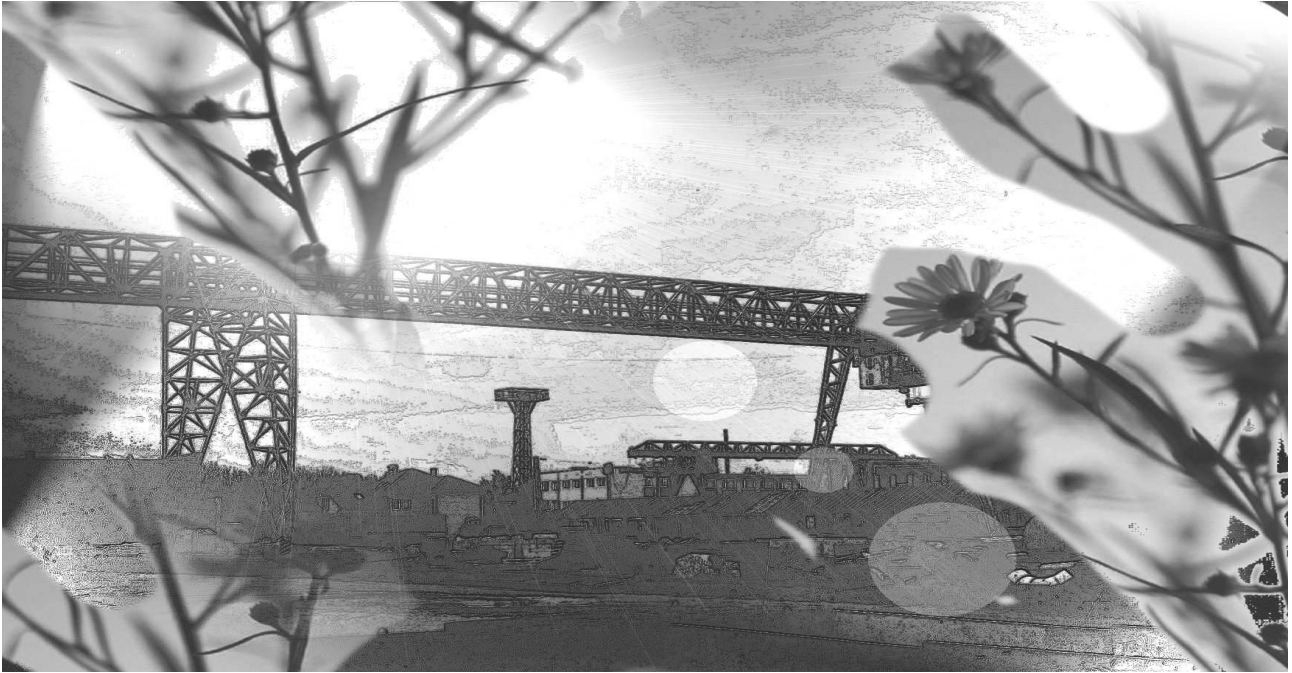
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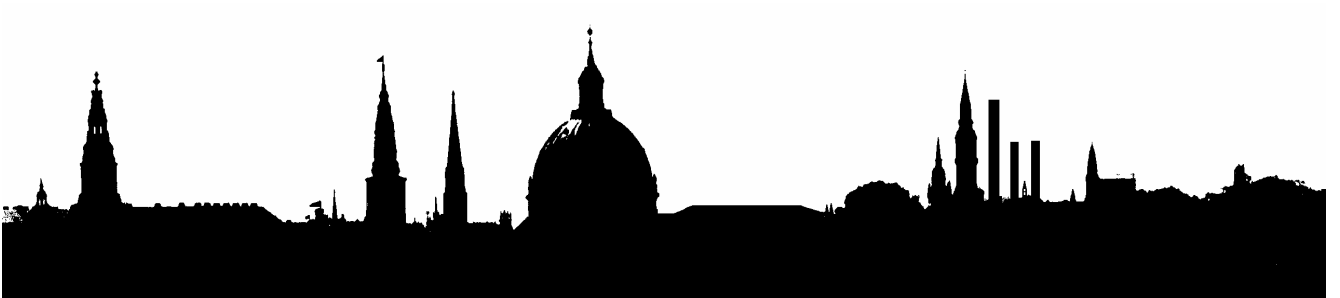
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Abstract

Lise Herslund

Rural diversification and change in the Baltic countryside: Rural inhabitants and businesses in Latvia and Estonia - A local perspective

Geographica Hafniensia A14, 2007

Keywords: Baltic States, rural development, transition study, rural diversification, rural economy, rural business.

The thesis investigates conditions and drivers for rural diversification in Latvia and Estonia and is empirically based on two case studies. It discusses what new processes of diversification can be observed and whether the rural areas have found new roles instead of large scale collective agriculture. The findings from the two study regions are compared and also related to concepts and trends identified in both other transitioning countries and Western Europe.

The transition from centrally planned economy to market economy has had an enormous impact in the rural areas. Agricultural production and employment has decreased dramatically. The two study regions were respectively an agricultural and industrial region but today they have been stripped of these roles of which new ones are only emerging at a slow rate. With the development of a service society and new export and labour markets comes new possibilities for a more diversified economy but locally the diversification processes are weak. The rural economy is diversified, however, this does not mean higher incomes and prosperity for many rural inhabitants. The population, the activities and incomes are more diverse than before transition but rural areas suffer from unemployment, low incomes and a strong dependence on pensions. The diversification found in the study areas does not live up to the vision and expectations for tourism development and farm diversification creating employment and alleviating poverty and shows that encouraging a stronger non-farm economy needs to be many-sided. Policies and programmes must work to extend the possibilities for local inhabitants for exploiting new opportunities and needs to be complemented by education and the local population's self motivation.

Resumé

Lise Herslund

Rural diversificering i de baltiske landområder: Indbyggere og virksomheder på landet i Letland og Estland – Et lokalt perspektiv

Geographica Hafniensia A14, 2007

Nøgleord: Baltiske lande, landdistriktsudvikling, transitionsstudier, rural diversificering, den rurale økonomi, virksomheder.

Afhandlingen undersøger betingelser og drivkræfter for diversificering af den rurale økonomi i Letland og Estland og er empirisk baseret på to casestudier. Den diskuterer hvilke nye diversificeringsprocesser der findes, og om landområderne har fundet nye aktiviteter til at træde i stedet for de opløste stor-landbrug fra Sovjettiden. Resultaterne fra de to caseområder sammenlignes og relateres til begreber og tendenser fra andre transitionslande og Vesteuropa.

Transitionen fra plan- til markedsøkonomi har haft en enorm indvirkning på landdistrikternes udvikling. Landbrugsproduktionen og mulighederne for arbejde er faldet markant. De to studieområder var tidligere områder med en stor eksport af henholdsvis landbrugs- og industrivarer til Sovjetunionen. Denne produktion er i dag stoppet, og få nye aktiviteter er trådt i stedet. Med udviklingen af et servicesamfund og nye eksport og arbejdsmarkeder kommer nye muligheder for en mere diversificeret økonomi, men på landet er situationen svær. Den rurale økonomi er diversificeret, men det betyder ikke højere indkomster og velstand for indbyggerne på landet. Befolkningen, aktiviteterne og indkomsterne er mere varierede end før transitionen men landområderne lider mere end nogensinde under høj arbejdsløshed og lille indtjening og er meget afhængige af pensioner. Så den rurale diversificering lever ikke op til visionerne og forventningerne om at turisme og service kan skabe arbejdspladser og bekæmpe fattigdom og viser at støtte til en mere diversificeret økonomi på landet må være mangesidig. For at kunne udnytte de nye muligheder må økonomisk støtte komplimenteres med uddannelse, information og hjælp til organisering.

1. Introduction

Decreasing employment in agriculture is an all-European issue. The proportion of the rural population engaged in agriculture has fallen steadily in all rural areas in Western Europe during most of the 20th century. In Eastern Europe people employed in agriculture decreased dramatically in the 1990s. In the Baltic States the share of the population employed in agriculture fell from around 20% in 1990 to approaching the EU average of 5% of the population in 2002. However, 30% of the population still lives in rural areas (Estonian Ministry of Agriculture, 2002; Latvian Ministry of Agriculture, 2003)

The transition from centrally planned economy to market economy has had an enormous impact on the rural areas in Eastern Europe. Agriculture has traditionally been the dominating activity and source of income. In the Soviet period, agriculture was organised in large state and collective farms that provided employment, housing and social services for the rural population. Privatisation was accompanied by closure of many of these large farms and numerous rural inhabitants lost their jobs. Today many post-socialist rural areas suffer from persisting unemployment and poverty (Bright et al., 2000). New employment possibilities and business activities are few. In Latvia and Estonia the rural areas experience high unemployment, still decreasing employment and a rise in selfemployment in mainly small scale agriculture (Estonian Ministry of Agriculture, 2002; Latvian Ministry of Agriculture, 2003). Observers agree that “rural diversification” and promotion of a “non-farm economy” is essential to avoid massive depopulation and increasing poverty in the post-socialist countryside (Turnock, 1999; Bright et al., 2000; Nordregio, 2000).

In Western Europe the countryside has changed from only being a place of agricultural production to increasingly being appreciated as a place to live in and for leisure and tourism. The countryside is shifting from a “place of production to one of consumption” (Marsden et al., 1993). Opportunities for diversification are strongly connected to this changing function and role of the countryside. Opposite, the socialist countryside has been described as a place of agricultural production above all. Tourism and recreational activities were insignificant. Therefore the development of services and tourism is today posed as the main opportunity for rural development in the post-socialist countryside (Swain, 2000a; Turnock, 1999).

“Rural diversification” and the “non-farm economy” have received considerable attention from policymakers in recent years. Rural diversification is a political concept often set as a broad vision for development of rural areas because rural diversification may slow down depopulation and alleviate poverty (European Commission, 1996; Estonian Ministry of Agriculture, 2000a; OECD, 1996). However, the focus of rural diversification programmes varies.

The Cork Declaration – A living countryside – that followed the European Conference on Rural Development in 1996, advocates a broad perception of rural diversification that addresses all socio-economic sectors in the countryside (European Commission, 1996).

The World Tourism Organisation claim “rural tourism to the rescue of Europe’s countryside”. Considerable attention has been given in most European countries to support rural tourism initiatives within the wider context of rural development. Tourism has often been viewed in many rural regions as one of the few opportunities to enhance the local economy.

The EU Common Agricultural Policy (CAP) also advocates the diversification of agricultural income of farm households (European Commission, 1997). Support is mainly for farm tourism and alternative farm production. In its dealings with the new member states in Eastern Europe, the European Union has expressed its concern for the diversification of rural economies through the content of its Special Accession Programme for Agriculture and Rural Development (SAPARD). SAPARD is to help the new member countries adjust their agricultural sectors and develop rural areas (European Commission, 1998). Included in its priorities is “diversifying economic activities in rural areas”. Funding is for farm households to start in tourism and alternative farm production also referred to as farm diversification (Estonian Ministry of Agriculture, 2000c; Latvian Ministry of Agriculture, 2003). In Latvia and Estonia today this is the main support programme for rural development and diversification.

But what is the starting point and conditions for rural diversification in the Baltic countryside? Research into rural issues in post-socialist countries has mainly focused on agricultural restructuring and the modernisation of agriculture. The focus of this project is on the non-farm economy. Transition research has largely been written in terms of the marketisation of economic relations and the privatisation of property. The level of research has mainly been macro-scale. The perspective of this research project is starting from the micro-scale exploring the activities, experiences and capacities of rural inhabitants within the changing rural locale. The project is an exploratory study into how people make a living and rural business development in two study regions in respectively Latvia and Estonia¹.

1.1 Research questions

The ambition of this study is to contribute to the understanding of the development in the post-socialist countryside. The goal is to increase knowledge on rural change in Estonia and Latvia when it comes to the role and function of the rural areas and the opportunities and constraints for rural diversification. The aim is to grasp what the transition has meant for rural areas, household incomes and rural business and understand the dynamics of the non-farm economy in providing employment and income opportunities. This leads to the following research questions:

How has the rural economy developed during transition?

How do rural inhabitants make a living? What characterise the labour market and local businesses and their development?

¹ PhD dissertation including all annexes and related published articles can be found at Institute of Geography, University of Copenhagen.

What non-farm economy can be identified? What actors are involved and what income and employment does it provide?

Which are the conditions, problems and possibilities for rural diversification?

1.2 Approach and methods

The project sees rural diversification and the non-farm economy to include all economic activities except traditional agriculture. It includes all non-farm incomes and activities of rural households living in a rural area and all business activities to be found in the rural area.

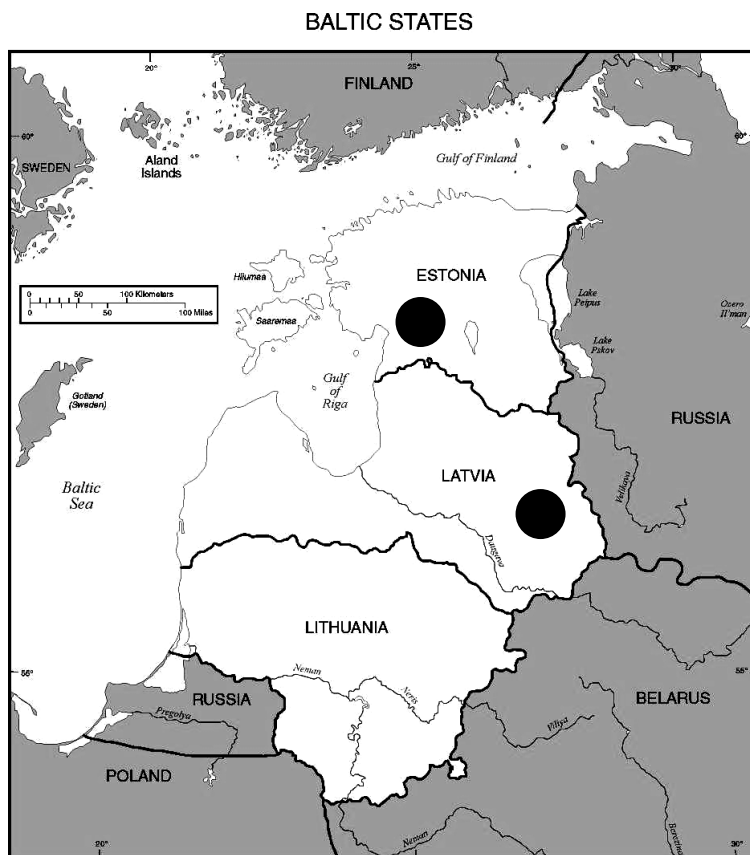
Much research on rural diversification focuses on diversification of farm household incomes. This project is not only concerned with the farm household but also includes activities and incomes not confined to the agricultural sector or the farm household. I am interested in rural development and therefore the project is an exploratory study into all non-farm activities and incomes not limited to a specific sector or size of activity.

This project approaches rural development at the local level and looks into how specific rural regions have developed with a particular focus on the non-farm economy, the rural inhabitants and businesses. The perspective of this study is focusing on the activities and experiences of rural inhabitants and businesses in the local area.

The project is built up around two case studies in two particular study regions in respectively Latvia and Estonia. Two different study regions are selected for a comparison of rural diversification in varying regional settings. Using a case study approach makes it possible to be sensitive to the local opportunities and individual possibilities. The case studies are based upon several data sources and ways of collecting material, however, the main source is a questionnaire survey and interviews with rural households and businesses in the two study regions.

1.3 The study regions

Estonia and Latvia are located on the Eastern shore of the Baltic Sea. They are among the smallest and least populated countries in the EU. Estonia has 1.35 million inhabitants (ESAa, 2003). Latvia has 2.375 million inhabitants (CSBL, 2000). The two countries were part of the Soviet Union from after the Second World War until independence in 1991. Prior to the Second World War they had been independent since the First World War (e.g. Alanen et al., 2004).



Map 1.1: Map of the Baltic States. The two study regions are highlighted with a circle.

The Estonian study region, Viljandi county, is a traditional agricultural region famous for its rich and prosperous farms before the Second World War and in the Soviet Period. Still it is one of the counties with the highest number of people employed in the primary sector (Nordregio, 2000).

The Latvian study region, Rezekne county is traditionally very industrialised, but many of its large factories have closed during the 1990s². The study region has Latvia's seventh largest city, Rezekne City, with 43.000 inhabitants.

1.4 Contents and structure of the thesis

The monograph investigates conditions and drivers for rural diversification. It is empirically based on two case studies.

Chapter 2 explores the rural research literature related to rural diversification and the development of the non-farm economy. The first part focuses on processes of diversification that can be identified in the rural development in Western Europe. The second part looks into the emerging literature on post-socialist rural change in Central

² See chapter 4 for a more detailed description of areas.

and Eastern Europe. The last part sets up the analytical framework of the study based on the concepts which have been introduced.

Chapter 3 presents the case study design and the methods of the project. The selection of study areas and respondents and the collection and analysis of data are discussed.

Chapter 4 presents some national key figures on rural diversification and the non-farm economy in Latvia and Estonia. The focus is on population and economic activity. The two study regions and the selected municipalities are presented.

Chapter 5 is the Latvian case study and chapter 6 is the Estonian case study. The aim of these chapters is to characterise the non-farm economy and actors involved and identify main problems and possibilities for non-farm activities. Both chapters are divided into three main sections. The first section concentrates on the rural households and how they make a living. The second section focuses on the rural business activities. The third part sums up on the non-farm economy in the study region.

Chapter 7 discusses what new processes of diversification can be observed and whether the rural areas have found new roles. The findings from the two study regions are compared and also related to concepts and trends identified in the theoretical frame of reference.

Chapter 8 is the final concluding remarks.

2. Theoretical background – Processes of rural diversification

Agriculture has during the 20th century been losing its economic importance in Europe and rural areas have long been characterised by depopulation. All over Europe farming steadily employs less people and most rural areas are suffering from lack of employment and population decrease. The ageing of the population that is a worrying issue in most countries is often particularly in rural areas. The lack of development in rural areas is in most countries acknowledged as a major problem, which has received increasing attention also on the EU level (Council Regulation, 1999). However, not all rural areas experience decreasing employment and depopulation. In some areas, the population has stabilised or even grown as also urban residents settle in the countryside. The farm population have entered into new business activities or found employment in urban areas. Leisure and tourism are gaining importance in the rural economy that traditionally has been dominated by rural economic sectors such as agriculture and forestry. These rural areas are not only areas of agricultural production and places of work but increasingly, they have come to be appreciated as places to live in and for leisure and tourism. The role and function of the rural areas have changed from mainly being places of agricultural production to increasingly being places of consumption (Marsden et al., 1993). This development is referred to as the diversification of the countryside or “rural diversification” (e.g. Marsden et al., 1993; North, 1998; Baldock et al., 2001).

There is no single definition of “rural diversification”. The concept is perhaps most often used as a vision for rural development in programmes and policy texts. The relation between incomes and employment in secondary and tertiary activities in relation to the primary activities in the rural economy are often used as indicators for “rural diversification” (Terluin & Post, 2000). In areas characterised by rural diversification, the share of incomes from secondary and tertiary activities and incomes, often referred to as the “non-farm economy” (Bright et al., 2000), is increasing. But of which activities and incomes does this non-farm economy consist? What actors are involved and what are the driving forces and conditions for the sectoral change and “rural diversification”?

This chapter explores the rural research literature related to rural diversification and the development of the non-farm economy. The first part focuses on processes of diversification that can be identified in the rural development in Western Europe. The second part looks into the emerging literature on post-socialist rural change in Central and Eastern Europe. The last part sets up the analytical framework of the study based on the concepts which have been introduced.

2.1 Diversification processes

In rural research “diversification” has mainly been used about the diversification of incomes and activities connected to farming. As my focus is rural development, my working definition of “rural diversification” and the non-farm economy also includes the broader rural economy not confined to the agricultural sector. This part of the chapter starts off with the relation between diversification and farming, but it also looks into the literature concerning “counterurbanisation” and the “urban-rural shift “ of population and other non-farm activities and entry points to “rural diversification” than those directly connected to the farm household.

2.1.1 Farming and diversification

In the context of agricultural development” diversification” is a process of decreasing dependence on traditional agriculture for the farm population (Chaplin et al., 2004). The centre of attention is dominantly the farm household and its abilities for finding new activities and employment. Farm households involved in non-farm activities are termed ”part-time” or ”pluri-active” farm households (e.g. Gasson, 1988; Eikeland & Lie, 1999). There are two types of non-farm activities; on-farm and off-farm. On-farm activities include e.g. tourism activities or alternative farm production at the farm. This is also called “farm diversification” (Bryden et al., 1992). Off-farm activities are mostly income-giving activities away from the farm: temporary jobs or more stable employment; this is often also referred to as “employment diversification” (Chaplin et al., 2004).

2.1.1.1 Farm diversification

“Farm diversification” is often considered as a major feature of the “post-productivistic” phase in agriculture (e.g. Ilbery & Bowler, 1998). In this “phase”, agriculture is integrated within broader rural and environmental development objectives. The farm household becomes involved in tourism, alternative farm production or nature management. Opposite, the earlier “productivist” phase was characterised by a continuous modernisation of traditional agriculture (Ilbery & Bowler, 1998).

There are two major types of “farm diversification”; agricultural and non-agricultural activities (Bryden et al., 1992). Agricultural activities consist of other forms of primary production such as forestry, fishery or alternative farm crops or non-primary activities such as processing of the agricultural production. Non-agricultural activities include farm tourism and shops. Policy makers assume often that “farm diversification” makes a significant contribution to rural development (e.g. Council Regulation, 1999). Alternative activities on farms are expected to help absorbing some of the excess farm labour, alleviating poverty and contributing to the development of employment in rural areas. The funding for “diversification” within the EU focuses dominantly on “farm diversification” stimulating tourism activities and alternative farm products at individual farms.

The nature, extent and geography of farm diversification are not straightforward. Farm diversification reflects complex interactions of many, both internal and external, factors.

A large research project on how farm households adjusted with respect to pluriactivity in 24 rural regions in Western Europe between 1987 and 1991 showed that farm diversification was not widely spread. It took place on one in five farm households (Bryden et al., 1992; Brun & Fuller, 1990). Farm tourism was the most common type of farm diversification. Alternative crops and livestock were not widespread and declined during the study period.

In Great Britain, McInerney et al. (1989) suggested that, 40%, were involved in farm diversification in the late 1980s, and in 2002, this share was 58% (Benchmarking Study, 2002). However, many of these on-farm activities are connected to conventional farming such as machinery services, letting out storage and buildings, and agricultural hire work. In most cases, these activities are on a relatively small scale and represent a minor source of income (Benchmarking Study, 2002).

Farm diversification in tourism and alternative crop production has been shown to be related to farm size and productivity in conventional agriculture (McNally, 2001). Adopters of this kind of farm diversification tend to have larger farms, higher incomes from farming and often also higher education levels. Such farm diversification is not an option for most small farms due to limited means for investments and the high risks involved in new small business ventures (Moss et al., 2000). Opposite, large farms have the capacity and more often take the opportunity to benefit from such diversification investments, which is referred to the “large farm pull” (Gasson, 1988; Fuller, 1990).

Several researchers (e.g. Bryant, 1989; Morris & Potter, 1995; Marsden et al., 1989) are discussing mainly two different types of farmers found in Great Britain engaging in on-farm activities. The “entrepreneurial” farmer is risktaking, has means to invest and is able to redeploy labour into on-farm diversification and agri-environmental initiatives. Opposite “the survivor” tries to continue with traditional farming with the help of more passive adoption of certain environmental schemes and other engagement in small scale farm diversification. But farm diversification may also be found at farms not involved in conventional agriculture at all. One in five households in on-farm diversification in Great Britain was people living at farms but mainly involved in wage employment (Benchmarking Study, 2002).

Farm diversification can only be understood in its regional context. In areas close to urban centres there is a greater utilisation of the diversification support measures (Bryden et al., 1992). Here farms are often larger and there is a larger market for farm tourism (Bryant, 1989). “Farm diversification” in areas close to urban centres is often related to choice of lifestyle and not necessarily started for generating an income (Tovey, 1998; Bryden et al., 1992). Several researchers question (Ilbery et al., 1998; Tovey, 1998) whether the “post-productivistic” development is an opportunity and will take place in areas far away from urban centres that are dominated by small farms. The “post-productivistic” phase of increased farm diversification, e.g. tourism and new farm products, is likely to take off in more centrally located areas since it is here farmers have means to invest and respond to agricultural support programmes.

2.1.1.2 Employment diversification

“Employment diversification” is widespread in Western Europe, and most farm

households are involved in off-farm employment. 62% of farm households in the survey of farm incomes in 24 regions in Europe (Brun & Fuller, 1992; Bryden et al., 1992) were dependent on other incomes than only traditional farming. These incomes came mainly from wage employment and secondly, social transfers added to the household incomes.

“Employment diversification” has often been perceived as a process of marginalisation and a transition out of farming (Slee, 1998; Gasson, 1988; Marsden et al., 1989). Farm households with employment incomes have been referred to as the “disengagers” (Morris & Potter, 1995). The “disengagers” lack capital, so they cannot start “farm diversification” but only have the possibility of finding wage employment. Gasson (1988) found that in England and Wales, salaries were the dominant income source in small farm households. Small farms were pushed into part-time farming and wage employment by the steady intensification and concentration of farming; this has been referred to as the “small farm push” (Fuller, 1990).

Small farmers that have been marginalised in terms of farming production have adapted by finding jobs, but this does not necessarily mean that they leave farming altogether and move to urban areas. Bryden et al. (1992) stress that some part-time farming is permanent or stable, rather than transitional. Besides the “small farm push” there are “pull” factors such as good labour market conditions (e.g. Bryant, 1989; Chaplin et al., 2004). However, the possibility of finding jobs differs between farm households, and poor households with limited education and experiences outside agriculture may have particular difficulties. A study of pluriactive farms in peripheral rural areas in Ireland and Greece (Davis, 1997) showed that low income groups had greater difficulties to afford the necessary training to enter the labour market. For such households farming and social transfers remained the predominant source of income. Bryden et al. (1992) found in the 24 region study a general rise of incomes from jobs outside the farm, but this rise was more connected to seasonal and casual jobs than to fulltime employment. In areas close to urban centres, more people had found full-time employment. In more remote areas, a large number of rural households were living of a combination of income sources: farming, casual jobs and social transfers. In such areas, diversification policy measures had generally failed to have a significant impact (Davis, 1997; Bryden et al., 1992). According to Murdoch (2000) the possibilities and constraints of the farm household for diversification need to be approached both vertically and horizontally. Vertically, the rural households are incorporated into the food industry and rural policy systems and horizontally into markets for labour and for recreation and high quality food products. Agricultural markets and diversification policy shape farm diversification but the specific urban labour markets and tourism are equally important as farm households are not only characterised by traditional farming but are also involved in tourism and commuting for salaried employment.

2.1.1.3 Summing up

Summing up, there are two forms of diversification of farm incomes and activities; “farm diversification” and “employment diversification”. “Farm diversification” concerns new services such as tourism or new alternative production or processing at the farm. Most often these are small scale activities related to conventional agriculture

such as machinery services. “Employment diversification”, incomes from jobs outside the farm, is much more widespread. The possibilities for diversification depend on agricultural markets and policy but also on the regional context and the specific resources of the household. The rural households are vertically incorporated into the food industry and rural policy but the horizontal integration into regional labour and service markets are equally important. Pluriactivity can be both an upward but also a downward adaptation. Some households are pulled “up” by new opportunities where others are pushed “down” by low incomes and low education. In peripheral areas, pluriactivity is more related to pressures of low incomes, whereas in areas close to urban centres, pluriactivity is related to life style, entrepreneurial attitudes, labour markets with a wider variety of jobs and opportunities in recreational activities.

2.1.2 The urban-rural shift and diversification

Some rural areas in Western Europe, particularly around cities and popular resorts, have experienced an increase in population and economic activities not involved or related to the farm sector. It has often been connected to an increasing movement of people, tourists and investments from urban to rural areas. Such a development brings a diversification of the rural population, the local labour market and new opportunities for the local population for rural business and farm diversification like tourism and services. This observed trend has (perhaps a bit exaggerated) been described as the “urban-rural shift” or the “rural turn around” (e.g. Murdoch, 2000; North, 1998)

2.1.2.1 Population diversification

The migration pattern between rural and urban areas has changed from people leaving rural areas due to decreasing job and income opportunities to also involving counterurbanisation of urban people to some rural areas (e.g. Champion, 1998). Counterurbanisation is commonly referred to as a process where people choose to move from towns and cities into rural areas, either to commute to work, for recreation, to retire, or to work in businesses in the countryside (Robert & Randolph, 1983; Baldock et al., 2003). The urban tourism has also increased dramatically in many rural areas. In areas influenced by such inflows of people, the rural population has become more diverse. However, research into these movements (e.g. Kontuly, 1998; Halfacree & Boyle, 1998) has mostly been concerned with why and who moves and not so much the effect it has for the rural economy and development.

Improved transportation possibilities and lifestyle and amenity considerations are stressed as the main reasons for people moving to the countryside in much recent research from different Western countries like Canada, Sweden, Australia, and England (e.g. Persson et al., 1997; Walmsley et al., 1998; Halliday & Combes, 1995; Dahms & McComb, 1999). In England the people that move to the rural areas are often referred to as “middleclass” incomers (Urry, 1995; Cloke & Thift, 1987; Fielding, 1998). The “middle-class” incomers are well-educated with well-paid jobs. This distinguishes them from the traditional local population (e.g. Thrift, 1987; Urry, 1995). Their higher education and better contacts outside the local area make them more able to find better employment and there is an important difference in “economic performance” between locals and incomers (Persson et al., 1997). Persson et al. (1997) explain the difference in

economic performance between individuals in the Swedish and Canadian countryside with the concept of “reach” (Hägerstrand, 1978; Kåks & Westerholm, 1998). “Traditional” households are characterised by limited “reach” because of local social networks and limited agricultural experience while ex-urban households have larger “reach” because of their extended physical spheres of communication and higher education.

Several studies show that a “gentrification” of rural areas may take place when “middle-class incomers” settle in the areas (Lewis, 1999). Counterurbanisation often creates conflicts between locals and newcomers in the rural community and result in rising housing prices making some local people unable to enter the real estate market (Bengs & Schimdt-Thomé, 2004). In Great Britain Marsden (1998) finds that the local power relations may also change in favour of preservationist interests of newcomers leaving the local population with less room for manoeuvre.

Decreasing population in rural areas is connected to decreasing services, whereas counterurbanisation and also tourism may create a basis for more diverse public and private service activities and possibilities for farm diversification. However, the local effects of both counterurbanisation and incoming tourists are not straightforward. An increasing numbers of visitors and incoming residents are sometimes pointed out to be a limited, and also fragile, basis for rural development (Hall et al., 2003; Ilbery et al., 1998). Firm creation and employment generation connected to tourism may be very limited due to the small scale and dispersed nature of rural tourism. Many rural tourists are day visitors (Hall et al., 2003). When talking about the effect incoming residents have on the rural economy, Tanvig (2003) talks about an “evening life” and a “selfsustaining life”. Many rural areas in Denmark have developed into suburbs, where people are only in the evening after work or they live in seasonally or during weekends as recreationalists. In such cases, counterurbanisation may not contribute to a development of a more “selfsustaining area”, where new businesses grow up and the rural community strengthens (Tanvig, 2003).

Counterurbanisation and rural tourism are often referred to as if they were general trends, but there are large differences between various rural regions. It is mostly areas in commuting distance from major urban centres that experience important inflows of people. However, the commuting distance is continuously growing in most Western countries as house prices go up and roads and railroad connections improve. However, more remote rural areas are most often only modestly influenced by counterurbanisation. Tanvig (2003) divides rural areas into “A” and “B” areas. “A” areas are in commuting distance from urban centres. They experience a rise in population and most of the working population commute. “B” areas are more peripheral and experience decreasing population, loss of services and falling house prices. Incomers to more remote areas can also be “social migrants”, i.e. people that move to the area because of unemployment and for being able to keep living costs down (Baldock et al., 2001).

While depopulation continues in many, more remote rural areas, it is, however, no longer a universal rural phenomenon. The effect of these regional differences is perhaps that the rural areas are becoming more differentiated by the counterurbanisation.

Champion (1998) points also to the fact that rural-rural migration lead to depopulation of certain rural localities while others are repopulating. In most European countries rural tourism generally increases with the degree of urbanisation but may also be concentrated in predominantly rural regions that have certain amenities (Bontron & Lasnier, 1997).

2.1.2.2 Business diversification

In Western Europe the “urban-rural shift” has been mainly connected to population development but also in some regions to business activities. Some areas have experienced a “selfsustaining” development where industrial investment increases and the local business activities diversify.

In the 1970s and 1980s when there was a downward trend in manufacturing employment in Western Europe and the United States, some rural areas had an increase (Fothergill et al., 1985; Keeble, 1993). This “urban-rural shift” in the location of industry and businesses, North (1998) refers to as “rural industrialisation”. Patterson & Anderson (2003) call it a ruralisation of industry through a shift of business activity from conurbations to smaller settlements and rural areas. The explanations for this rise of manufacturing in rural areas have mainly been economic such as lower property and wage costs and universal provision of infrastructure such as electricity, water, and telecommunications. This development has made the rural economy into a continuation of the urban economy but at a lower density (Patterson & Anderson, 2003). However, today several researchers (e.g. Wilkerson, 2001; Tanvig, 2005) suggest that this move of industrial production in search for cheap labour in rural areas is a trait of the “late-industrial” era. We are now in an “after industrial” era and it is perhaps more common that labour-intensive manufacturing moves even further away to areas such as Eastern Europe and the Far East (Wilkerson, 2001). But still many rural regions in Britain and the United States have a higher percentage of manufacturing activities compared to urban areas (Smallbone, 2002; North, 1998).

Research on rural business development now tends to focus more on the qualitative aspects of business location (e.g. Persson et al., 1997). An interrelationship between the in-migration of people to rural areas related to quality of life considerations and the economic entrepreneurial activity is stressed (North, 1998). It is a “counterurbanisation-led” diversification (Murdoch et al., 2004:68) connected to a “middle-class” group of outmovers that searches for the “rural idyll” and starts up new businesses in rural areas. Thrift (1987) sees the selective nature of mostly the “middle-class” being the counterurbanizing group as being crucial to understanding the rural business today (Thrift, 1987).

The incomers are mainly found in externally oriented sectors such as manufacturing, tourism, and business services whereas locals are more likely to be in local service activities in Great Britain (Smallbone et al., 2002). The in-movers display a greater array of business contacts outside the local area and they adopt new technology and use to a larger extent ICT in their business (Murdoch et al., 2004; Keeble & Nachum, 2002).

Rural businesses have generally more limited opportunities to network with other local businesses and support institutions compared to urban businesses (Smallbone et al., 2002). This imposes constraints on their ability to grow, which greatly influence their development paths (Smallbone et al., 2002). The ex-urban business people with their more extended social relations have much more possibility of finding important networks outside the rural area and much greater access to information. Keeble & Nachum (2002:74) argue that the “middle-class” incomers are “mobile professionals” that bring know-how, expertise and client networks which explain their “enterprising behaviour”. Networking between local firms and supporting institutions are especially important for rural firms as they often are further away from new knowledge (Copus et al., 2000).

Rural business development differs importantly between regions, but is not always easy to explain. The distance from large urban centres is a major factor in explaining differences in development (Bryden & Hart, 2001). The manufacturing industry in peripheral areas is mostly dominated by traditional sectors and more vulnerable to the globalisation and outsourcing of labour-intensive manufacturing to low-wage regions while industry closer to urban centres focus more on innovation and niche markets (North, 1998; Smallbone et al., 2001; Keeble, 1993; Patterson & Anderson, 2003). Replacement of lost employment in the primary sector has varied very much also between areas with similar locations (Terluin & Post, 2000; Bryden & Hart, 2001). In some areas a “new economy” has developed whereas in other similar areas employment is still dominated by traditional sectors (Bryden & Hart, 2001). The “new economy” is a term for a mixture of different businesses in tourism and recreation, new producer and consumer services including those based on ICT but also new forms of value-added production of high quality food products for niche markets (Bryden & Hart, 2001).

Rural researchers increasingly find inspiration in the regional development research that point to the importance of endogenous and individual factors like skills and the partaking in social networks for local development in an area (Courtney et al., 2001; Atterton, 2001; Copus et al., 2000; Bryden & Hart, 2001). Concepts found in regional development theory like “institutional thickness” (Amin & Thrift, 1995), “learning region” (Morgan, 1997) and “relational assets” (Storper, 1997) have found their way into rural research. These suggest that there are a number of dimensions to the economic diversification and development in a locality such as the mobilisation and organisation of local actors like businesses, public institutions and the public. What is emphasized is the crucial role of information and knowledge to be absorbed and disseminated through such local networks of businesses and supporting institutions (Morgan, 1997; Asheim, 1996).

The organisation of the local society, networking between businesses and the local civil society and institutions are stressed as factors that characterise rural regions that have had an increase in the “new economy” and non-farm employment (Courtney et al., 2001; Atterton, 2001; Copus et al., 2000; Bryden & Hart, 2001; Terluin & Post, 2000).

2.1.2.4 Summing up

Counterurbanisation, the urban-rural shift of business and industry, and development of tourism have in many regions created a countryside of multiple functions, a diversity of actors and relations to outside the rural area and a more diversified economy. The role and function of the rural areas have changed from mainly being places of agricultural production to increasingly being places of consumption.

Business development may take place on-farm but “business diversification” can also consist of other service activities, rural industrialisation or counterurbanisation-led business development. Investments from farming are often important for farm diversification, but availability of a cheap labour force and increasingly entrepreneurial incomers and networking play an important role for rural business development and a broader diversification of the rural economy.

The “employment diversification” covered a farm population integrating into a wage economy but does also in some areas include new rural inhabitants commuting for well-paid employment or working in new local industries. Employment possibilities are related to the local business development but very much also depends on the possibilities in the regional labour market.

The non-farm economy is vertically integrated with food markets and agricultural and diversification policy but also connected to wider societal development trends of counterurbanisation, recreation and nature conservation and markets for manufacturing products that frame opportunities for business development. The horizontal integration into regional labour markets and urban demand for recreation and residential areas are increasingly important. The urban-rural shift and the population diversification place rural diversification even more in its differential regional context. In some areas diversification is still mainly connected to the farm sector and difficulties in integrating into urban labour markets whereas in other areas the coming in of ex-urban citizens and tourists seem to have opened up the countryside for new functions, incomes and business developments. The differences in individual possibilities are ever more pronounced as the rural population is made up of a farm population but also ex-urban residents and businessmen with other skills and social relations.

2.1.3 Approaching the differentiated countryside

Societal change and policy at the national and the international level set frame conditions for the local processes of change and diversification in rural areas. Figure 2.1 describes the different scales that need to be considered in a study of local rural diversification. At the global or international level, there are international food markets and EU agricultural and diversification policy which presently are particularly important in connection with farm development. There may also be other international commodity markets and tourist flows of importance. However, the national level is still the most important “scene” for both various policies and change processes influencing local areas. It is at the national and the international level, where processes of structural change such as the development from an “industrial” to a “late industrial” or “post-productivist” era, which imply a changed role and function for rural areas in society and

different kinds of diversification processes, may be identified. The time dimension is important here as the frame conditions change over time.

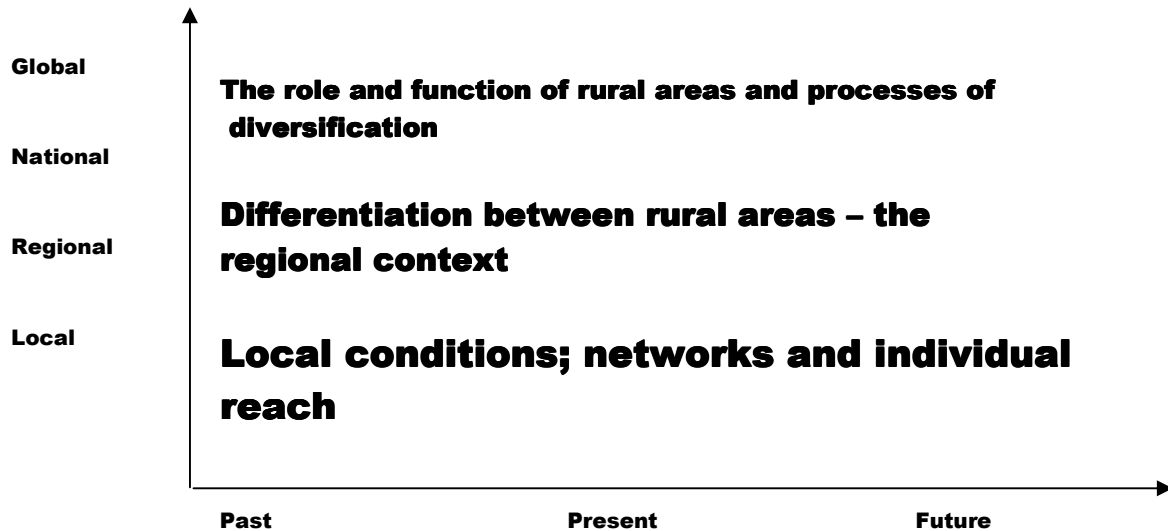


Figure 2.1: Dimensions of rural diversification. The conditions for the rural economy and the diversification processes work at different scales and vary in time.

However, the impact of societal transformation and development of frame conditions vary across rural space as they interact with the specific regional context and local conditions. The conditions for diversification are not evenly spread throughout the countryside and neither are the individual opportunities. The concept of “differentiated countrysides” stresses the diversity of people and also very much the difference in development between rural areas as crucial for understanding contemporary rural change (Murdoch et al., 2004). There are global and national, but also very much regional, local and individual conditions for diversification. It is the individual and local conditions for finding employment or starting business and what processes of diversification that can be found in the local area that are the main focus of this research project. A “territorial approach” and the concept of “reach”, I find are interesting tools for exploring these conditions for rural diversification.

To understand rural areas, they should not only be perceived as simple peripheries to a centre but must be viewed as part of their specific regional context. A “territorial approach” divides space into territorial entities, which cover a local or regional economy including towns or centers³ (Terluin, 2000). It is important whether the rural

³ The OECD has made a simple territorial definition of rural areas based on population density in order to make international comparisons between territories possible. At local level (EU NUTS 5) communities are rural if their population density is below 150 people per square kilometre. At a higher level (NUTS 3) a region is then classified to be predominantly rural, significantly rural or predominantly urban. In predominantly rural regions over 50% of the population lives in rural communities. In significantly rural areas this is 15-50% and in predominantly urban areas less than 15% live in rural communities (OECD, 1996).

area is a part of a densely populated region with a metropolitan centre or belongs to a sparsely populated small town region. Is it an “A” or “B” area? But similar regions may develop differently. The specific amenities of a certain rural area may or may not attract newcomers. Local networks and individual skills and relations do also play an important role for diversification and business development.

Persson et al. (1997) explained the individual difference in economic performance with varying “reach”. This concept is essential for understanding the different ability of various groups and individuals to take part in the development of the non-farm economy and contribute to rural diversification. The unit of analysis in connection with studies of the rural economy is still most often the farm household but increasingly the non-farm economy is also made up of new rural households and businesses not related to the agricultural sector. The “reach” that may be related to physical mobility, knowledge and education or social contacts within and outside the rural area, is important for starting businesses and for finding employment. The “reach” may differ dramatically in a rural society. One may distinguish between different types of “reach” such as “physical reach”, “social reach”, “knowledge reach” and “economic reach” (Persson et al., 1997; Johansson & Persson, 1996). People with cars have a larger “physical reach”. People with extended social relations to outside the rural area have a larger “social reach” and people with a higher education and knowledge have more possibilities to find employment outside the rural area and therefore have a larger “knowledge reach”. People with means to invest have “economic reach”.

2.2 The post-socialist countryside in transition

“Transition” is generally used for describing the transformation from socialist to capitalist societies that is taking place in Central and Eastern Europe since the end of the 1980s. Most transition studies have used modernisation theory as a conceptual framework and transition is mostly viewed as a timelag between the socialist economy and the economies of capitalism (e.g. Kornai, 1995). With liberalisation of the economy and privatisation of property former socialist economies gradually resemble the Western economies more and more. Opposite, institutional and evolutionary economists view transition as a far more complicated process. It is a pathdependent process where the point of arrival depends on the point of departure (Burawoy & Verdery, 1999; Altvater, 1998). The following part examines the emerging research on rural change in the post-socialist countryside and points to some of the specific features that characterise the rural areas in transition.

2.2.1 The farm household

Many small farms are a common feature in the Eastern European countryside today (Maurel, 1998). The many small farms are related to farm structures from before the nationalisation of land that have been re-established and to some extent to the socialist farm structures. The socialist agricultural system comprised of a combination of large-scale “industrialised” collective or state agricultural enterprises and small household

plots that farm workers cultivated (Harscsa et al., 1998; Chaplin et al.⁴, 2004; Swain, 1998⁵). During transition, new individual farms have been created through transformation or disintegration of the large farm enterprises. Land has been restituted to former owners and household plots have been privatised. A dual structure of farms has emerged; large-scale privatised, often corresponding to former socialist farms and small and household farms dominantly oriented towards self-subsistence (Alanen, 2004⁶; Swain, 2000b; Chaplin et al., 2004).

The aim of the restitution of land to former owners was in the Baltic countries based in the idea of creating family farms similar to the traditional Western European model (Alanen, 1995, 2004). In the post-socialist countryside the medium to large farms, the "family farms", are, however, uncommon (Maurel, 1998; Andor, 1997⁷). The bulk of agricultural activity takes place on small farms where commercial considerations are of secondary importance (Swain, 1999). Maurel (1998) calls it the "family micro farm" as it is often only a few hectares. Varis finds that the new individual farm is too small for carrying out a livelihood (Varis, 2000). The farms are not viable in economic terms but are unlikely to disappear quickly because of their importance for household survival (Swain, 2000b). There are few "true" farmers that derive most of their income from farming (Wilkin, 2000:1), although the majority of the rural population is engaged in not insignificant supplementary agricultural activity (e.g. Swain, 1996; Tisenkopfs, 1999; Slee, 2000). The few "true farmers" were often in the management of the former large farms and have an agricultural education and business contacts. They are the "business class" and they have the necessary "social and cultural capital to make a success" (Andor, 1997:18).

2.2.2 The rural business

In the post-socialist countryside, the rural business activities other than farming can be divided into privatised enterprises and selfemployed service businesses (Swain, 2000b). Non-agricultural production was organised within the large socialist farms. Processing plants, distilleries and bakeries were connected to the large farms (Swain, 1998; Nikula, 2004; Rey, 1999). Such units were through the privatisation most often separated from the farms. These units have been called the "resilient units" because while the large farms have closed, they have often continued their operations, although at a much lower level of activity than before (Andor, 1997:15; Nikula, 2001). It was also in most cases the former management, the new "business class", who took over these non-agricultural units (Andor, 1997).

There has been a distinct rise in selfemployment in trade and retail (Swain, 2000a). Development in locally oriented services is often pointed out as the main potential for rural business activities in the post-socialist countryside (Turnock,1999). The village infrastructure in the socialist times was neglected and there was a poor provision of

⁴ Chaplin et al. (2004) have studied farm restructuring in Hungary, the Czech Republic and Poland.

⁵ Nigel Swain's work is based on material obtained from four research projects on rural post-socialist change with empirical data from Hungary, Poland, Slovakia, Bulgaria, Romania and the Czech Republic.

⁶ Ilka Alanen and Jouka Nikula have studied rural change in the three Baltic States of Estonia, Latvia and Lithuania.

⁷ Mikhaly Andor has mainly worked with rural change in the Czech Republic, Hungary, Poland and Slovakia.

basic services. Together with the dissolution of the collective farm and its connected public services there was a “service-gap” left in the post-socialist countryside (Andor, 1997; Swain, 2000b). Most studies conclude that this “service gap” so far mainly has been filled by those, who have been forced into selfemployment by unemployment and lack of other alternatives (Swain, 2000a). Swain (1996) argues that many, probably the majority, felt that selfemployment and also small-scale farming is something that is forced on people due to lack of employment. He calls it “peasantification of the unemployed” or “enforced selfemployment” (Swain, 1996: 8).

The new service businesses are often family businesses and the term “entrepreneur” is most often a misnomer in this context since incomes are used for consumption instead of for re-investments (Swain, 2000a). In Hungary Gabor (1997) finds that these rural businesses have created few jobs and there are often “too many” family businesses in relation to their local markets.

2.2.3 The rural population

Characteristic for the post-socialist countries is that a larger share of the population lives in rural areas than in Western Europe. “Underurbanisation” is often emphasised as a central feature of socialist rural-urban relations (Swain, 2000b; Szelenyi, 1996). Underurbanisation means that housing construction in urban areas did not keep up pace with industrial development. Workers continued to live in villages where they also could benefit from plot farming while commuting to work (e.g. Swain, 1999; Rey, 1997). This group of people has been called the “worker peasants” (Andor, 1997). They are often considered as important for the rural development as they have other skills and experiences than farming. Swain (2000b) suggests that the “underurbanisation” and the non-farm skills and experiences have made the post-socialist rural population well prepared for the “late-modern era” of non-farm business and commuting experienced in Western Europe. The rural areas had, however, a population that was almost entirely made up of local farmers and workers and there did not exist an ex-urban “middleclass” group (Swain, 1996). The socialist rural areas have been described as “modern projects” where production had priority. There was neither a significant movement of people from the cities nor development of tourism in socialist rural areas. The countryside in socialist Europe “ignored” the “late-modern” era of ex-urban incomers and tourists (Swain, 2000a:1).

After the collapse of the socialist system, population increased in many rural areas (Baldock et al., 2001). Most incomers were urban dwellers that have received land back in restitution (Baldock et al., 2001). Rey (1998) finds that urban retirees make up a fourth of rural households in Hungary. In Estonia, Raagma (2000a) considers the urban movers as dominated by “social migrants” that move out to the countryside because of poverty. However, Tisenkophs (1999) identifies an emerging middleclass close to major urban centres in Latvia and believes that this will become important for the change and diversification of the countryside.

Korcelli & Nowosielska (2000) propose “insitu-urbanisation” as a major feature of the development in Poland in the years to come. “Insitu-urbanisation” means the opposite development to the large-scale depopulation experienced in Western Europe starting

after the Second World War. They believe that rural people will stay in the rural areas and commute to urban areas or start a business locally. Turnock (1999) even believes that the wish for a clean environment and life in a village community similar to in Western Europe will make the rural population stay and also attract newcomers and tourists.

2.2.4 The rural labour market

During the early 1990s, the large farms and rural industry shed labour or closed and so did many urban industries, which meant that employment opportunities, both locally and regionally, decreased for rural inhabitants (Bright et al., 2001; Swain, 2000b). Andor (1997) calls this situation the “rural weak labour market attachment”, which he finds characteristic for rural areas in transition.

The “labour market pull” differs between various regions. A distinction is often made between former “agricultural regions”, “industrial regions” and “recreational regions” or regions close to EU borders (Raagmaa, 1997; Swain, 2000b; ERDA, 2000). Rural areas in industrial regions are referred to as the “industrial periphery” (Swain 2000b). These are rural areas in traditionally heavily industrialised regions. In such regions, the industries have often closed and there are few employment opportunities (Swain, 2000b; ERDA, 2000). Agricultural regions were often specialized producing for large markets in the Soviet Union and other Eastern European countries. Since their traditional markets often have disappeared such regions also suffer from unemployment. Rural areas in regions in proximity to EU borders have generally experienced rising employment and also preserved old employment. Raagmaa (1997) argues that there are no real peripheral areas in the Baltic States as the countries are small and people can commute by car to the urban centres from anywhere in the country. According to him it is the closed nature of social relations that make areas peripheral. He divides rural regions into “recreational” and “hidden” countrysides. “Hidden economies” are characterised by illegal networks and distrust to official institutions. Vulnerable groups have turned increasingly to the social resources of kin and community. These “hidden economies” close themselves from the outside world and do not experience counterurbanisation nor make the shift to a recreational or manufacturing economy (e.g. Raagma, 2000a; Tisenkopfs, 1999).

2.2.5 Capital theory as a tool for addressing differences between individuals in the rural society

The local outcome of the transition from planned to market economy has been described as characterised by fragmentation, pluralism, diverging sets of values and lack of definite relations and structures. Burowoy & Verdery (1999) stress that the anticipated transition is much less certain and the development is even to a larger extent than in Western Europe dependent on the specific area and on individual capacities because the collapse of the administered system have created space for micro-worlds to produce autonomous effects that may have unexpected influence over the structures that are emerging. Therefore, it is problematic to generalize and use very general theories about e.g. modernisation or transition and the context of time and space becomes an even more important part in the analysis.

In transition research several researchers stress that the difference in the individual opportunities is central for the understanding of transition. The distinction between the worker and selfemployed and then the “business class” is characteristic in post-socialist research (Smallbone & Welter, 2001; Kiss, 1992; Burowoy & Verdery, 1999). Capital theory and particularly the concepts of human, social and political or organizational capital are frequently used for addressing individual qualities of importance for this divergence in the post-socialist societies (Eyal et al., 1998; Róna-tas, 1998). Human capital encompasses inherent factors, like intelligence and health as well as acquired qualities such as education, knowledge and experience. When people move in and out of different social environments, they bring human capital along, but the value of the capital differs in various contexts. The key difference between human and social capital is, according to Coleman (1988: 100-101): “that social capital exists in the relations among persons and is context-specific and cannot be brought with you”. Markman & Baron (2003: 292) state that “social capital is a proxy of resources made available through organizational positions, elite institutional ties, social networks and contacts, and relationships with others”. In the post-socialist setting, particular forms of social capital: “political capital” and “organisational capital” that refer to the social capital of former highly placed party members and people with a high position in the state enterprises, need to be emphasized (Earle & Sakova, 2000; Nikula, 2001). The conversion of “political capital” into private wealth is often posed as the distinguishing factor between the people that have profited by transition and those who have not (Nikula, 2001; 2004; Smallbone & Welter, 2001; Rose, 1998). The “business class” has “political capital”. Physical or economic capital may also be of decisive importance. Physical capital includes material assets, such as land and production assets, and financial resources. Hanley (2000) stresses that in Eastern Europe the privatisation process has been the most important source of physical capital in the form of land and buildings since few have had savings and credit institutions have not been willing to invest in rural areas.

The different forms of capital can be measured in various ways; economic capital can be measured by property ownership and wealth, human or cultural capital by educational credentials and social capital by network extensiveness and social relations (e.g. Coleman, 1988; Putnam, 1995; Lash, 1993; Eyal et al., 1998). The central idea in using capitals in transition research is that capitals must be accumulated before they can be used. In times of change, the capitals of individuals accumulated under different institutional and societal conditions must be converted into new forms (Róna-tas, 1998; Eyal et al., 1998). Some types of capital can be converted while others are devalued (e.g. Róna-tas, 1998). Human and social capital is different from economic capital as they cannot be taken away from people but at the same time these are more rigid to change and take longer to acquire, while economic capital is more flexible (Eyal et al., 1998). In order to convert the “political capital” into economic capital, Eyal et al. (1998) argues that human capital is important. The ability to learn about the new system and how to get things done is important. Under communism, social capital was far more important than in the capitalist Western countries where economic capital has dominated. Human capital in the form of information on the new opportunities and rules of society are essential in the post-socialist society (Eyal et al., 1998).

2.3 Approaching the Baltic countryside

The Baltic countries are no longer part of the Soviet Union but are reintegrating with the European and global economy. The frame conditions for rural areas have changed dramatically, but what is the local outcome of this change? Much transition research has focused at the national scale and evaluated agricultural development and change primarily from national figures. This project approaches rural development at the local level and looks into how specific rural regions have developed with a particular focus on the non-farm economy, the rural inhabitants and businesses.

The transition from large-scale to private farming has resulted in many small and some large farms. Given this pattern of post-socialist agrarian structures, it is important that studies of diversification do not analyse the issue solely through “the family farm” model. “Farm diversification” assumes that farmers have a considerable base of assets, consisting of both economic, social and human capital, from which they can embark on diversification. The rural population in the Baltic countries and other parts of Central and Eastern Europe cannot only be understood as a farm population since much farming is for home consumption and they are not vertically integrated into international agricultural markets and support schemes. The research on the emerging farm structure indicates that few farm holdings have much capital to invest and much farming is going on because of unemployment and lack of other alternatives. That rural diversification will be driven by the “service gap” and that “in-situ urbanisation” will take place are among the major expectations for rural diversification. Up to now, service businesses are mostly small-scale and labour markets are weak. The post-socialist rural inhabitants have been pointed out as well-prepared for the late-modern era, but those that have been able to take advantage of the new situation belong mainly to the “business class”. To what an extent and how other inhabitants and also incomers influence rural change is unknown. The description of the incomers contrasts with the image of middleclass incomers as seen in the Western European context. So whether post-socialist rural areas are going from a “modern” to a “late-modern” countryside with increasing importance of non-farm activities and what rural change implies for different people outside the vicinity of capital areas are the main themes of the research.

The project is stimulated by general questions on higher levels about the rural change during transition in the former socialist countries: How is the role and function of rural areas changing in transition countries? What creates differences in development between regions? To look for answers to these questions and develop an understanding of rural change and diversification, local areas and their population are focused with the help of case studies exploring the situation of the rural inhabitants and the local business activities in two specific areas. In the transition context, a bottom-up approach seems increasingly important as the local transition is not a straightforward expression of new frame conditions and macro-structures as the collapse of the administered system have made change even more dependent on the specific area and on individual capacities. Figure 2.2 summarizes the major questions and foci in this research project.

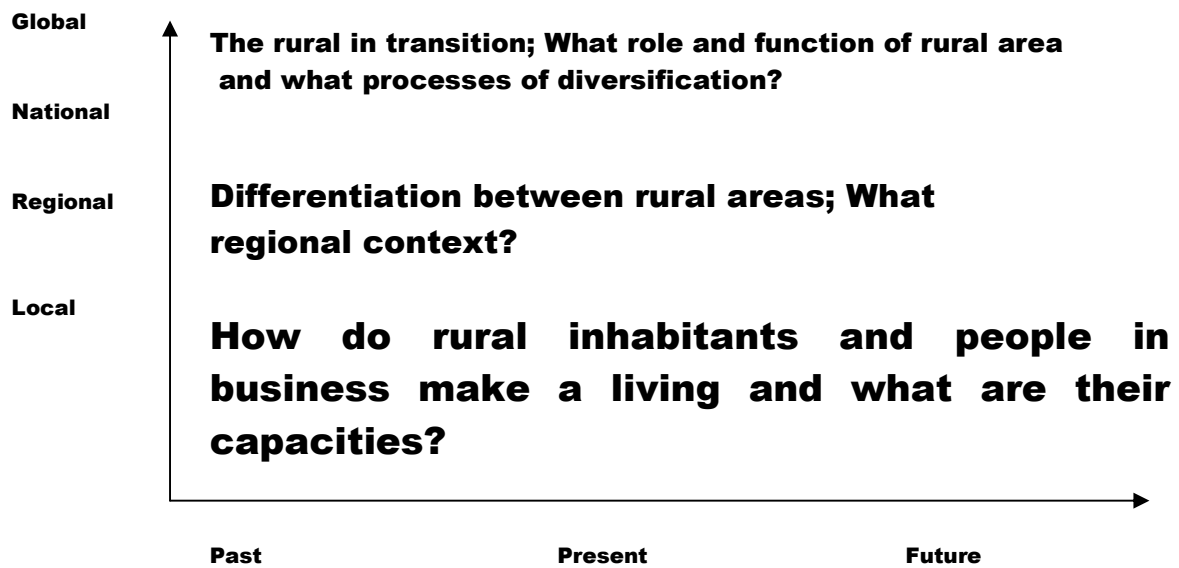


Figure 2.2: Dimensions of rural diversification under investigation. The local and individual perspective has the main focus.

A central point of departure for this project is that neither conditions for diversification nor individual economic opportunities are homogenous throughout the countryside. Specific policies and urban labour markets set certain frame conditions for rural economic development and processes of diversification but the primary focus is on how people respond to these frame conditions and what processes of diversification that can be identified locally.

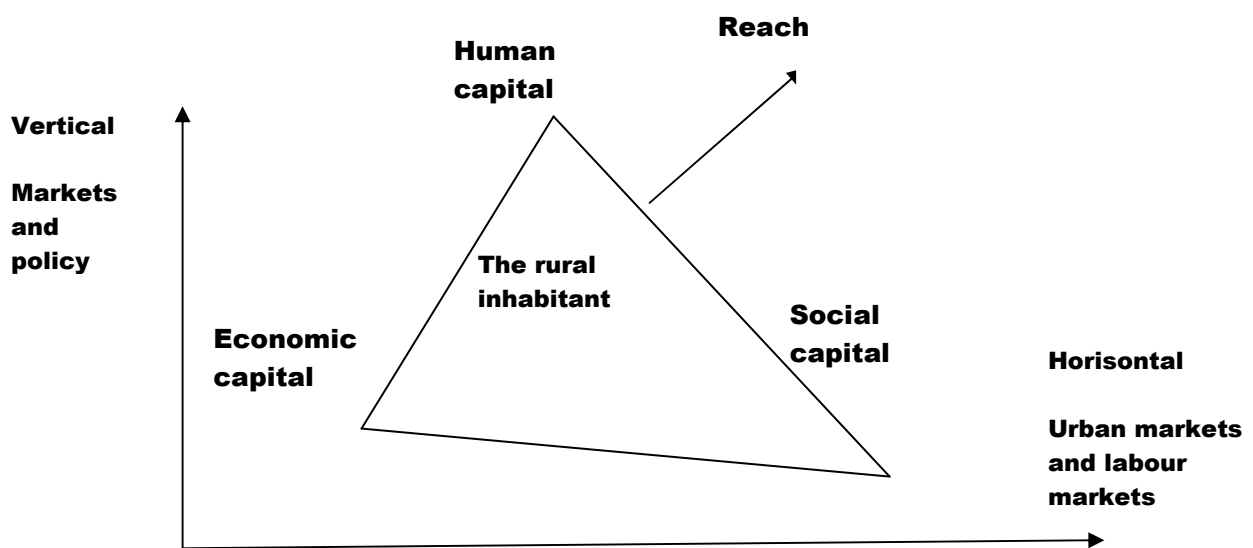


Figure 2.3: The conceptual model of analysis.

In the study I use capital theory for addressing the differentiation between individuals through transition and their opportunities to replace former employment in state or collective enterprises with new employment or business activities. The concept of “reach” will be used as it adds a spatial dimension to the individual capitals and how different people interact in the regional context and with the surrounding society. Figure 2.3 sums up the conceptual model of this analysis. The local and regional rural diversification is framed by external and internal conditions. I focus especially on the internal conditions and take a “territorial approach” by investigating the non-farm economy in two specific regions and exploring the “reach” and “capitals” of different people involved in the non-farm economy.

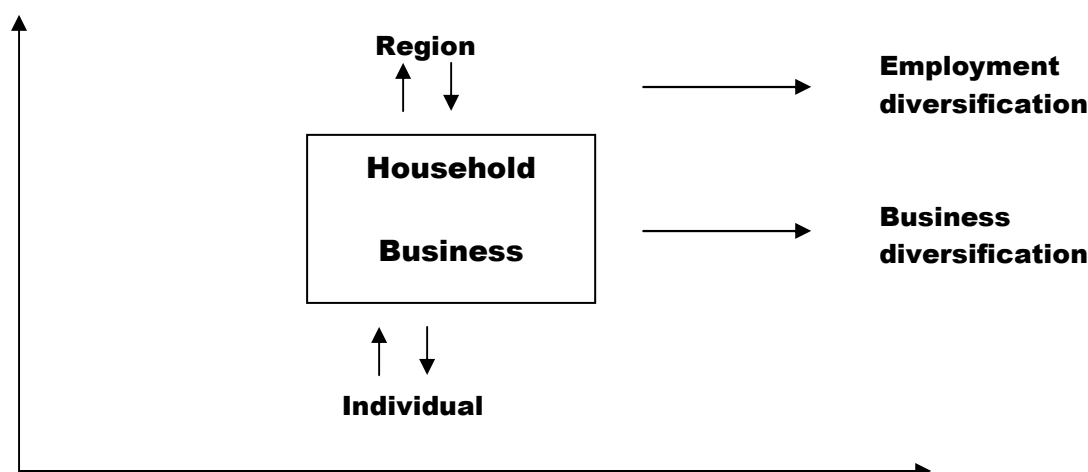


Figure 2.4: The main units of analysis are the rural household and the rural business.

The initial units of analysis are rural households and rural businesses. As I am interested in rural development, the unit of analysis is not only farm households but a wider representation of rural households and business activities. Rural businesses and households are made up of individuals with certain capacities and problems and possibilities for new activities. The businesses and households are also situated in a specific regional context setting a certain frame for development (see figure 2.4).

The centre of attention is on employment possibilities and business development; whether and what employment and business diversification take place. The business diversification I initially look for is “farm diversification”, “rural industrialisation” or service development. ”Employment diversification” covers a farm population integrating into a wage economy but might also include other rural inhabitants commuting for employment or working in local industries.

3. Methods

In this chapter the case study design and the methods of the project are presented. The selection of study areas and respondents and the collection and analysis of data are discussed.

3.1 The case study design

The research project is based on a case study approach. A case study is often used to investigate a social phenomenon in rich detail. The phenomenon is studied in its context and not isolated from it like experimental research in laboratories. The characteristic of a case study is that it includes an empirical research into a phenomenon within the setting of real life, where the border between the phenomenon and context in which the phenomenon is part, is unclear (Yin, 1994). The advantage of a case study approach is that “it can “close in” on real life situations and test views directly in relation to phenomena as they unfold in practice” (Flyvbjerg, 2004:428)

There are no set guidelines for case studies but an initial theoretical frame of reference often guides the case design, data collection and analysis (Yin, 1994). A case study usually includes multiple sources of data. It can both include surveys, interviews and text material. It can also comprise of research at many different levels from the local level to the global (Hakim, 1987). A case study approach seems useful if the research has an explanatory and also an explorative character where many variables initially are unknown because the case study can include different sources of evidence and perspectives. Ideas and evidence may be linked in many different ways. It is possible to study a phenomenon where some factors might turn out to have stronger impact than originally expected and new variables may appear (Andersen, 1990; Hakim, 1987).

A case study approach fits very well with the aims of this research project that is to focus on the local scale exploring the activities and experiences of rural inhabitants and businesses. It allows me to include the local perspective and focus on the phenomenon of rural diversification in its local context. I use the case study because I deliberately want to cover contextual conditions for diversification. The project is therefore set up as a multiple case study with two case studies in study regions in Latvia and Estonia, respectively⁸. Two different study regions are selected to compare the development in varying regional settings.

This project is intended as an explorative study into the non-farm economy. When doing research in an unaccustomed setting it is even more important to be sensitive and open to new perspectives in order to avoid categorising people and activities into pre-defined groups and leave out important nuances. Therefore the studies are set up to catch many different perspectives by using different methods and sources of data. They are based upon a combination of qualitative and quantitative methods; with a particular emphasis on the qualitative and explanatory approach. The goal is to both be sensitive to the local “native” experiences and yet give a broad picture of rural diversification that

⁸ See chapter 4 for further introduction to the study regions.

can be compared to other areas.

In connection with both study regions parallel data collection, including surveys, interviews, and collection of statistical data, has been conducted (table 3.1). This has included a survey on household incomes and activities, interviews with households and businesses, interviews with key informants and collection of secondary data.

Data sources

Household study	Questionnaire survey with rural households Interview survey with selected households
Business study	Interview survey with rural businesses
Key informants	Interviews for background information and discussion of results
Secondary data	Statistical data from the particular study areas and rural areas in general in the two countries

Table 3.1: The different sources of data in the case studies.

In both regions specific rural municipalities were selected for an investigation of household incomes and activities and an investigation into rural business activities; here most often referred to as “the household study” and “the business study”, respectively.

The “household study” includes both a questionnaire survey with a larger sample of households and more in-depth interviews with selected households. The questionnaire survey⁹ is to give an idea of the distribution and kinds of non-farm activities and the use of support and institutions. The interviews then go deeper into the capacities and problems of rural inhabitants in making a living¹⁰. The “business study” is based on interviews with business managers¹¹ that were interviewed about their business activities, history and networks¹².

Interviews with key persons in ministries, universities and organisations connected to the field of rural development have been used as background information and for

⁹ The questionnaire can be found in PhD dissertation

¹⁰ Interview guide for households in PhD dissertation

¹¹ Annex 1 and 2 give a list of all interviews.

¹² Interview guide for businesses in PhD dissertation.

discussions. Interviews with key persons at regional and local level have given information on local development issues related to the areas, actors and businesses of great relevance for the local and regional studies.

Statistical data were collected at the national and the regional levels and in some cases also at the municipal level for obtaining a frame of reference.

3.2 Selection of study areas

The typology of post-socialist rural regions discussed in the theoretical background¹³; “agricultural regions”, “industrial regions” and “recreational regions” formed the basis for the selection of the study regions.

The aim for selecting study regions was to achieve the greatest possible amount of information on diversification and rural change. My intention was not to select representative cases for the average rural area but to select case areas that varied in order to compare the development in diverse regional settings. According to Flyvbjerg (2004) picking the average or typical is not an appropriate strategy for case studies, as such cases are not the richest in information.

In Estonia Viljandi county was selected as an agricultural region. This county was an important agricultural production area before independence. Agricultural employment is still more important than the national average but production has decreased dramatically¹⁴. As an industrial region Rezekne county in Latvia was selected. This was traditionally a strongly industrialised area, mainly in traditional industries in food processing, construction and heavy industries. However, many of its large factories closed during the 1990s. The regional centre, Rezekne City with 43.000 inhabitants, is Latvia’s seventh largest city.

The original plan was to collect data in a recreational region in Lithuania¹⁵. However, after collecting data in the two first regions it was evident that time would not be sufficient for including this region in the Ph.d. project.

¹³ See section 2.2.4 in theoretical background

¹⁴ See chapter 4 for a further presentation of the study regions.

¹⁵ The intention was to collect data in the Nemunas River delta region in Lithuania.



Map 3.1: Map of the Baltic States divided into counties. The two study regions are encircled. (Source: www.nordregio.se)

	<u>Viljandi county</u>	<u>Rezekne county</u>
Household study	Municipality 1	Municipality 1
Business study	Municipalities in the Northern district	Municipality 2,3,4,5

Table 3.2: The selected territories and municipalities used in the different studies.

The “household study” is conducted in one particular municipality in each county. This municipality is referred to as municipality 1. The “business study” then covers businesses in the same municipality as the household study but also includes more municipalities in the respective counties to get a wider representation of businesses (see table 3.2).

The main criterion for the selection of municipality 1 was that the municipality would have other economic activities than farming. The municipality should not be located too far from an urban area either because the extent of commuting could be interesting to observe. The selection of municipalities was made after the interviews with people in the county administration that provided information on business activities in the rural municipalities. I tried to get information from registers on economic activity. One problem was that many registered businesses in the county registers had ceased operation and some new ones had not yet been registered. Therefore rural municipalities were selected mainly based on the local knowledge of the county interviewees.

The selected municipality 1 in Rezekne county, Griskanu municipality, is situated just outside Rezekne City and the municipality in Viljandi county, Olustvere municipality, is situated 15 km from Viljandi town and neighbours the urban municipality of Suure-Jani. The two municipalities are similar in number of inhabitants; about 1800 inhabitants distributed on approximately 450-500 households.

The business surveys included first the businesses in municipality 1, which were identified and interviewed. In order to get a wider representation of the regional rural businesses, businesses in some additional municipalities were identified and interviewed. In the Latvian region two other municipalities neighbouring Rezekne City (municipality 2 and 3) and one municipality 15 km (municipality 4) from the City were included in the study. In the Estonian region two neighbouring municipalities to municipality 1 were selected (municipality 2 and 3)¹⁶.

This business survey initially uncovered few tourism businesses. As tourism is one of the main expectations for rural development further such particular businesses were looked for around in the county. In Estonia, the selected municipalities 1, 2 and 3 are part of an administrative unit called the “Northern District” of the county. Tourism businesses in the five other municipalities in this administrative unit were selected for this purpose. In the Latvian county, tourism businesses are mainly concentrated in two

¹⁶ Many respondents both in the household interview and particularly businesses wished to be anonymous. Therefore I have decided not to document the municipality names. The name of municipality 1 is the only exception.

areas with many lakes and ponds. One of these areas covers a single rural municipality, municipality 5, situated 30 km from Rezekne City was selected for this purpose

3.3 Selection of respondents

The household questionnaire survey was carried out in collaboration with a fellow Ph.d.-student who studies agricultural restructuring in the Baltic countries¹⁷. She had prepared a questionnaire survey on farm issues, to which I added questions specifically on non-farm incomes and activities.

This questionnaire survey included 71 households in Estonia and 74 households in Latvia. On top of this sample I did an interview survey in a village in each municipality 1; counting 22 households in Estonia and 26 households in Latvia. It included my questions from the questionnaire but also went deeper into the development and problems for non-farm activities¹⁸. Therefore approximately 1/5 of all households in the municipalities have participated in the household study.

The selection of respondents for the household questionnaire survey was done randomly. In the municipalities there are no registers of households. Households were therefore chosen randomly by driving or walking around in the area and visiting approximately every fifth house.

The households for interviews were selected to get an as wide representation of households with different income generating activities as possible. The interviews were done in the weekend in order to find most people home.

The “head of the household” should be present when the questionnaire was filled out and the “head”, either the man or woman, was the primary target in interviews, but other household members could be present. The “head of the household” refers to the “respondent” in the presentation of the analysis. Since rural households often include both retired parents and grown-up children living at home defining the head of the household was sometimes difficult. This contributed to a certain overrepresentation of elderly people in the questionnaire survey. This overrepresentation has only limited effects for the overall picture of household incomes and activities since these questions primarily focus on the whole household. However, the more personal questions in the questionnaire on education and capacities of people have a certain bias towards the older generation. This has some implications for the assessment of the possibilities of rural inhabitants for rural diversification because the older population often has lower education. However, when I talk about capacities and skills of people I do not compare specific numbers but talk about different groups of people.

In the business survey all businesses in the selected municipalities were identified and interviews were made with the manager or owner of these businesses. On several occasions, also staff members were interviewed. The identification of businesses in

¹⁷ Mette Bech Sørensen

¹⁸ See annex 1 and 2 for list of interviews.

municipality 1 was based on a combination of information from household interviews, the list of registered businesses in the county administrations and interviews with other businesses and key persons in the municipality. In the rest of municipalities, business activities were identified through interviews with a key person in the municipality and the list of registered business. In these municipalities all small business activities were probably not identified. In municipality 1 small activities such as on-farm food processing or small scale trade were primarily located through the household survey. In the other municipalities it was decided not to interview grocery stores as these had been sufficiently covered in municipality 1 (see table 3.3).

Household study	Questionnaire survey with about 1/5 of households in the selected rural municipalities
	Interview survey with 20-25% of these households
Business study	Identification and interview with all businesses in selected municipalities and areas

Table 3.3: Respondents in the household and business study.

3.4 The fieldwork

The study regions were visited twice. The first time in March/April 2001, key persons at the local and county level were sought. The major case municipality (municipality 1) in each region were selected and visited. The areas were then visited again in the summer and autumn of 2001 for the actual fieldwork¹⁹.

The collection of primary data in the two study regions was based on interviews. Also the questionnaire survey was performed as a structured interview as it turned out more efficient to performing interviews instead of just handing out the questionnaire and collecting it again. This procedure resulted in higher quality of answers since the questions could be further explained if the respondent did not fully understand the questions or had alternative answers. The household and business interviews were conducted as semi-structured interviews. The initial questions asked were open and encouraged the interviewees to describe their activities in their own words. They were

¹⁹ The household questionnaire survey in Estonia was conducted in august 2001 by my colleague, Mette Bech Sørensen. In October 2001 the household questionnaire were conducted in Latvia by Mette Bech Sørensen and I conducted the household interview survey and the business survey in Latvia. Later in October 2001 I went to Estonia to do the household interview survey and business survey. This was a very intensive data collection period with 5-9 interviews a day (see annex 1 and 2 for lists with interview dates and interviewees).

followed by more structured questions and in the end of the interview specific issues that had been touched upon by the interviewee were brought up again for further clarification and discussion.

The interviewees in ministries, universities and, district administrations could in most cases speak English. Some business owners and rural inhabitants could also speak English but most local interviews with households and business people were conducted with assistance by an interpreter²⁰. Well-structured interview guides with short and clear questions are necessary when interviewing through an interpreter. But still the interview situation also demanded a high degree of openness, flexibility and improvisation as the interviewees had their specific history and many new issues were brought up in the interviews. In the beginning it was difficult to create a dialogue with the respondents through the interpreters. The interpreters felt uncomfortable interrupting the respondent, and answers became very long and often about many diverging issues. It was therefore important to introduce the research project thoroughly for the interpreters and stress the subjects that were particularly important. As the interpreters gradually were more familiar with the questions, the interviews became easier to conduct.

Some interviews were taped, however, especially business owners did not want to be taped. Many respondents both in the household interview and particularly businesses wished to be anonymous²¹. Therefore I have decided to not document names of respondents and business or to use the municipality names as several businesses can easily be identified. The name of municipality 1 is the only exception.

3.5 The analysis

The household and business study provided data and information for a quantitative analysis of the types and distribution of activities and incomes among the population and a qualitative analysis of the activities and the constraints and possibilities for the local inhabitants and businesses. These two main analyses are then combined.

The household questionnaire answers were first translated and a database was created²². This data base made it possible to look for relations between different answers. The analysis was first looking for patterns between different answers. The respondents were divided respondents according to different categories related to incomes and activities of households, and these categories were related to other characteristics of the respondents, such as their background and education, household size, age and their answers on other questions.

The software programme Nudist was used in order to find common themes among the household and business interview answers. In Nudist, the text from the interviews were

²⁰ In Latvia the interpreters were from the English Faculty of Rezekne University; a teacher and a student. In Estonia, one interpreter was a student from the institute of Geography in Tartu and two students from the Viljandi tourism college. When visiting the tourism businesses in Estonia, the local tourism coordinator was interpreting.

²¹ See annex 1 and 2 for list of interviewees and what interviews were in English and what were taped.

²² The database was set up by Mette Bech Sørensen.

coded and categorised and combined under different themes such as “problems of commuting”, “women and employment”, “part-taking in local organised activities” etc. The household interview answers and themes were then combined with the categories of the questionnaire survey in order to get a better understanding of what the different incomes and activities covered, the people involved and their problems and thoughts.

The Nudist programme was also useful for analysing the business interview material and finding common traits and differences among the businesses. Often the context and the broader story of the respondents were important when analysing the problems and opportunities in relation to business activities. What people did ten years ago, where they lived before and what happened during privatisation have often an evident influence on what they do today. Therefore personal histories of have been particularly focussed in the analysis in order to better understand the context of the respondents and businesses.

3.6 Reflections on working in an unaccustomed setting

The case study approach seems appropriate when exploring the rural situation in an unaccustomed setting because it allows for being sensitive and open to new perspectives. But a “local case approach” in a unaccustomed setting also calls for a high degree of reflection on the role of the researcher and his/hers influence on the research process. The role of the researcher is more central as the construction of new relevant data build on an active search for relations between actors and local structures and also ideas and evidence may be linked in many different ways.

Hermeneutic ideas inspire to a more reflexive approach in the collection, treatment and analysis of data in a foreign setting. From hermeneutic philosophy of science there are two fundamental elements worth considering when working in a foreign setting. Hermeneutics stress the importance of overcoming one’s own subjectivity and trying to understand the totality that the respondent is part of (Kvale, 1994; Pahuus, 1995). It is impossible to understand a person’s actions unless they are related to the biography of the person and the environment the person is part of. Secondly, the understanding and interpretation is dependent on the researcher’s earlier experiences, theories, frames of reference and concepts used (Gadamer, 1975). All interpretation is contextual.

I find it important to keep in mind that all interpretation is contextual in time and space. Thus, the observations and actions as well as theory and concepts must always be put into a larger perspective so that their significance becomes clear.

I have through literature and the interviews with key persons tried to obtain a thorough insight into the totality of the rural situation in the two countries and the specific study regions before I formulated questions and interpreted answers. At the first visit to the study regions initial questions and ideas were tested in interviews and discussions with key informants. From my experience interviewing rural inhabitants in the Baltic countryside, lack of contextual sensitivity can easily create misunderstandings. The transition of the economy means constant change and actors tend to strategize within time horizons that are short. This can be interpreted as low responsiveness to market

forces. But in a context where laws change and taxation policy and inflation are continually shifting, the economic consciousness, market culture and responsiveness take another form. To be economically rational in a Western sense might not be regarded as rational in this. Also asking questions concerning concepts that are vaguely defined like sustainability, environment and life style can create confusion as such a concept might originate in a Western setting.

In order to interpret and analyse interviews in a not too context specific way, I have besides focusing on the full personal stories of interviewees also tried to be aware of the origin of concepts and theoretical framework I use. The complexity of rural transition makes very generalized theories problematic because there are many approaches that must be given the same legitimacy or authority and the specification of time and space becomes an even more important part in the analysis. In establishing the theoretical frame work of the project several theoretical interpretations and explanations are discussed and integrated with one another. In rural research many concepts are derived from research in the British or Western European countryside. In the development of the theoretical frame of reference I focus on the conditions under which rural diversification takes place in different areas and for different people in order to make later comparisons and generalisations valuable.

3.7 Generalisation, validity and reliability

There are disputes on whether it is possible to generalise from case studies or whether they can only be used as pilot studies in the preliminary stages of investigations (Flyvbjerg, 2004). They are often proposed as being both arbitrary and subjective and not possibly to verify. However, according to Flyvbjerg (2004) formal or statistical generalisation is overvalued as a source of scientific development whereas the “force of example” is underestimated. My aim is not to establish findings that can be applied universally; the aim is contrary to undertake a kind of “analytical generalisation”. “Analytical generalisation” is where a previously developed frame of reference is used as a template with which to compare and discuss the results of the case study (Yin, 1994).

The case studies in this project are not intended as a sample where more cases will give a larger sample and therefore give a stronger base to make statistical generalisations, which are not a goal of the study. Nor have case areas been selected to be representative for the average rural area in the Baltic States, and the intention is not to make generalisations for the whole countries or for all rural areas. However, the case studies represent different types of areas and the results should have high relevance for rural development and diversification in similar areas and situations. The multiple case study approach also makes the study more robust and gives “thickness” to the understanding of rural diversification in transition. The comparative analysis gives a basis for a more thorough understanding of rural transition and makes it possible to distinguish between what are specific local features and what are more general characteristics of rural areas in transition.

The quality and verification of research is usually established with the use of the two concepts of validity and reliability. Reliability traditionally means that if another

researcher did the same study he should come to the same conclusions (Yin, 1994) where the validity is the ability of a study to measure or explain what we desire to measure or explain (Svenning, 1999; Mason, 1996).

Concerning reliability I find it unrealistic to expect a complete replicability of the results as the study also have an explorative character and includes qualitative studies. However, the relatively large samples increase the probability that another researcher would get a similar outcome in terms responses to questionnaire and interview questions. In my data collection and analysis I have tried to achieve reliability by minimizing errors and biases and maintaining a consistency of results by documenting what I do and why I do it.

I have chosen to use the definition of validity by Svenning (1999). She distinguishes between inner validity and outer validity. The aim of inner validity is to establish credibility that concerns the design and structure of the project. The outer validity is about the possibility to generalise from the particular study. Outer validity concerns the whole project with all its theories and empirical data founded in a reference frame.

I have used theory, concepts and key informant information to motivate and focus the research and make an initial logical structure in the collection and analysis of the multiple sources of data. The aim is then to discuss my analysis in which I try to compare my set of results between the study regions and relate them to the concepts and trends forming the frame of reference.

3.8 Presentation

Citations are frequently used in the presentation of the analysis and the results. As the interviews took place through an interpreter, the used citations are often short and fragmented. Expressions from same interview but from different parts of the interview may be presented together in the same paragraph. These statements and expressions are separated by three punctuation marks. The citations are short expressions and statements that were written down or taped in the exact words of the interpreter. Therefore pauses, stammering and the emphasis of the particular tone of voice of the respondent are not recorded and neither important in the analysis and presentation. I have decided to use these fragments when they are an example on what I consider important for the themes being analysed. It is important when the citations are short and has the character of expressions that they never stand alone and out of context. I have in all cases written them into the presentation of the respondent. All citations are listed in the text with a number that refers to a list of interviewees in annex 1 and 2.

4. Rural development and diversification in Estonia and Latvia

This chapter presents some national key figures on rural diversification and the non-farm economy in Latvia and Estonia. The focus is on population and economic activity. The two study regions and the selected municipalities are presented.

Estonia is the northern most of the Baltic countries and has an area of 45,227 square kilometres. Tallinn is the capital city. A substantial part, 48%, of the land is covered by forest, another 22% is swamps or marshland and just below 10% is arable land. With an average of only 30 people per square kilometre makes Estonia the least populated country in the EU (Estonian Ministry of Agriculture, 2000). Latvia is the country lying in the middle between Estonia and Lithuania. Latvia covers an area of 64,589 square kilometres. Riga is the capital city. The major part of the country is covered by forest 44.5% and 38.3% is agricultural land (Latvian Ministry of Agriculture, 2003). The population density is 37 people per square kilometre.

In both countries the national territory is divided into rural and urban municipalities. The Estonian territory is divided into 15 counties where there are 39 towns and 204 rural municipalities (SOE, 2004). Latvia is divided into 26 districts with 7 cities, 70 towns and urban municipalities and 466 rural municipalities (Nordregio, 2000).

4.1 The privatisation of agriculture

Agriculture has traditionally been the main area of activity and source of income in the rural areas in Latvia and Estonia. During the Soviet period all land and property were nationalised and commercial agricultural activities were organised in large collective and state farms. At the large farms most households cultivated a private plot of a few hectares for their own subsistence. These household plots often contributed with a large share to the collective or state farm production (Alanen, 1998).

After independence the land reform began. The land reform was characterised by two main principles (Alanen, 2004). The first principle was to restore the pre-socialist land ownership rights. Land was restituted to former owners of land from the mid-war period. The secondary principle consisted of the privatisation of the collective farms residual property (household plots, machines, cattle etc.). People received vouchers according to how long they had worked in the collective and their position. For these vouchers they could buy land and machines (Alanen, 1998).

Alanen (1998:147) identifies three different kinds of farm units in the Baltic States that have come out of the land reform. Large-scale farming units (cooperative or private companies) based on major complexes of former collective production buildings, family farms that have their origins in restituted land and household plot farms originating from household plots. Most farms are household plot farms. There are also some privatised non-farm units in processing and farm services that separated from the farm in the privatisation.

4.2 The sectoral distribution

After independence and privatisation agricultural production and employment dramatically decreased. In 1990 21% of the total working population was employed in agriculture in Estonia and 20% in Latvia (Alanen, 2004; Lill, 2003). In 2001 this figure had fallen to 5% of the working population employed in agriculture in Estonia (Estonian Ministry of Agriculture, 2002). In Latvia 15% of the population was employed in agriculture in 2002 (Lill, 2003).

In Latvia the share of agriculture in GDP has decreased even more dramatically from 17.6 % in 1992 to 4.5% in 2002 (Latvia Ministry of Finance, 2003). In Estonia this figure was 19.8% in 1989 and is today 4.9% (European Forum, 2005).

In the rural areas the structure of the economy has changed considerably. In both countries around 50-60% of the rural population was employed in the agricultural sector at independence (Estonian Ministry of Agriculture, 2002; Latvian Ministry of Agriculture, 2000). In Estonia in 1999 this share was only 18% (Estonian Ministry of Agriculture, 2002). The service sector employs almost half the rural working population. The share of people employed in manufacturing has stayed stable since independence (Estonian Ministry of Agriculture, 2002) (see figure 4.1)²³.

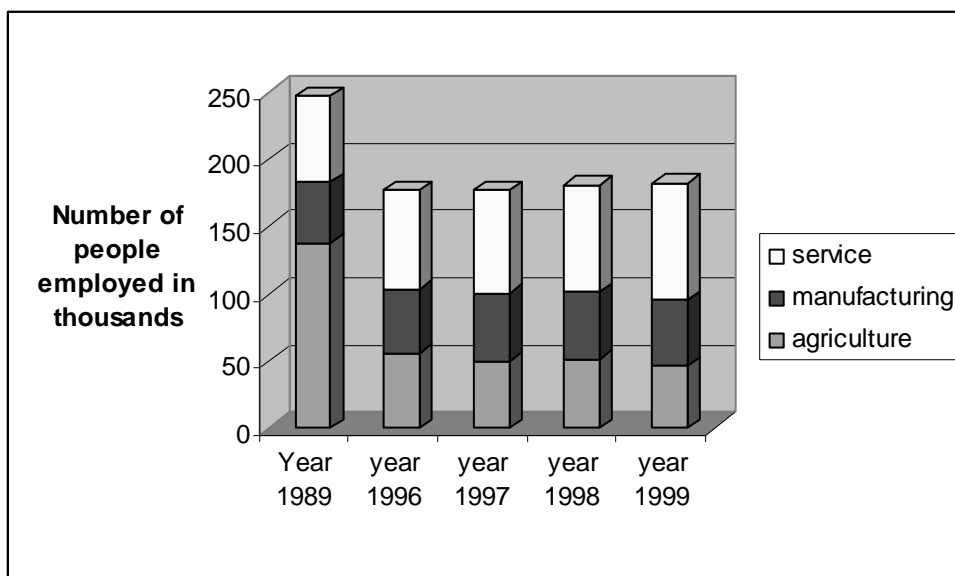


Figure 4.1: Sectoral distribution of people employed in rural areas in Estonia. Source: Estonian Ministry of Agriculture, 2002.

In Latvia more people in the rural areas are involved in agriculture today. In 1999 37% of the rural population was employed in agriculture (Latvian Ministry of Agriculture, 2000). In Latvian rural areas employment in services has increased while the manufacturing sector has decreased in number of people employed (Latvian Ministry of Agriculture, 2000) (see figure 4.2).

²³ It has not been possible to find more recent figures on the sectoral distribution of people employed in the rural areas.

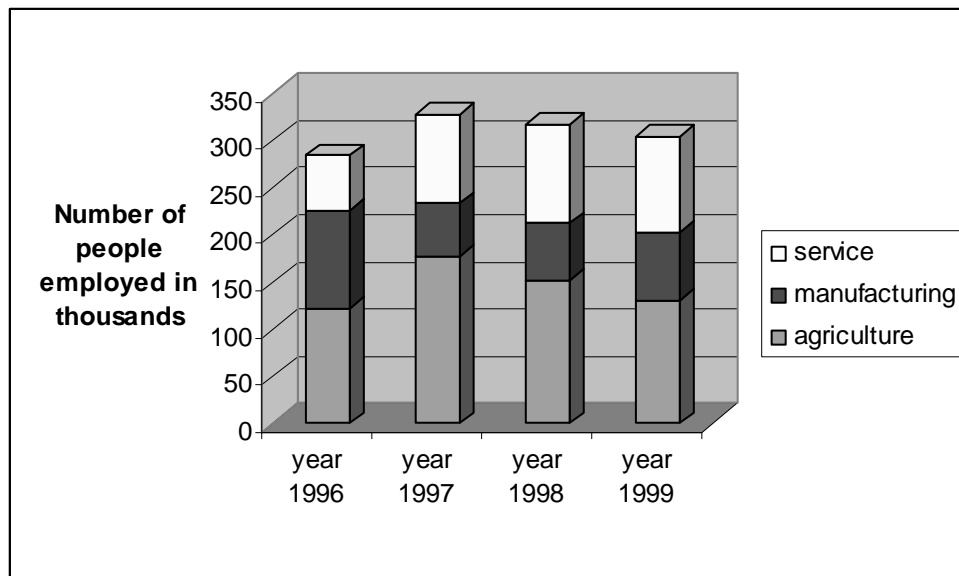


Figure 4.2: Sectoral distribution of people employed in rural areas in Latvia. Source: Lill, 2003; Latvian Ministry of Agriculture, 2000.

In both countries the share of people employed in public services has decreased while private service business employment has increased. During privatisation of the collective and state farms a number of public services have been transferred to the local municipalities and often been radically reduced or abolished. The number of libraries, healthcare, and other public services has decreased (Latvian Ministry of Agriculture, 2000; Estonian Ministry of Agriculture, 2000; Nordregio, 2000).

In both Estonia and Latvia many rural households still engage in agriculture. However, most of these produce mainly for own consumption with limited specialisation and only a minority of people is producing for the market (Tisenkopfs, 1998; Nordregio, 1998).

4.3 The labour market

In both countries the number of people employed has decreased and unemployment has increased in rural areas. There are also more part-time employed, more casual employment and more people selfemployed in rural than in urban areas (Bratka et al., 2003; Estonian Ministry of Agriculture, 2002).

In Estonia the rural unemployment rate was 8.6% in 2002. However, the Ministry of Agriculture estimates the number of unemployed to be twice the official figure as many people do not register as unemployed (Estonian Ministry of Agriculture, 2002). In Latvia rural unemployment was 10.2 % in 2000 (Latvian Ministry of Agriculture, 2001).

In the rural areas in both countries there are more people that are selfemployed compared to urban areas mainly in agriculture, timber production and trade. There are less employers and employees than in urban areas. There is also a larger share of

underemployed or unpaid family members (Latvian Ministry of Agriculture, 2001; Bratka et al., 2003; Estonian Ministry of Agriculture, 2002). However, in both countries the number of selfemployed in agriculture and timber production has decreased since the late 1990s and salaried employment is the most common employment in rural areas (Estonian Ministry of Agriculture, 2003; Bratka et al., 2003).

Commuting for salaried employment outside the rural area has increased since the mid 1990s. Rural people mainly find salaried employment outside the rural municipalities. In Estonia the percentage of employees working outside their own rural municipality was 25% in 1995 and in 2000 it was 40 % (ERDA, 2000). In Estonia 80% of the people working outside the rural municipality worked in towns (Estonian Ministry of Agriculture, 2002). In Latvia a rise in people working outside their rural municipalities has also been recorded. 18% of people in salaried employment in rural areas work outside their municipality (Hazans, 2002).

4.4 Rural incomes

The rural income level is lower than the urban in both countries. In Estonia the salary level in rural areas was 65% of them of urban households between 1996-2002 (Udras & Aamisepp, 2003). In Latvia the rural households' disposable income was 68% of urban households in 2000. This share has declined from 90% in 1996 to 68% in 2000 (Latvian Ministry of Agriculture, 2000).

Rural municipalities have little incomes and budgets and have difficulties in finding means for basic public services. In Latvia, more than 80% of rural municipalities receive funds from a Fund of Financial Levelling of Rural Municipalities indicating that most of the rural municipalities are unable to finance primary services (Latvian Ministry of Agriculture, 2000). Personal income tax is the most important source of municipal budget incomes in the two countries. Unfortunately, these revenues are rather limited as compared to the cost of running a modern local society. The finances are highly dependent on the wealth of their residents, which is much lower than the average EU level (Nordregio, 2000).

4.5 Population development

In Latvia 32% of the population live in rural municipalities (Latvian Ministry of Agriculture, 2003). In Estonia 31% of the population live in rural municipalities (Estonian Ministry of Agriculture, 2000).

Both countries experience a negative natural increase of population. The national populations have been decreasing since independence. The age structure of the populations is made up of a large share of elderly. People get less children today than before independence (Nordregio, 2000). However, in both countries many rural areas experienced a growing population number the years after independence due to an in-migration of people. In both countries the rural municipalities have experienced a net inflow of people from urban areas during the 1990s. But this trend is reversing. People

are now also moving from the rural areas to the major cities (Krisjane & Bauls, 2002; Sjöberg & Tammaru, 1999).

In Latvia there was a net outflow of people from rural to urban areas in the decades before independence. In the years after independence the direction of moves reversed. Migration led to more arrivals than departures in rural areas. Between 1990 and 1997 people left the metropolitan area of Riga for other parts of Latvia and in most cases for rural municipalities. However, since 1997 the migration pattern has turned positive for the Riga region (Krisjane & Bauls, 2002).

In Estonia a century long persistent rural depopulation came to an end already in the mid 1980s before the economic transition. The rural population started to rise both because of natural population increase and out-migration from the cities. The general trends after independence has been that migration in all directions have decreased. In 1998 Katus et al. (1998) found that migration from urban to rural areas still accounted for most people (Katus et al., 1998). However, migration data might not fully reflect the actual situation because especially young people do not register when moving to the cities to study etc. In Estonia, Sjöberg & Tammaru (1999) have looked into the actual and registered place of residence and adjusted the migration data accordingly. They find that during the period 1989-1996 six out of ten moves were actually to urban areas. Emigration of young people from rural areas was directed towards major towns and country capitals (Sjöberg & Tammaru, 1999).

4.6 The study regions and municipalities

4.6.1 The Estonian study region - Viljandi county

Viljandi county is a predominantly rural area with 52% of people living in rural municipalities. The county is situated 160 km from the capital of Tallinn.

In 2002 57.148 people lived in the county, of whom 20.509 people resided in the town of Viljandi. In 1991 65.058 people lived in the county. The population has decreased because of both negative net migration and negative natural population increase. In-migration is limited and consists mainly of older people (Nordregio, 2000). The share of out-migration is 20% bigger than the immigration (Viljandi County, 1999).

The county is a traditional agricultural region famous for its rich and prosperous farms before the Second World War and in the Soviet Period. It is one of the counties with the highest number of people employed in the primary sector. Manufacturing is dominated by agricultural and wood processing (Nordregio, 2000). The regional development plan rates wood industry and rural tourism as the main development potential for rural areas (Nordregio, 2000; Roigas, 2001 (45)).

The official unemployment rate is 18% for the rural municipalities and is higher than the rural unemployment rate in the country as a whole (ESAb, 2003). The average salary in Viljandi county was 86% of the average salary in the country as a whole in 1999. Most rural municipalities in the county have experienced a decrease in population (Viljandi County, 1999).

4.7.1.1 The selected rural municipalities

The selected rural municipality 1, Olustvere municipality, is located 20 km north of Viljandi town and 6 km from the town of Suure-Jani. It has 1284 inhabitants. During the 1980s the population rose as particularly young people moved into work at the collective farm (44)²⁴. Since the mid 1990s the population has decreased. In 1995 there were 1655 inhabitants and in 2003 there were 1615 (ESAc, 2003). There has been an out-migration of people and also the fall is related to a negative natural increase in population (44).

The two neighbouring municipalities (municipality 2 and 3) that the business survey also covers have like Olustvere experienced a decrease in population during the 1990s. The two neighbouring municipalities have respectively 2638 inhabitants and 1763 inhabitants (ESAd, 2004). Both municipalities have a background in collective and state farming. One of the municipalities also housed Estonia's second largest slaughterhouse. It closed in 1995 (45).

The county is divided into a northern and southern district. The tourism business survey covers the Northern district that counts 11 rural municipalities.

4.7.2 The Latvian study region - Rezekne county

Rezekne county is located in the Eastern part of Latvia in the middle of the Latgale area. The Latgale area is the poorest region in the country. The GDP per capita in Latgale region in 1996 was 64% of the national average. In Rezekne county 45% of the population live in rural municipalities and 55% live in urban area (Nordregio, 2000). The county is made up of Rezekne City with 41.069 inhabitants and Viljani town with 4446 inhabitants and 27 rural municipalities with 37.144 inhabitants. There were 82.042 inhabitants in the county in 1999 compared with 86.290 inhabitants in 1991 (Nordregio, 2000). The decrease is mainly due to a negative natural increase. During the Soviet era, the Latgale region urbanised and industrialised more than the Latvian average. Industries were mainly centralised in Rezekne City and were in food processing, construction and some heavy industries (Strategy Rezekne, 2004). Industrial products were exported to the Soviet Union. Rezekne City was traditionally an important transport crossroad. Two international railways lines meet in Rezekne, Berlin-St. Petersburg and Riga-Moscow (RRI, 1999). But today the railroads do not play the same role and the border to Russia is difficult to cross (RRI, 1999). Many industries have closed through the 1990s resulting in the high unemployment.

The county has a large Russian speaking population. There were already many Russian speaking people before the Soviet occupation but during the industrialisation of Rezekne City many people came from other parts of the Soviet Union to find employment in industries. 46% of the population comprises of ethnic Latvians. The rest are Russian speaking (RRI, 1999).

²⁴ The number refers to the list of interviewees in annex 2. Number 44 is the municipal head secretary in Olustvere municipality.

Like in Viljandi county tourism and sawmills are pointed out in the Regional Development Plan as having the most potential for development in the rural municipalities (Latvian Ministry of Finance, 2000).

The rural municipalities in the county have the highest registered unemployment level in Latvia; with 27% unemployed in 2001 (Latvian Ministry of Agriculture, 2003).

4.7.2.2 The selected municipalities

The selected municipality 1 of Griskanu that borders the City of Rezekne has a population of 1886 people. Approximately half the population is Russian speaking and half Latvian speaking (RRI, 1999). Since the early 1970s Griskanu municipality has had a decreasing population as young people moved to Rezekne City to find employment in industry (9, 48). During the 1990s, however, there was a rise in population. The municipality has seen a rise in population because of immigration from Rezekne City (48; RRI, 1999). This trend has been the same in the other municipalities surrounding Rezekne City (RRI, 1999). The unemployment rate in Griskanu is 19% which is below the average for the rural municipalities in 1999 (RRI, 1999).

It is a similar picture in the two other municipalities neighbouring Rezekne City (municipality 2 and 3). Here population has increased and the unemployment rate is around 20%. Opposite the two last municipalities further away from the City has seen a decrease in population and have an unemployment rate around 25% (RRI, 1999). Municipalities further out have generally experienced a decrease in inhabitants mainly due to negative natural change (RRI, 1999) (municipality 4 and 5). It is also only the municipalities neighbouring Rezekne where the local population commute for employment in Rezekne City. In municipalities not neighbouring the city people work in the municipalities where they live (RRI, 1999).

4.8 Summing up

The rural incomes and employment in Estonia and Latvia have changed from mainly being connected to agriculture to now being more diverse. The sectoral distribution of employment has changed into most people now being involved in services and some manufacturing. The rural areas have in general experienced an increasing population during the 1990s. However, the rural areas also experience poverty and low incomes. Employment has decreased and an increasing amount of people find employment outside the rural areas. The two study regions have higher unemployment than the national average and lower incomes. The Viljandi county is an “agricultural” region with a higher share of the population employed in agriculture than the national average. The Rezekne county has been dominated by industries in Rezekne City many of which have closed through the 1990s.

5. Case study 1: Rezekne County in Latvia – The rural economy

The chapter concerns the rural economy in the Latvian study region of Rezekne county. The first part concentrates on the rural households in municipality 1 (Griskanu municipality) and how they make a living. The second part focuses on the rural business activities in a larger area (Griskanu municipality and 4 other rural municipalities) in the Rezekne county. The last part sums up on the non-farm economy in the study region.

5.1 Household incomes and activities – The household survey

First the sample of households and their income sources are introduced. The following parts then specifically concentrate on the salaried employment and business activities of rural households²⁵.

During the Soviet period all land and property were nationalised and one large collective farm approximately covered what is Griskanu municipality territory today. This collective farm was transformed into a co-operative farm in the mid-1990s (48). Most respondents used to work at the collective farm. The majority worked in agricultural production while some worked in the farm administration and the connected public services. Some had jobs in industry in Rezekne City (see figure 5.1).

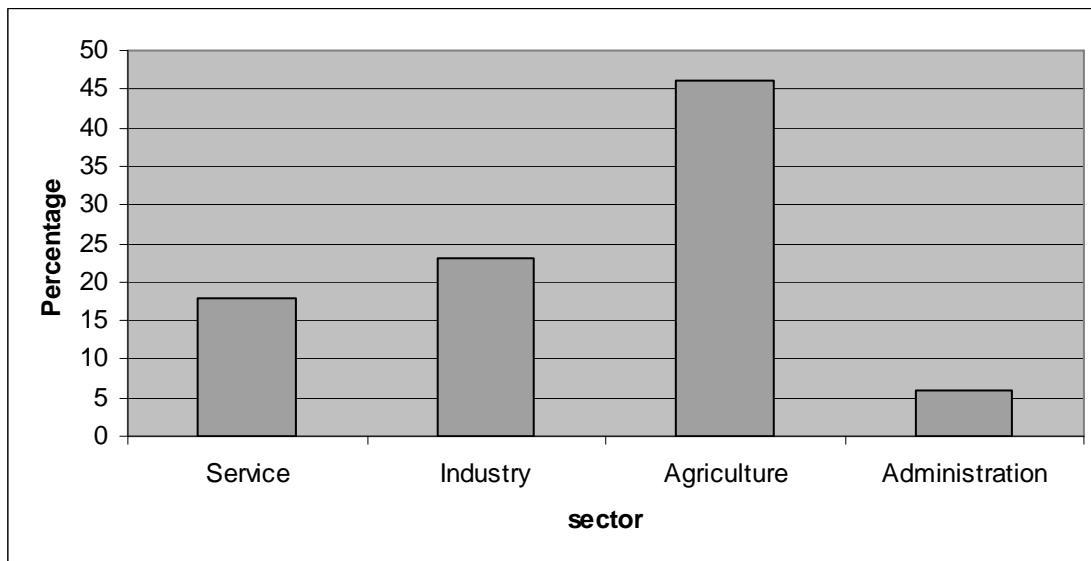


Figure 5.1: Employment of respondents (head of the household) by sector before the dissolution of the collective farm (n =93)²⁶. Source: Survey data.

More than half the respondents have a specialised secondary education either in agriculture or mechanical works. Approximately 10% of people have a university

²⁵ 99 households participated in the questionnaire survey and of these 26 households were also interviewed.

²⁶ Approximately 6% of the respondents were too young to have worked before independence.

degree either in farming, administration or in teaching. The rest, mainly old people, only have a primary education.

The sample of respondents is made up of more than 60% of people above 50 years (see figure 5.2). However, as discussed in the methods chapter elderly people are overrepresented as respondents. The rural households do in most cases count two generations of both retired parents and grown-up children living at home. In many cases grown-up children have during the 1990s moved from Rezekne City to the municipality to live with their parents (48). Therefore when all adult household members are included, the share of people above 50 years is around 40% (see figure 5.3).

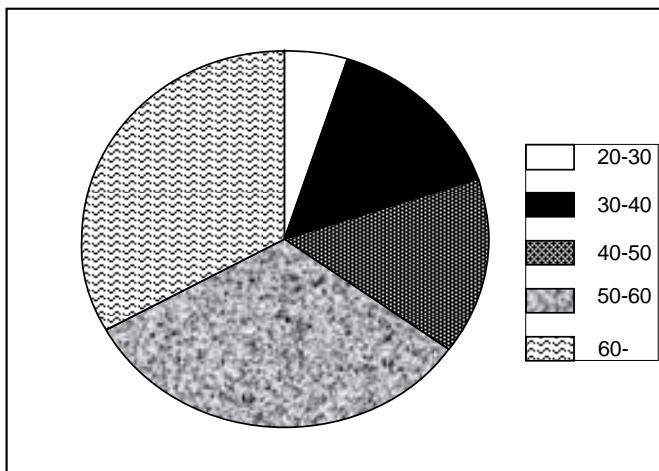


Figure 5.2: Ages of respondents in sample (n=99).
Source: Survey data.

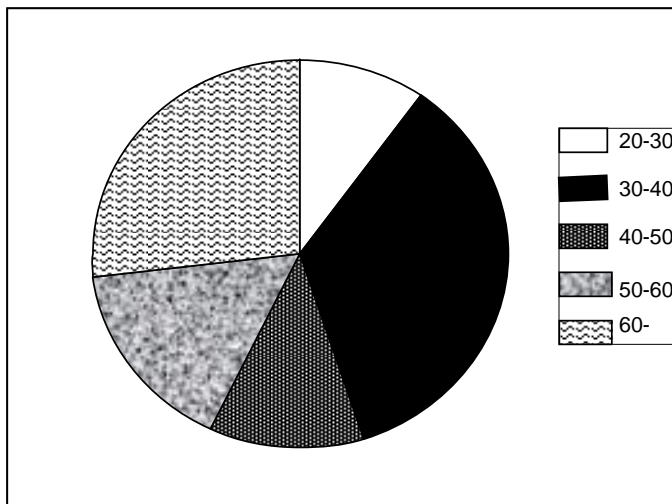


Figure 5.3: Ages of all household members above 20 years of age in surveyed households (n=149). Source: Survey data.

The households in Griskanu municipality have most often several income sources. In figure 5.4 the main and second incomes sources of the households are presented. Pensions serve as the main income source in about half the households. In 9 of these households pensions are the only income. In the rest of these households, pensions are combined with incomes from sales of agricultural products such as milk and meat, wages and other benefits.

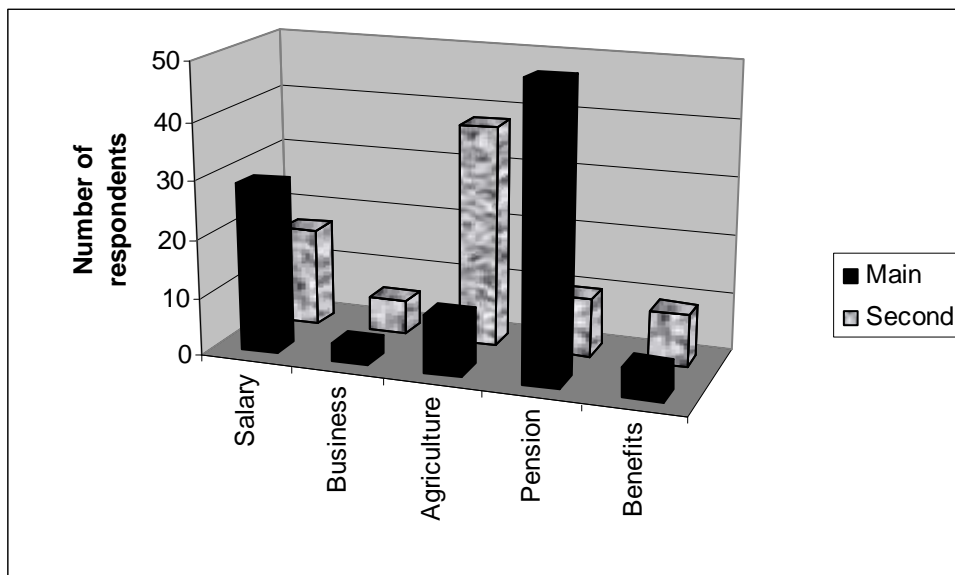


Figure 5.4: Main and second income sources for households (n=92)²⁷.
Source: Survey data.

When just looking at the incomes, the households seem to consist of a relatively larger share of retired people than is actually the case. The households that depend on pensions are in less than a third of the cases a household only made up of a retired couple or single person. In most cases these households are made up of both a retired person and people in working age²⁸ which indicate a lack of other income possibilities. Even in households consisting of three generations pensions may be stated as the main income. In interviews statements such as *”you have to be a pensioner to survive in the countryside”* is mentioned on several occasions (1,2,4,5,6,19,20,23).

²⁷ The category of “business” includes all activities other than traditional agriculture. The category of “agriculture” is then made up of people in traditional agriculture.

²⁸ Working age is here 20-60 years.

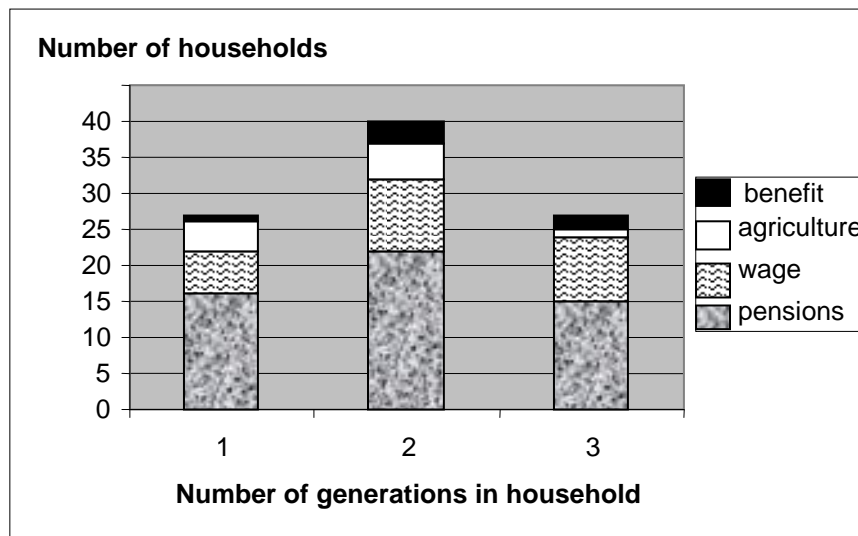


Figure 5.5: Number of generations in the households and the main income of the household (n=94). Source: Survey data.

Other transfer incomes such as unemployment benefits and children’s allowances are the main income in 4 households. According to the municipal administration the real figure for people unemployed is higher than the number of people receiving benefits. People do not register as unemployed because they are not eligible for unemployment benefit. People need to have had 9 months employment to be eligible for unemployment benefit for 6 months. *“Many people cannot get benefits as they have not had any official employment since the collective farm dissolved”*, the clerk in the municipal administration says (48).

Most households are involved in some agricultural activities, but the variation in farm size and farming intensity is considerable. 20% of the households are not involved in agriculture at all. Close to half of the households cultivate between 1-5 hectares of land and just five percent cultivate more than 50 hectares of land (Sørensen & Herslund, 2004). In total 13% of households has farming as their main income²⁹. Their farm incomes are combined with unemployment benefit, pensions and wages.

Farming is for most households not the main income source but serves as a second income or for exchange. The households typically have one or two cows (68 percent of the households) and cultivate potatoes and few have some grain (Sørensen & Herslund, 2004). These households mainly depend on pensions but also count households relying on wages. To the question what the households earned money on the last month (August), few households actually earned an income on farm produce which indicates the variability of this income source and also that agricultural production often are used for exchange or for household subsistence rather than for actual sale.

20% of the households are involved in small scale business activities other than traditional farming. There are some activities in farm service, sausage making, trade and

²⁹ Households that get their main income from private farming are referred to as “farm households”.

pottery. However, the number of households getting an income from such activities is few; 9 households. Most business activities are for exchange and own consumption.

Wages are the second most important income source after pensions for households. Wages serve as the main income in 29% of the households, in around 20% of the households as the second income and in around 10% of the households as the third or fourth income. In households with a pensioner wages often can serve as the second income. A few households live only of wage work but most households combine wage jobs with sale of farm produce, pensions and benefits.

5.1.1 Wage employment

Wages come from jobs locally in the municipality and from commuting to Rezekne City. More than half the households, which depend on wages as the main income and most of the households depending on wages as a supplementing income, commute to Rezekne City for jobs.

5.1.1.1 Local employment – keeping “old” jobs

Most local jobs are jobs that people also had before independence. These jobs are in the co-operative farm, the municipal administration, the local school and kindergarten and in an agro-service station.

The major local employer is the co-operative farm. Most of the 100 people that still have shares in the co-operative are pensioners. The farm today employs approximately 50 people (48). People are working in the cattle stables or in the mechanical workshop connected to the farm. They describe their job function as being the same as before but the jobs are not full-time jobs anymore. They have become seasonal. A woman says (2): *“I have worked here all my life... Before we got paid all year now we just get paid when there is something to do...In the summer fifty people work here. The rest of the year we are 20 employed”*. Her husband is unemployed and their grown-up children live in Rezekne City.

The supervisor in the co-operative mechanical workshop describes the job situation like (3): *“We only get paid for a few months a year... During the summer and autumn 15 people work in the mechanical workshop. During the rest of the year there is not much need for us”*. His wife is unemployed and both his grown-up children are unemployed and they have moved out from Rezekne City to live with him and his wife.

A man working in the mechanical workshop survives on his wages from the co-operative farm and adds to the income by occasional benefits and casual jobs (4): *“I work in the farm co-operative in the summer season. The rest of the year we live on my wife’s benefits or help from friends...If I am lucky I get some small jobs helping people out”*.

Another seasonal farm employee tells (5): *“My wife is unemployed. She worked in the stables in the collective before...She was the oldest (55 years of age) so she lost her job. But what can we do. There are no jobs to get ... We do not know anybody who can help*

us... We have lived here all our lives. Where could we go and find a job?"

Another local employer is an agro-service station. During the 1980s, the agro-service station had 700 employees. It was privatised in the early 1990s and 10-20 jobs are left depending on the orders. An employee says (7): *"The wages are very small and are not always paid on time. But where else can I go?"*

Employment possibilities in public services have decreased (3, 47). In the sample the few people employed in the municipality administration, the school and kindergarten are mainly people that worked in the collective farm administration or the collective kindergarten and the local school before independence. But both the school and the kindergarten are closing (48). A former kindergarten teacher says (3): *"Many children now go to school in Rezekne City because this local school is a Russian speaking school. It will soon close...The kindergarten now costs money so people look after their children themselves"*.

5.1.1.2 New local jobs

There are also some new jobs in the municipality but these jobs have usually been taken by people that commute from Rezekne City³⁰. The new jobs are in service and retail in two local grocery stores, a gas station and a post office.

The post office formerly employed a local woman. But the privatised national postal service required a fluent Latvian speaker with skills in economics, which the former local Russian speaking woman did not have. The present postal employee, a 25 year-old woman, says (29): *"The postal services are changing their services from just handling post to selling stationary, papers and magazines. They also have to start having bank facilities. They needed an employee with a higher education in bookkeeping"*.

Education in accounting and service experience are important in order to get new jobs. A shop assistant in one of the grocery stores says (27): *"I got the job because I had experience as a shop assistant and in accounting from a job in Rezekne City...I could not get a job in Rezekne City because I have no exams in Latvian"*.

The owners of the two grocery stores live in Rezekne City. A problem these two owners both mention is the poor quality of labour in the rural area. *"People are poor. They drink too much and have only experience in farm work"* (27).

The woman working in the gas station takes the bus from Rezekne City everyday (28): *"I will not move to the countryside. People are poor and they drink and fight"*.

5.1.1.3 Commuting for jobs

The jobs people have in Rezekne City are mainly in service and industry. A few people have jobs in retail and the rest work in construction, transport and the wood industry. The jobs in the City are mainly unskilled and often described as unofficial or unstable. The wages serving as second or third or even fourth income source for the households

³⁰ These findings are from the survey of businesses in the municipality.

are all from jobs in Rezekne City.

People with a job in Rezekne City have often moved out from the city during the 1990s. People have moved to the municipality to live with their parents or other family because they lost their jobs or the jobs became more temporary and they often did not get paid (1,3,11,12,48).

A forty-seven year old unemployed industrial worker makes a living on casual jobs in construction in Rezekne City. He used to work in a construction collective in the City (11): *“I have a job for a few days or weeks and then I look for one again...I work renovating buildings, fixing cars or in sawmills. These jobs are most often not official so I cannot seek unemployment benefits”*. He moved out from the city to live with his mother in the municipality because he had lost his job and could not pay the rent. *“I grew up here (in the municipality) but left because there were better jobs and better flats in the city. But I could not afford to live in my flat in the city anymore. My mother lives here and has a pension and grows vegetables and potatoes.”* He finds casual jobs through help from friends. *“My former colleagues and I help each other finding employment. We recommend each other to employers”*.

A woman working as a cleaner in Rezekne City (12) tells that she moved out to live with her parents to save money on rent: *“The rent has gone up in Rezekne City. Everything has become more expensive... I do casual cleaning jobs in public buildings”*. She gets her jobs through help from friends and colleagues.

A thirty year-old woman living with her retired mother, her brother and his child says (1): *“You have to have a pension to buy the groceries. You cannot be sure to get paid in your job”*. Pensions are the main income, while children’s allowance is the second and wages the third income in the household. Both she, her brother and his 8 year-old child moved out from Rezekne City. They had both lost their jobs in the City and now have occasional jobs in trade and construction in Rezekne City.

A connection with the city labour market is pointed out as important in order to get a job. Some people employed in the City have kept their jobs from before independence. For example a railway attendant and a truck driver have had the same jobs for more than 30 years. The truck driver works in a privatised fish processing company driving freight. He has always lived in the municipality and commuted to Rezekne City (14). The railway attendant (13) moved out from the City with his family to live with his retired parents.

Those who have moved out to the municipality because of restituted property have of course also close connection with the City labour market. A shop assistant tells (15): *“I moved out here from the city four years ago. We got a house back in restitution. I still have a job in a shop in Rezekne City. I get paid every month. But my husband that works in sawmills only gets paid when there is something to do”*. She says that an education is important in order to get a steady job as a shop assistant. *“I have an education in accounting and service. You have to have that to get a proper job these days”*.

The local people that have found employment in the City stress that education and good contacts are essential to find a job. An economist that used to work at the collective farm has now a job as a civil servant in the regional county council administration (16): *“I worked in the top administration in the collective farm and it was easy because of my experience and contacts to members in the county council to find my new employment. There are no jobs for people like me locally”*.

An unemployed mechanic says (5): *“You have to know people in Rezekne City that can help you...But we do not know anybody. My wife says that we should have been a little older (they are fifty five) so we could get pensions”*.

People express difficulties in finding employment. A woman working in the stables tells (8): *“My husband also worked in the stables but lost his job. It is difficult for him to find work in Rezekne City ...They (employers) want you to be young and have education in economics...They have prejudice against people from the countryside”*.

There are only three local people in employment in Rezekne City that have a background working in agriculture. They are all specialists with a higher education in agriculture. An unemployed agricultural specialist (age 40) says (17): *“I drive minibuses. I worked as a supervisor in the collective”*. It is difficult to find employment but with the help from friends and his education he got a job. *“It was easier for me to get employment when I have a higher technical exam... Many old people living here have no education at all ...I knew one of the drivers from technical school in Rezekne city. He got me the job”*.

An unemployed school teacher that has got a job in an industrial bakery in the City says that education is important even for unskilled jobs. She works in a factory job but says that without her university degree in pedagogic and help from her daughter she would not have been considered for the job (18): *“My daughter got me the job. She lives with us now in our flat... Her boss in the bakery would not employ people from the collective farms”*.

Without formal education it can be difficult both to enter and stay in the new service labour market. An 18 year old girl from the village works as a hairdresser in Rezekne City but she cannot keep her job (4): *“I cannot keep my job because a new law has come in where you have to have a certificate to work as a hairdresser... I cannot afford to take a course when I am living with my unemployed parents ... I want to move to Rezekne City or even Riga but how am I to pay for a place to live there”*.

Summing up, wage jobs are in the local area and in the City. The local employment possibilities are primarily keeping “old” employment in privatised companies in agriculture or industry or the public services. The jobs are often temporary and low paid. The privatised companies and the public services have been decreasing activities since privatisation but high age, lack of skills and contacts to the labour market in Rezekne City make it difficult for people to find other employment. New employment in the local area is difficult to find. In common for new local jobs is that they are in services and they require qualifications in language and accounting. The jobs are taken

by people from Rezekne City. Commuting for jobs in Rezekne City is the only possibility for many. Jobs are mainly unskilled casual jobs but they often demand a certain level education anyway. There are also some skilled jobs for economists and people in accounting. The unskilled jobs are often unstable and sometimes serve as supplementing incomes to pensions in the households. Contacts to the City labour market are necessary in order to find a job.

5.1.2 Business activities

9 households state that they have incomes from business activities. There are two households that have a main income from business activities; respectively in pottery and transport. Second incomes are from trade. There are in total 20% of households that are involved in business activities but many of these activities are mainly for own consumption. Such activities are in small-scale farm related activities. All business activities are selfemployed.

5.1.2.1 Farm related activities

Many households are involved in small-scale agriculture. Some of these households are also involved in sausage making, beekeeping, fish-farming and farm services.

Those that make sausages and homebrew have often continued these activities from before independence (2,6,9,10). People in farm services often received a tractor in the privatisation of the collective farm which they today use for ploughing land for people (3,24). Activities in beekeeping and fish-farming are started recently with advice from the agricultural advisory service and the church (6,15,21).

A retired Russian-speaking couple has recently started beekeeping and built three beehives. The honey they give to family (21). They started beekeeping because they had attended an information meeting in their church in Rezekne City. They also attended a meeting in the municipal culture house organised by the agricultural advisory service but it was in Latvian. *“I do not speak Latvian fluently so after the meetings in the culture house we went to our church in Rezekne City...They also hold interesting seminars. They helped me with the construction of beehives”*.

A man got a tractor in the privatisation of the collective farm and ploughs land for neighbours mainly for other favours. He works in Rezekne City and sells or exchanges homebrew and sausages with his colleagues at the construction site where he works (24).

People find it difficult to sell the produce locally. *“Everybody makes sausages so there is nobody you can sell to”* (9). People that sell their goods go to Rezekne City.

A retired couple says that it is easier to sell the goods in Rezekne City. They have a car and can therefore sell products in the city (10): *“We drive around to friends and family in Rezekne City and sell eggs, vegetables but also sausages and homebrew we make ourselves. We have a car and a trailer so it is easy to sell in the city”*.

Ten households have plans to start on-farm private activities. People write “fish ponds”, “beekeeping”, “tourism” or “sheep keeping”. This group includes both households that rely on wage incomes, pensions and one farm household. A retired couple that already have digged a fishpond says (10): *“It is not to earn much money that we have digged a fish pond but it gives us something to do... We give fish to our son in the city... We got the idea from a meeting the agricultural advisory service held in the old culture house”*. A common for these households is that they all have attended “local meetings”. These local meetings are organised by the agricultural advisory service that has held meetings on tourism, fish farming and beekeeping (48).

However, the organisation of people is generally low. Few people attend meetings, seek information or are organised in associations. “Family and friends” is the most important source of information and advice. Few people seek information and advice from associations and authorities. In total 10 households have attended the local meetings arranged by the agricultural advisory service or the church. These are in most cases the same households.

Most people do not have other plans for the future than what they are doing today. A few respondents plan to leave the area while the group of ten households has plans to start small-scale alternative production. However, most people answer questions about their future plans with statements like: *“What can we do”, “where should we go”* (e.g. 3, 7, 9, 16, 22,25).

5.1.2.2 Local services

Other selfemployed activities include trade, pottery making and transport. A van-owner used to work as supervisor in the cattle stables and he bought a van from his vouchers obtained in the privatisation (19): *“The collective leader wanted to buy my vouchers but I kept them. Together with my parents’ voucher I could buy the van”*. He earns the main part of his income from transporting farm produce and building material for locals. He combines the transport jobs with casual jobs in the farm cooperative and in construction in Rezekne City.

The household where the husband works as a truck driver in Rezekne City, earns a second income on small scale trade. They sell mainly gas cylinders to locals. Before they also sold spirits and coffee but the many imported goods from Europe have made Russian products less attractive. The goods he gets from when he has been in Russia or Lithuania driving freight.

There are three potters (20,26,48) in the municipality. They all worked in a ceramic factory in the outskirts of Rezekne City in the 1980s. In the mid 1980s they joined an organisation for people that wanted to work at home with their trade. The ceramic factory made them a plan to fulfil where 50% of the production was earmarked for the ceramic factory and the rest could be sold. The local population used to order pottery items for weddings and Christmas, but the main customers were Russian tourists. *“I built a workshop and it was a good living then”* (26). The ceramics factory closed in the mid-nineties and the potters lost a stable income from the state. One of the potters opened a café in 1995 in connection with his workshop where he exhibited his work and

sold refreshments. The café was open for 3 years before it closed because there were not enough customers. A common problem is the little local purchasing power. *“There are no Russian tourists anymore and local people cannot afford ceramics and there are cheap foreign products to buy”*, the potter says (26). He had taken a bank loan to start the café but he could not pay it back and the bank closed the café, took his workshop, his car, horse and his 16 hectares of land he had inherited after independence. This potter has rebuilt a smaller workshop with the help of his daughter and now sells pottery at regional markets in Latvia and Riga. He is member of the Latgalian ceramist association that arranges exhibitions in Riga. *“We meet every month and I get some good ideas what markets to visit and we arrange exhibitions in Riga. Riga is the best market for pottery”*. The other two potters mainly still sell their pottery locally. Both of them state casual jobs in industry as their main income.

The van owner also finds it difficult to make a living because people in the municipality are poor. *“Farmers are poor and old...They do not sell much farm produce anymore and do not need transport. My van is getting old and I spend too much money on getting it fixed”*. The van owner will stop activities and instead find a job in Rezekne City.

People in the municipality describe it as difficult to start private activities (e.g. 3, 14, 17). The supervisor of the mechanical workshop connected to the co-operative farm finds it difficult to start a business because of lack of money and machinery (3): *“We (him and colleagues) should have bought this workshop. But my vouchers were not enough...Some of my colleagues sold their vouchers to the leader of the collective... The superboss³¹ bought vouchers from ordinary people He took advantage of us. Because people just needed some ready cash. So he got them very cheap...I could just buy some broken machinery or my piece of land I also farmed before”*.

Summing up, non-farm business activities are mainly supplementing other incomes or are for exchange in the local community. They are small-scale and are of little importance for household incomes. Some activities are a continuation of activities from before independence at the plot farms or in semi-private pottery workshops. Obtaining agricultural machinery and vans in the privatisation has also been a starting point for business. New activities in alternative farm production are started with advice from the agricultural advisory service. A common problem is that the local market for farm goods and local services is small. To sell products people need to find markets outside the local area. The potter has found new markets for pottery in Riga with help from an association.

5.1.3 Summing up – The economy of rural households

The household incomes are pluriactive. Many households get their incomes from multiple sources. But compared to pensions other incomes play a minor role in the individual household economies. Even many households are in farming this does not generate much income. In many cases the households that depend on pensions are made up of a retired person but also people at working ages which indicate a large share of underemployed people.

³¹ The “superboss” refers to the former collective leader (the present co-operative leader).

Salaried employment is the second most important income source for households. Wages come from local jobs or jobs in the City. Several people do not see many local job opportunities besides keeping their irregular “old” employment. It is difficult to find new employment locally. The reasons given are too high age, low education and lack of connections to people that can help find a job. Wage employment in the municipality very much depends on keeping employment. However, the old employers have shed much labour and the employment often has a temporary character.

Some people have kept their employment in privatised companies while others have found new jobs in service and construction in the City. It is in retail and trade new jobs have been created both in the municipality and in the City. However, the new service sector has created few employment possibilities for local people as these jobs demand fluent Latvian language and often also an education in accounting, which many people do not have. There are a wider variety of jobs in the City both for people with education and for unskilled people. It is in the City that people find unskilled employment in cleaning, transport or construction. However, for most people it is difficult to enter the City labour market as getting employment often depends on personal connections or certain skills. People with a background in farming have difficulties in getting another job. People that have found employment in the City often have kept their employment from before independence or have been part of the urban labour market before. The wages from jobs in the City, however, often serves as a supplementing income to pensions. Jobs are described as casual and have a temporary character just like local jobs. The reason why people move out from the City to live with their parents in the rural areas is often that they cannot survive from the low wages.

Business activities are selfemployed and only provide an income for few households. The selfemployment is mainly in activities related to small-scale farming such as food processing, beekeeping and farm services. These activities often supplement other activities and incomes like salaried employment or pensions. The alternative farm activities in beekeeping and fish farming have been started mainly because of inspiration from local information meetings held by the agricultural advisory board. Transport and agro-services are started because of received machinery in the privatisation of the collective farm. Other people have continued activities from before independence in sausage making, homebrew and pottery making. Relations to family and neighbours are important for the selfemployed activities for loan of money and family vouchers. People also exchange and sell goods to neighbours and family. People making an income from farm related products mainly sell to people in Rezekne City. The local market is described as difficult. Therefore the van owner will stop activities and one potter has started to sell pottery in Riga instead. But it is difficult to start new activities and find investment. The potter took a bank loan and could not pay it back. Through information from an association he has found a market for pottery in Riga instead. All in all the local labour market does not play a major role for household economies and business activities are of little importance in household incomes. Many people depend on pensions or go to the urban area to find employment.

5.2 The rural business

The following section explores the rural businesses; their development, problems and

possibilities. The investigated businesses are listed in table 5.1³². The business survey includes businesses in Griskanu municipality and in two other municipalities neighbouring Rezekne City, one municipality 15 km from Rezekne City and then one municipality in the outskirts of the district, 30 km from Rezekne City³³.

Municipality 1	Municipality 2		
3 Grocery stores	2 Grocery stores		
Farm co-operative	Hardware store		
Agro-service station	Transport company		
Potter	Heating maintenance service		
Transport service	Dairy company		
Municipality 3	Municipality 4	Municipality 5	
2 Grocery stores	1 Grocery store	2 Grocery stores	
Fish processing unit	Pasta sauce manufacturer	Fish co-operative	
Riding school	Bakery	2 Sawmills	
Mechanical workshop		3 Tourism business	
		Mechanical works	

Table 5.1: Rural business activities in the surveyed municipalities.

The privatisation of the collective farms has varied in the municipalities. In municipality 2 and 4 some managers in the collective farms started for a short while a co-operative or agro-business after privatisation but it did not last because of difficulties in finding markets (27, 42). In municipality 3 the local farm collective completely finished activities at privatisation as people stole bricks and building material and everything of value was sold off to outsiders (50). In municipality 5, a farm co-operative formed at privatisation and it is still a legal entity. However, there are no activities taking place as most shareholders have left leaving only retired and old people as shareholders (51).

In all the municipalities there are privatised former state enterprises or units of the collective farm that are still in operation. The municipalities bordering Rezekne City formerly housed state enterprises besides the collective farms. Municipality 1 had the agro-service station. In municipality 2 there was a state construction enterprise and a dairy company. Also different collective units separated from the farm activities in the privatisation. Opposite Griskanu municipality, the collective mechanical workshops in the other municipalities separated from the collective farms during privatisation. In municipality 3 a unit for horse breeding and fish processing were also privatised separately. In municipality 4 a flowermill and a connected industrial bakery and a

³² The business survey includes an identification of all business activities in the selected municipalities (see table 5.1). In municipality 1 all businesses have been interviewed where in the rest of municipalities grocery stores have not been interviewed.

³³ This municipality was selected because of its tourism businesses.

vegetable cannery also separated from the collective farm in the privatisation.

In each municipality there are 2-3 grocery stores. In half of the municipalities there are mechanical and repair workshops. Other service businesses are found in two municipalities. These are accommodation for tourists, a hardware store and freight services. In two municipalities there are food processing companies.

5.2.1 Local service and trade – Municipality 1

In municipality 1 besides the selfemployed activities identified in the household survey, there are three grocery stores and the privatised agro-service station. One of the grocery stores is run by a family while the other two are owned by “businessmen” that own several businesses in the county. The agro-service station is a privatised state enterprise that formerly distributed farm machinery to the collective farms.

The family that runs the grocery store consists of husband and wife and three children. They all moved to the area from Tajikistan in the late 1970s (30) when the husband, who is agronomist got a job in the collective farm. The wife worked as a sales assistant in one of the collective farm’s shops. When the collective farm disintegrated they both lost their jobs. The family did not receive any land, so instead they started an import-export business of goods with support of relatives from Tajikistan now living in Russia. The son went to Russia to sell Western products available in Latvia and bought products like tea, spirits and gas cylinders. The imported goods were sold locally and later they turned the whole bottom floor of their house into a store. Crossing the border to Russia has become difficult and today goods are mainly bought at the wholesale market in Rezekne City.

The two other grocery owners do not live in the municipality and they earn the main part of their incomes from other activities. One of them is director of a privatised electrical utility company, that he also was director of before independence and he owns a sawmill, two grocery stores and a gas station in another municipality. The other shop owner was leader of a collective farm in the neighbouring municipality and now runs a wholesale market in Rezekne City and another rural store (27): *“I had through my position as leader of a collective farm good connections to wholesale markets and import businesses in Riga. These were important in order to start in retail”*.

The two shops run by businessmen are in the premises of the former collective farm shops. The owners both bought the buildings in the privatisation of the collective farm and both mention that they know the former collective leader and through him were able to get the premises for a good price.

The main problems of the family shop are that people have less money and the competition from the other local shops have increased: *“Our shop has become more like a kiosk. We sell mostly bread, sugar and salt. People cannot afford anything else ...The people who have money work in the city or have access to a car. They also shop in the city. So our customers are the poorest of the local community ...The other shops have cheaper products because they get their goods through their own companies or friends”*. The family has started to sell second hand clothes and plastic toys, which are

very popular in the rural municipality as new laws and regulations make it difficult to proceed in food sales: *“Last year we redecorated our shop but now a new law says that shops need tiles, ventilation, running water and a toilet. We have to redecorate our shop again or maybe we will focus on selling second-hand clothes. When you sell clothes you don’t have to obey so many laws on hygiene”*.

The limited purchasing power is also a major problem for the two other grocery stores. Their sales have decreased and they have narrowed their selection of goods: *“It is difficult to make a profit in retail. You have to transfer money from your other businesses to survive”* (27). In order to live up to new sanitary standards these businesses both have had to invest money from their other business activities into renovation of the shop premises.

The agro-service station that belonged to a national network of district agro-service stations supplying collective farms with machinery was privatised by the former director and two bookkeepers (32). It has seized most of its activities in agro-services, its major activities consists currently of repairing greenhouses, sawmill machinery, fences, and heating systems for local authorities. Until recently they also rented out a building to a sawmill. The rent was sufficient to maintain and heat the buildings. But the sawmill has closed. The director of the agro-service company hopes that they can find other businesses that can rent facilities and that agriculture will recover and demand their services. Until then he wishes that they can get more orders for maintenance work in municipalities. Personal contacts to mayors and municipal staff are emphasised as crucial for such orders. The director knows most of the mayors and personnel in the surrounding municipalities due to his former position as director of the agro-service station. Many of the people who once had central positions in the management of the collective farms and thereby were his trading partners now have influential positions in the municipalities. However, a major problem is that many rural municipalities have little budgets and cut down on the maintenance.

Summing up, in this municipality businesses are in services in retail and repair works. Retail activities started after privatisation because of specific skills and connections to wholesalers for goods. The two businessmen also got the premises cheap because they knew the collective leader personally. The agro-service company is a privatised state enterprise. Since privatisation it has changed activities from farm services to repair services for private people and municipalities. Repair works for local municipalities are, however, limited by low municipal budgets. Retail for the local market is also difficult because of a decreasing local purchasing power and competition from city grocery stores. Also investments are needed to renovate premises to live up to new health standards. In order to survive the businesses either narrow their selection of goods and services or transfer means from other business activities.

5.2.2 Transforming state enterprises - Municipality 2

In municipality 2, there are business activities in freight, hardware sales, repair and maintenance and dairy. Here the collective farm completely dissolved but two state enterprises in construction and dairy were privatised. Both the privatisation and

development of these companies have been very different. The dairy company was formerly part of a national dairy production network. The dairy network was privatised in the mid-1990s and the dairy is today part of a large private dairy company with its headquarters in Riga. During privatisation the construction company split into three smaller businesses; a hardware store, a freight company and a heating repair workshop.

The dairy has stopped production activities and now focus on transports. Since privatisation the dairy company has narrowed its activities from making butter, yogurt and milk to just picking up milk from farmers and taking quality tests. Ten years ago they were 50 employees and today they are five. The daily manager calls the company a "transport node" (37) and believes that the company will close within the next few years. As there are few local farmers left producing milk of a certain quality and the buildings are expensive to maintain, the Riga company will pull out of the district.

The construction company has also stopped production activities. Formerly the construction enterprise dug gravel in different rural municipalities in the county, made bricks, sold and distributed building material from the Soviet Union and repaired heating systems. Today the three companies are all in services.

The heating repair workshop has shrunk from 50 to 5 people. Two former supervisors formed a partnership company (35): "*There are plenty of heating systems in the rural areas that need repair but there is nobody that can pay for maintenance*". Many people have resorted to individual heating solutions. A main competitor is the privatised collective farm mechanical workshops as they also have gone into repair services.

The freight company transports goods to and from Russia mainly with trucks from the former construction enterprise. A former supervisor of the transport department in the state enterprise runs the company (33). In the beginning they employed 30 people today they are 5 people left. They mainly transport goods for Russian businesses the construction enterprise dealt with before independence. However, they see no future as it is difficult and expensive to cross the Russian border and not much freight is going east these days. The trucks all need to be replaced with new ones. But the company has no means to invest in new trucks and would not be capable of paying back a bank loan. The director will try to loan money of family.

The hardware store was started by three former supervisors that formed a joint company. The first years they kept on importing construction materials from their Russian business contacts. But there was limited demand for Russian building materials (34). Two years ago they were approached by a German hardware chain that now owns most shares in the company. The buildings have been renovated and they now sell German hardware goods. They were originally 80 employees but in the years after privatisation the labour force shrunk to 6 people. The number of employees has risen to 15 people since they started selling German products. The new employees are shop assistants and accountants from the city. The customers of the company are private people, workmen and the construction industry in Rezekne City. The slow and bureaucratic process to import products is emphasized as a major problem for the company.

Summing up, in the transformation of the state enterprises the production activities have stopped while service activities have kept on. Compared to municipality 1, the services aim at a larger market than the local community and the rural area. Sale of German building materials find most of their customers in Rezekne City. The freight company transport goods for people in Rezekne City and in Russia. However, the market for transporting goods to and from Russia is diminishing. The repair services have a limited market due to the poverty in the area. Production facilities, vans and business contacts to Russia from the time of the state enterprises have been important for staying in business after privatisation. But vans and buildings need renovation and the contacts to Russia are not of much value today. Contacts to the German company are important for investments into renovation of buildings and for finding products that attracts a larger market.

5.2.3 Processing and recreation - Municipality 3

In municipality 3, there are a fish processing plant, a mechanical workshop and a riding school. All these businesses are located in former collective farm premises. When the collective farm dissolved the former fish processing unit was sold off to a Rezekne fish processing company. The collective horsefarming unit was privatised by its former manager. This horsefarming unit is today a riding school. The mechanical workshop of the collective was in the privatisation bought by the former manager.

The Rezekne company acquired the fish processing unit because the manager knew the collective farm leader and got the buildings for a good price (39). The fish processing plant employs 35 locals from the collective fish processing unit. Before independence the processing unit and the Rezekne company produced canned local carpa while today it produces a wider variety of canned fish products. There is not very much demand for carpa when customers can buy imported food products in the supermarkets often cheaper than Latvian produce. Today most supplies come from Norway. The market is primarily Rezekne City but increasingly they sell to Riga. As they are not dependent on local supplies and the transports to the municipality are difficult because the gravel roads are in bad condition, the company is now moving their activities to Daugavpils³⁴. The local buildings are poorly maintained and cannot live up to EU hygienic controls. Too high investments are needed to renovate them.

The local manager of the mechanical workshop privatised the workshop with his and his family's vouchers (40), which he now runs by himself. However, most of the local farm machinery was sold off to non-locals and there are only few farmers in the area that need their machinery repaired. The mechanical workshop is mainly repairing cars, radios and televisions. However, there is not much to do and his income from repair works supplements his pension.

The horsebreeding unit of the collective farm was privatised by the manager in 1993 (38). He and his family could not make a living on horsebreeding as there was not a very large market for horses. They are members of the national association of horsebreeders and got the idea for a riding school through the association newsletter. They advertised in the Rezekne newspaper and today they make a living on riding

³⁴ The main city in the Latgale region.

school activities. Two years ago they decided to build a playground and a resting spot where people can barbeque and relax and a small shop where people can buy food and drinks. Their main problem is that people still bring their own food and drinks. The riding school is what keeps them going.

Summing up, in this municipality the three former collective units in mechanical works, horse breeding and fish processing have developed differently. The mechanical workshop and the horsebreeding unit were privatised by local managers while the fish processing unit was bought by a Rezekne based company. From servicing agriculture the mechanical workshop now does repair services for local people. However, the local market for repair services is diminishing. The more specialised service activity in horse riding has found a larger market. It is, though, difficult to make a living from other recreative activities such as selling food and drinks. The fish farming plant produces new canned fish products based on imported fish. But the activities will soon be moved out of the area as the production facilities and the roads are in poor condition.

5.2.4 A diversified collective - Municipality 4

In municipality 4, there are a bakery and a pasta sauce manufacturer. In this municipality, the collective farm was diversified and housed a flowermill, an industrial bakery and a vegetable cannery with large greenhouses for vegetable production. The bakery and the vegetable cannery have stayed in business. The mechanical workshop of the collective farm was also privatised but today it has seized activities (43).

During privatisation the supervisor of the industrial bakery wanted to buy the bakery from his vouchers. However, the cannery, the greenhouses and the bakery premises were sold to a friend of the collective leader; - a man from Rezekne City that now resides in Riga where he besides the running a local cannery runs wholesale and construction businesses (41). In the premises of the industrial bakery the Riga businessman started a larger cannery where several different kinds of vegetables from the greenhouses were processed and canned. But already in the mid 1990s he abandoned the greenhouses and started to buy carrots and onions and most other vegetables from other counties, the Riga area and also Holland. The greenhouses have fallen into disrepair. He started to produce pasta sauce in glasses because the market for canned vegetables was small. In order to compete against imported food products, he needed to specialise the production and find new suppliers. According to the daily manager the business is going well and the 15 employees have got new uniforms and a new heating system has been installed in the premises. They were 5 employees in the beginning. The company has recently bought two new trucks that transport the produce to Riga. The owner has mainly financed the vans though means from his construction businesses in Riga.

The industrial baker bought much of the machinery of the bakery, the flowermill and another smaller building where he then started the bakery. He loaned money of family and friends to also privatise a van and tile the new smaller building (42). The unit employed 30 people. Today he employs 5 people. As there were very few farmers producing grain for the flowermill he abandoned it after only a year and bought flower in Rezekne City. He only bakes “German” buns now instead of a wider selection of

bread and cakes which the bakery produced before independence. Today he gets the flour from a German owned Estonian company, he has worked with for five years. The company supplies him with everything for the production; flour, chocolate, icing and recipes etc. They come every second Monday with supplies. He also attends seminars in Riga almost every month held by the company. The supplier he heard about from old classmates. He is educated baker in Riga Technical School and all his classmates from Riga works in bakeries. They meet every year in Riga at the association for bakers. He supplies two large supermarkets and Rezekne technical school with buns. According to him it is the interesting new recipes for “German buns” and products from the Estonian company that distinguishes his products from many other small bakeries in Rezekne City. To be located so far from Rezekne City is mentioned as a main problem as the gravel roads are badly kept. The road to Riga is better. It has also been expensive to renovate the buildings to live up to the new sanitary controls. He has to get a new heating system installed, new equipment and better ventilation, and is therefore looking for loans. But it is difficult to be approved for a loan and the interest rate is high. If he cannot get a loan, he has plans to leave for Riga to find employment in one of his former class mate’s bakery.

Summing up, both the vegetable cannery and the bakery have changed their products and suppliers and specialised their production. The pasta sauce manufacturer has unlike the other processing companies invested in renovation of the old production facilities. He has changed the product from canned vegetables to pasta sauce and found markets for his products in Riga through his other activities. The baker has also changed his product and found new supplies from outside the area. He has, however, not the means to invest in renovation of production facilities.

5.2.5 Sawmills and tourism - Municipality 5

In this municipality there are two sawmills, three tourism businesses and a fish farm. Here the collective farm had specialised in fish farming. The collective farm was transformed into a co-operative with fish farming as its major activity. Local shareholders own 30% and a grain processing company from Rezekne City bought the rest of shares in the fish farm in the early 1990s. The production has almost stopped since there is no market for carpa, fish food is very expensive and many ponds need reparation. Local people have tried to start small scale production of salmon but lack means to invest in the production. The grain processing company has financial difficulties and no interest in investing in the fish farms and is currently trying to sell the ponds (51). The collective farm dissolved but the mechanical workshop was privatised by the local manager. The workshop, though, has almost seized operation as there are no farmers left (47).

Some of the fishpond areas have already been sold to two sawmill owners for tourism development and fishing (51). One has built a hotel with 20 beds in an old pumping station (45). He has invested money from his sawmill into building the hotel. At my visit, the hotel had opened three months ago, but there had not been any tourist from Riga yet, but some people from Rezekne City had been fishing during weekends. The owner was manager in state forestry before independence but started private sawmilling in a collective farm stable in 1992. He brought machinery from state forestry. The stable

he bought inexpensively in the privatisation of the collective farm. Timber production was very profitable in the mid 1990s. He sold timber to Riga companies. During the 1990s he extended activities and employed 15 people. However, the market for timber has become more difficult. In order to stay in the wood business he will have to invest into new timber processing machinery for furniture or pallets, which he does not have enough means to. Competition from cheaper and better quality timber from Russia makes it difficult to sell timber in Riga. He sells some timber to sawmills in Rezekne City but now mainly prepares timber for private people. He also owns a grocery store in the municipality. He hopes that tourism will become a more profitable business as the price on timber is falling.

The other sawmill owner has also invested means from sawmilling into a guesthouse for 15 people (44). The guesthouse is also located in a renovated pumping station. He has not yet had any guests. Only locals from Rezekne City have come out to have a picnic by the ponds. The problem is that these visitors bring their own food. Stimulated by subsidies, he has also recently built a private hydroelectric plant at the ponds. The sawmill is up for sale as the competition with Russian timber has made it difficult to make a profit.

The third tourism business is run by a retired couple that got some ponds and forest land in the restitution (46). They are from Riga and moved here in the mid 1990s. They have built a small shop, a sauna and accommodation for four people with wood from their own forest. They have guests coming from Riga. However, these are mainly old friends and it is difficult to get “proper” tourists. Their visitors are from Rezekne City that come to use the sauna. They have started a small shop where they sell postcards and drinks. However, people still mainly bring their own drinks. The incomes from the sauna are not sufficient to make a living so they live of benefits and casual jobs and also from the rent of their flat in Riga, which they sublet.

Summing up, in this municipality sawmills have been profitable after independence, however, today cheaper timber from Russia makes the market competitive. Sawmills were started with machinery from state forestry and in former collective farm buildings. Means from sawmills and forestry are important for investments into tourism. Tourism businesses aim at a market of tourists from Riga, but until now it has mainly been people from Rezekne City that have visited the area. These visitors mainly bring own food and drinks and give little income for the business owners.

5.2.7 Summing up – The rural business in the study region

The businesses in these municipalities are dominantly privatised state enterprises or collective units. In municipalities neighbouring Rezekne City, there are privatised state enterprises while in municipalities farther away from the city mostly privatised collective units. The owners of these privatised businesses are both outsiders and locals. Local owners are mostly former supervisors or leaders. The outsiders are business contacts of the former leadership. The privatised companies are mainly in food processing and repair services. The companies all shed labour at privatisation. Only few have since extended the labour force. Most businesses are still employers, but there are also some selfemployed activities and family businesses such as mechanical workshops.

There are also businesses that have been established after independence. These are sawmills, grocery stores and tourism accommodation. Grocery stores are found in all municipalities, while there are sawmills and tourism businesses found in only one municipality. There are family and selfemployed businesses in trade but other new businesses are mainly owned by businessmen that run several businesses. Grocery stores and local sawmills were started recently after privatisation whereas tourism are recent. Early businesses are based in specific non-farm skills and contacts from before independence and assets obtained in the privatisation where more recent activities are established with investments from other business activities or from outside. Small sawmill owners had a boom in the 1990s but are closing activities and have recently invested in tourism.

Characteristic for the privatised companies are that they increasingly have found suppliers outside the local area and that activities and products have changed. Before the privatisation the activities were strongly related to the large farms or other local raw materials. Mechanical workshops gave technical assistance and service to agriculture, while processing units took care of processing of local agricultural produce, gravel or fish. The production companies are today less based on local raw materials or farm produce. Privatised companies have in fact in most cases changed products, markets, supplies and in some cases even sector. The bakery now produce German buns, the vegetable cannery produce pasta sauce and the fish processing unit produce a wider selection of fish products. They process inputs from Riga and abroad instead of local produce. Local supplies are found to be of low quality. Some production activities in dairy, gravel extraction, manufacturing of building materials have dropped production and now focus on transport or trade. The privatised mechanical farm services have changed from servicing agriculture to repair cars and heating systems for the local population.

It is difficult to make a clear distinction between privatised enterprises and new businesses that have started after independence. The new businesses often locate in former collective buildings or are based in skills and assets from before the farm break-ups and very few "old" businesses have continued activities. It is common that businessmen in new businesses have a background as managers in state forestry, collective farming or other state enterprises. These leading positions gave good local networks. The businessmen have all relied on personal contacts for obtaining inexpensive buildings and production facilities. They also received assets in the privatisation.

To stay in or start a business after independence Russian business contacts, personal relations to other local important people, and the availability of production facilities were important. But Russian markets and goods have lost importance. Also the production facilities, other premises and vans from state enterprises and collectives are often obsolete and poorly maintained and need renovation to live up to new standards. The relations among local influential people have also become less useful as local businessmen and municipalities are struggling with decreasing sales and budgets.

What are important for rural businesses today are contacts in the capital area and abroad for information, supplies and markets. The development of new marketable products in

the food processing companies has been based on new suppliers but also information and often also investments from outside the region. The pasta sauce manufacturer invests means from his business activities in Riga. The baker gets information from friends, an association in Riga and an Estonian company on new products. The fish processing unit is part of a larger company. In services the riding school has found inspiration for starting a riding school and recreational activities through a national association. The hardware store has also developed the business and attracted a larger market with foreign investments and products.

However, most businesses do not find information and investments via official institutions, banks or associations, but rely most often on personal contacts to other businesses, family or friends. Official institutions are often described quite negatively or in negative contexts such as control of hygiene standards or slow and inefficient customs control. Few businesses have used official institutions for loans as it is difficult to be approved and the interest rate is high.

The kind and size of markets differs between businesses and sectors. The businesses depending on the local and rural market are mainly service activities where manufacturing and some services are oriented towards Rezekne City, Riga and Russia. Difficult markets are a main constraint for all businesses. The businesses oriented towards markets in Russia experience problems. The freight service still drives goods for contacts in Russia from the times of the construction collective but have today few customers. Locally oriented businesses experience difficulties because local people are poor. The repair workshops have difficulties in finding customers as people cannot pay much for maintenance. Grocery stores also suffer from the limited local purchasing power and competition from the city. The businesses depending on the local market are either closing, narrowing the selection of products, transferring means from other activities or starting to sell second hand clothes. Finding a larger market for services is difficult. It is the recreational activities and the more specialised retail in hardware goods that appeal to people from Rezekne City. The tourism businesses want to attract people from Riga but there are not yet tourists from outside the county visiting the area.

The manufacturing companies generally rely on markets outside the rural municipalities. The bakery sells products in Rezekne City. Canned fish are sold in Rezekne and pasta sauce is sold in Riga. The market for food products is very competitive as imported products are often less expensive. The market for timber is also difficult as Russian timber is cheaper. The small sawmills sell to Riga but increasingly they are going into preparing wood for private people. The Riga owned sawmill intends to move the production to Russia. Most production activities have plans to leave the area or stop activities except the pasta sauce manufacturer as too large investments are needed in order to bring the production facilities up to new hygiene standards and infrastructure is badly maintained.

5.3 Summing up; Continuity and change in the non-farm economy

This section sums up on the non-farm economy in the study region. In the study area, the non-farm economy is heterogeneous in kind and scale and in the incomes it

generates for different people. However, common is that the non-farm economy is strongly based in activities and employment from before independence and in the distribution of assets in the privatisation.

5.3.1 The old business in a new context

The splitting up of the large farms resulted in new non-farm businesses and transformation of old ones. Old businesses are privatised non-farm units of the collective farms or state enterprises privatised by former managers or businessmen. Prior these enterprises were involved in farm services or processing of local agricultural produce or gravel resources. The privatised businesses have in most cases changed activities. In figure 6.6 the different businesses are presented according to type of production, supplies and markets. The privatised businesses can be found in local consumer services for private people or in production for external markets. From engaging in farm services these businesses are now mainly in repair services for local people. From mainly processing local resources, production businesses now increasingly find supplies from outside the district. From selling products to the Soviet, they sell the produce to the urban area or export abroad. Farm related activities are today small scale activities aimed for the local market or exchange between people (see figure 5.6).

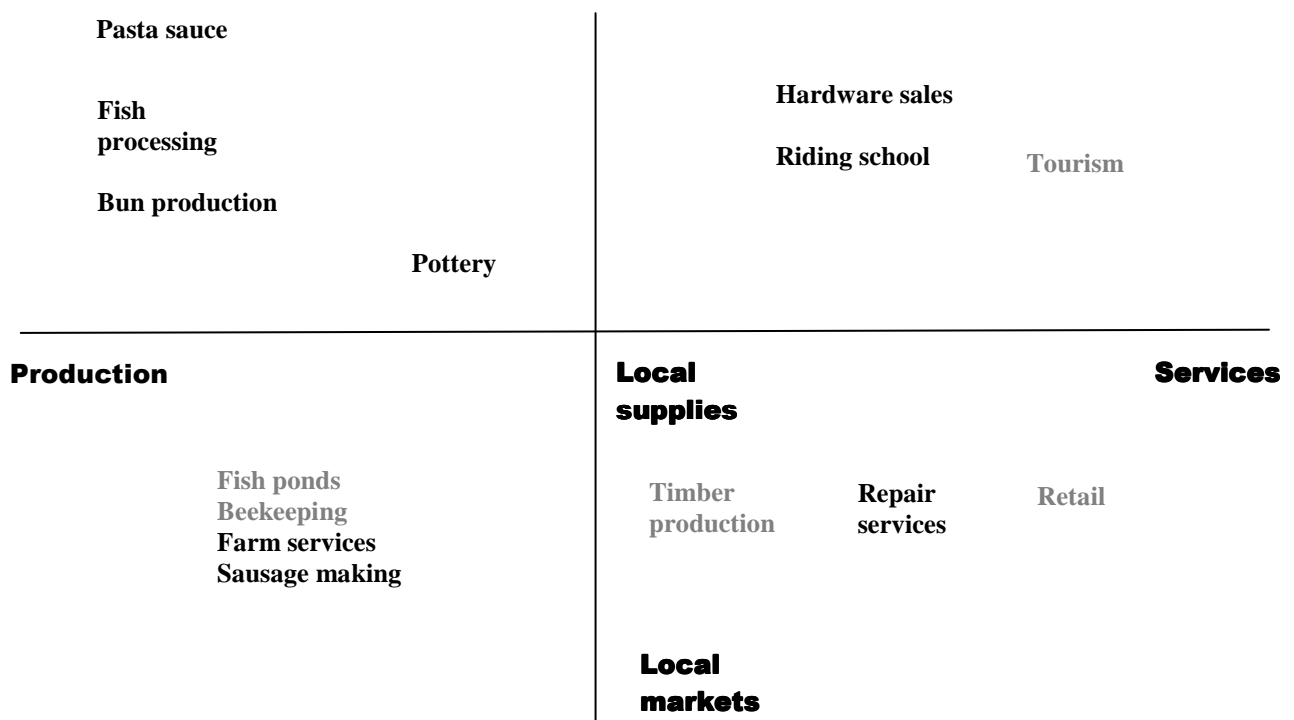


Figure 5.6: Rural business activities according to sectors, markets and supplies. Grey font means new businesses. Black stands for privatised businesses. The rural business is now mainly in services or in processing of imported supplies. Activities related to local farming are predominantly small scale for the local market.

The new businesses established after independence is in alternative farm production, retail, tourism and sawmills. Farm related activities and some services are selfemployed

or family businesses whereas most new businesses are run by businessmen that own more businesses around in the district. Retail is for the local market. Recreational and tourism activities depend mainly on visitors from Rezekne City. Sawmills produce timber for sale in Riga, however, most activities today are preparing wood for local inhabitants (see figure 5.6).

Most businesses in industrial production have plans to either close or leave the area. The urban markets for processed food products are competitive. Production businesses need to develop new products that can compete against imported products such as Russian timber or food products from Europe. This demands investments and new expertise and supplies. Also new hygiene standards require investments into renovation of production facilities. The infrastructure is also poor and as local supplies are not important several businesses plan to leave.

Service businesses suffer from a decreasing local purchasing power and difficulties in attracting a larger market. Many service businesses narrow activities or are closing. Formerly the area was visited by Russian tourists but today it is mainly people from Rezekne City that visit the area on weekends. The tourism businesses aim at attracting tourists from Riga but tourism from the capital area is not yet a reality.

The rural business today is in local services or processing of imported supplies. The rural non-farm business has changed away from being related to farming but whether they succeed depends on to what an extent they have found a product that can be sold to a market in Rezekne City or Riga or a service that attracts a larger market than the local.

5.3.2 Income and employment – a decreasing old labour market

Non-farm incomes are important for people in the rural area. Farm employment in the co-operatives is decreasing and is only found in one municipality. Few people make a living of individual private agriculture. Many people are involved in agriculture but in most cases private agriculture and small-scale farm related business activities serve as a supplementing income to salaried employment and pensions. In figure 5.7 employment possibilities are divided into old and new employment and whether it is in the local or urban area.

The “old” non-farm employment opportunities have also decreased but to a lesser degree than farm employment. The transforming non-farm enterprises have shed labour and less people are today involved in industrial employment both locally and in the City compared to before independence. But the preservation of employment is still important as there are few other employers locally. However, the character and quality of this old employment have changed. The employment is seasonal and unstable.

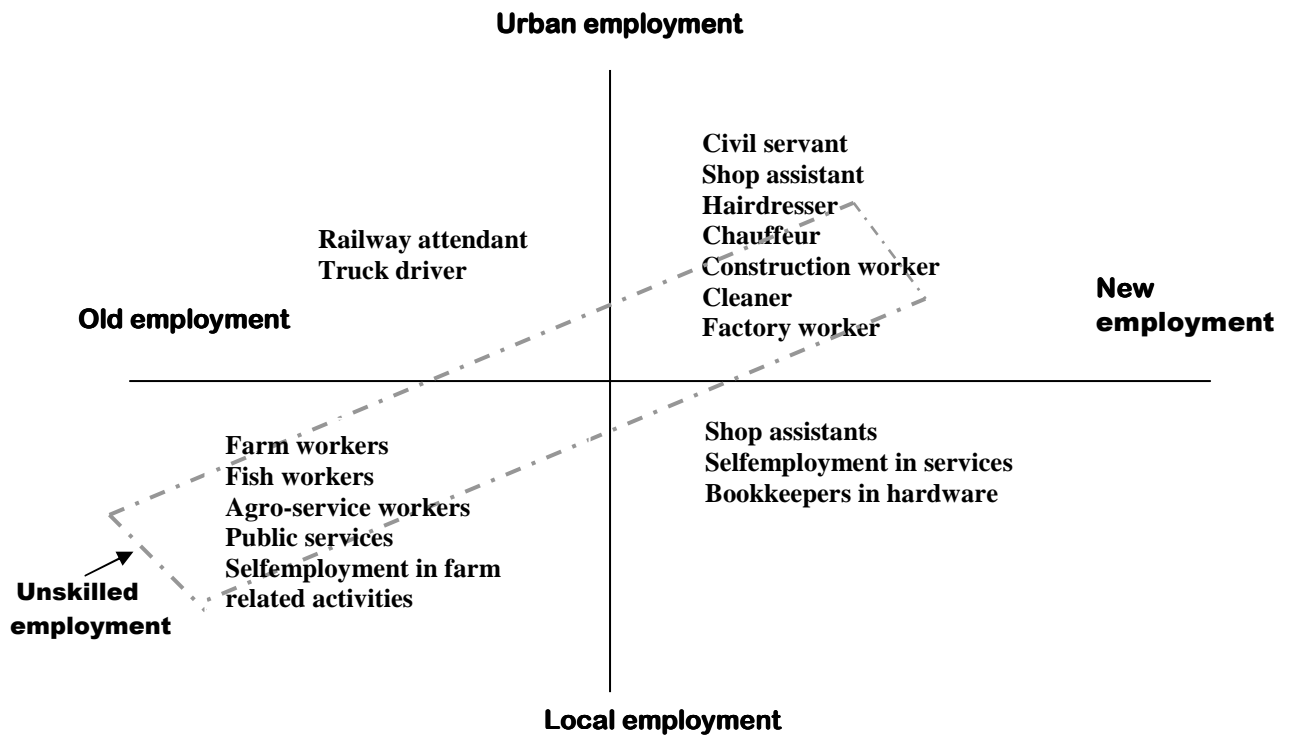


Figure 5.7: Employment possibilities grouped into old and new employment and geographically into whether it is in the local area or in the city. The box encircles the unskilled employment.

There is a new labour market, but characteristic of the service and tourism sector is that it has not created much salaried employment for the local population. Some activities are selfemployed or family businesses that do not employ people. These are often supplementing activities to other incomes. Other service businesses mainly employ skilled labour. Local shops are employing shop assistants and accounting staff from the City. Also jobs in new production businesses have mainly been taken by people from the City. New jobs in the local area are mainly skilled jobs (see figure 5.7).

New unskilled jobs are few. It is mainly in the urban area that former farm employees have found employment. There is a wider variety of employment opportunities in the City both for people with education and for unskilled people. However, wage employment in the urban area often serves as a supplementing income to pensions. Jobs are casual. The reason why people move out from the City to live with their parents in the rural areas is because they are unemployed or only have this casual employment in the urban area.

5.3.3 Actors and different capacities – valuable and devalued capitals

For some people the income in the collective farm has been substituted by new private business activities or another wage job, but many people have not found other employment possibilities and pensions are the most important income in the area. Certain skills and assets have been necessary to possess in order to find replacement.

Non-farm skills, buildings and assets obtained in the privatisation and contacts to influential local people and Russian markets have been important for replacing incomes.

The people involved in business after privatisation was in many cases managers from the local collective or state enterprises who privatised the enterprise or whose personal contacts made it possible to attain buildings or machinery to start up activities like grocery stores, sawmills or production activities.

Managers of privatised businesses had initially both buildings, skills and a product to build on. They also had a network of local and often also Russian business contacts. Other managers started several new businesses. These businessmen had connections to other leaders and suppliers and means to invest in new businesses. The specific “social capital” between the former management; the “political” capital, was important for exploiting opportunities after independence.

Only few people involved in business activities does not have a background as managers in former collective or state enterprises. For these people particular skills, relations outside the local community or assets obtained in the privatisation seem to have been essential. People that could privatise assets and persons with skills in services and family relations to suppliers of retail in Russia are the ones that started business activities after privatisation. People in salaried employment was mainly people that had kept their employment from before independence

The dual structure identified in post-socialist research between a “business class” of businessmen and former managers and then former farm workers that struggle to find ways to survive, is evident. For a large part of the rural population the possibilities for non-farm activities and incomes was limited after independence because they only had skills in farming, limited contacts to outside the area and no assets and means to invest while mainly the former management were able to seize the new opportunities because of production facilities and buildings and relations to other influential people.

But the very strong dualist development between former managers and former farm workers has become more complex as relations and “reach” to urban market and labour markets have gained more importance.

It is obvious that what were valuable “capitals” just after independence and privatisation have changed. Today the privatised companies are only still in business if the managers have found new investors and business contacts in the capital area or in Rezekne City. Businesses need investments from outside for renovation of old production facilities and in order to develop a new product and find larger market than the local contacts to the capital area or abroad is essential. Those who only depend on relations to local former managers have difficulties in finding markets and financing such as e.g. the agro-service station and the freight service.

It is still mainly managers of privatised companies and businessmen that are involved in business activities for external markets (see figure 5.8). However, the “business class” that have found new markets is made up of a businessman residing in Riga running the vegetable cannery, a hardware store with investments from Germany, a Rezekne fish

processing company and a baker with business contacts in Riga. Thus, the privatised companies are run by outsiders or people with strong relations to the capital area or abroad. Local businessmen in sawmilling and retail do often not have means to invest into woodprocessing and invest in tourism instead. But also tourism without contacts to tourists markets outside the local area can be difficult and local businessmen therefore must resort to the small local market for recreation and retail.

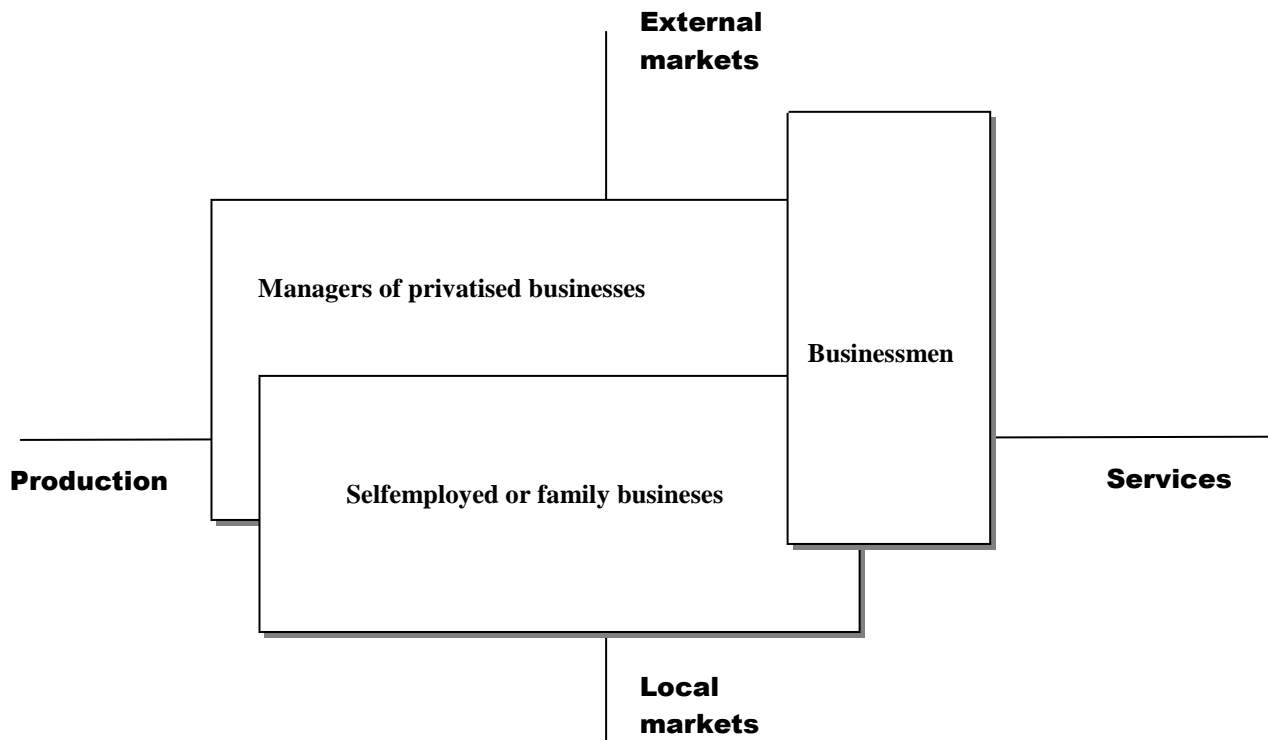


Figure 5.8: The kind of people involved in the different business activities. It is mainly managers of privatised companies that are involved in activities for a larger market. Smaller selfemployed and family businesses are mainly in local services or supplementing farm related activities.

Some of the local people in business have found markets outside the area through contacts to associations and colleagues in the capital area (see figure 5.8). The selfemployed and family businesses may in several cases even act more entrepreneurial than the “business class” of managers of large privatised businesses as they have been forced to actively extend their reach and find information and markets and are not in the same way as some old businesses still holding on to now devalued relations to local mayors and Russian business contacts. Smaller businesses like the potter and the riding school have found markets through associations and some local people have also found employment in the urban area. However, the selfemployed or people in old employment are more vulnerable compared to managers and businessmen as they mainly depend on one asset or skill. The businessmen and managers are more flexible as they have a wider array of assets and relations. Still many local people have difficulties in starting businesses and finding employment as their skills and contacts do not reach the urban

area. Local people are involved in smaller selfemployed activities mainly in local services or supplementing farm related activities, old employment and depend on pensions. Some local people have also found employment in the urban area. However, it is mainly people that have a connection to the urban labour market because they have lived and/or worked in the city before and people that have specific skills in service and economics or contacts in the city.

Summing up, in the study region, the conditions for non-farm activities and incomes depend much on the presence of non-farm activities before independence, in both production facilities but also in the skills and relations people have. But since independence markets for traditional rural services and products have decreased and the “old” labour markets have diminished. The agricultural production and employment has dramatically decreased and so has the industrial production activities both in the rural areas and also in the city that was characteristic of this region before independence. Therefore the extent to which businesses have found markets outside the local area, people have been able too integrate into the new labour market of service and construction jobs and the area maintains to be attractive for production activities are essential for the diversification of the rural economy.

6. Case study 2 - Viljandi county in Estonia – The rural economy

The chapter concerns the rural economy in the Estonian study region of Viljandi county. The first part presents the rural households in municipality 1, Olustvere municipality, and how they make a living. The second part focuses on the rural business activities in a larger area (Olustvere and two neighbouring municipalities) and tourism businesses in the northern district of the Viljandi county. The last part sums up on the non-farm economy in the study region..

6.1 Household incomes and activities – The household survey

In what is today Olustvere municipality there were one collective farm and parts of a state farm before independence (Viljandi County, 1999). The large majority of the inhabitants were employed by these large farms. People generally describe the former farms as a good place to work. They paid higher wages and offered better housing than urban industries (5,11,17). The local collective farm changed into a co-operative farm after independence but stopped operation in 1995 because of government pressure to split up the farm (7,16). The state farm seized activities during privatisation. Land was restituted to former owners and household plots and machinery were privatised.

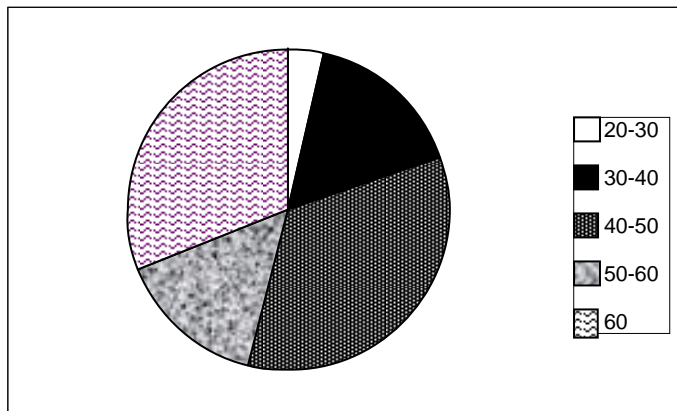


Figure 6.1: Age structure of respondents (n=90).

Source: Survey data.

Close to half the respondents in the survey are above 50 years of age, while those below 40 years of age makes up 20% (see figure 6.1). Elderly people may be a bit overrepresented in the sample, but it also reflects that mainly young people have left the area for the county capital or the large cities (40). The households are generally smaller than in the Latvian municipality and in more than half the cases include only one generation (see figure 6.2).

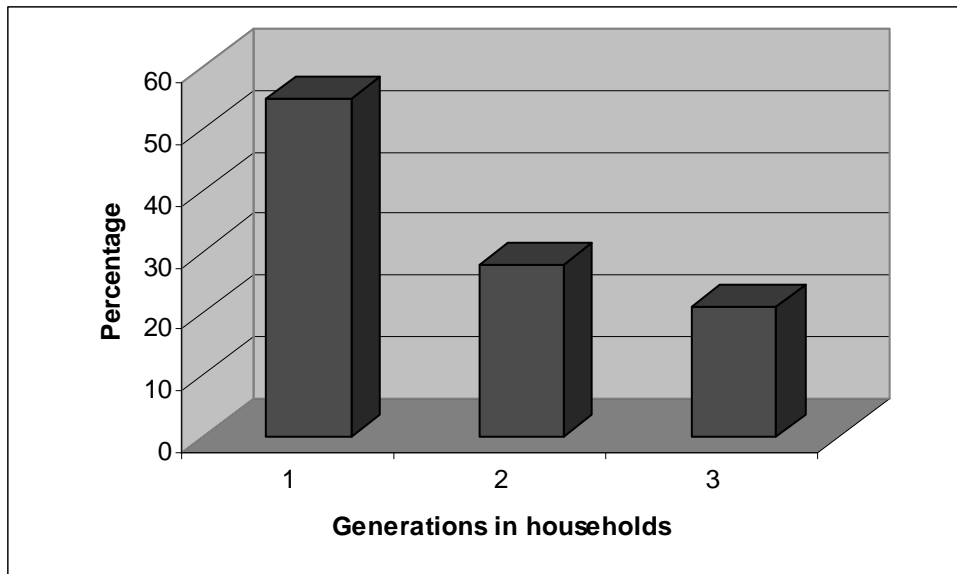


Figure 6.2: Percentage of households made up of respectively one, two and three generations (n=90). Source: Survey data.

Before independence most respondents worked in agriculture (see figure 6.3) as farm workers or agricultural specialists but some had service or administrative jobs at the farms. 19% of the respondents worked in state forestry. Most people have at least a special secondary or technical education in agriculture. Mainly the old people have only a primary education.

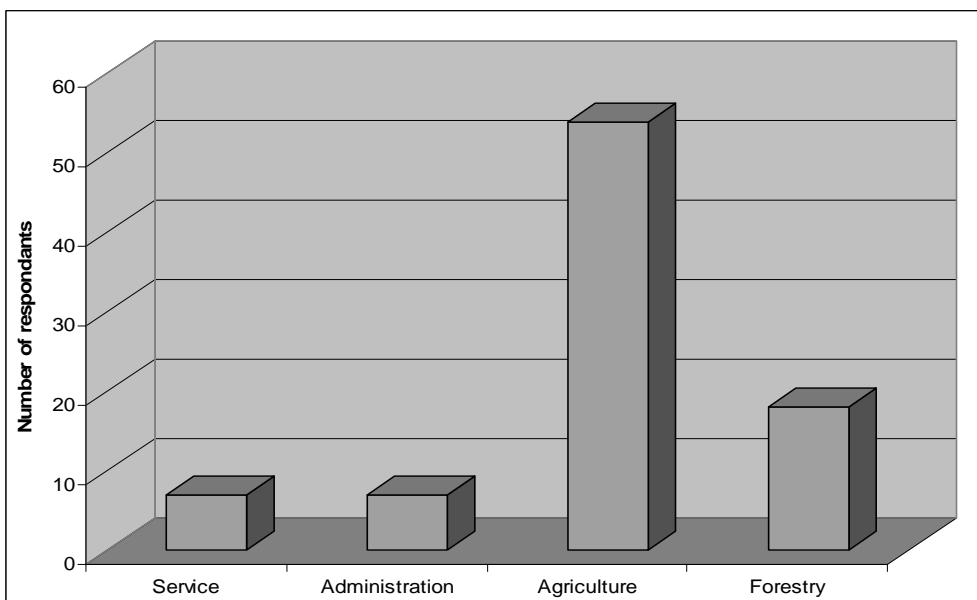


Figure 6.3: Employment of respondents by sector before the dissolution of the collective and state farm (n=86)³⁵. Source: Survey data.

³⁵ 5% of the respondents were too young to have worked before independence.

Today people make a living from different sources of income (see figure 6.4). In about half of the households, wages provide the main income. These wage incomes come mainly from jobs outside the municipality. 39% of the sample has employment outside the municipality while 11% of the sample has wage incomes from jobs in the municipality. Pensions are not as important here as in the Latvian case. Mainly in households of a retired single person or couple the main income comes from pensions. Only in a few households with several generations pensions are the main income source.

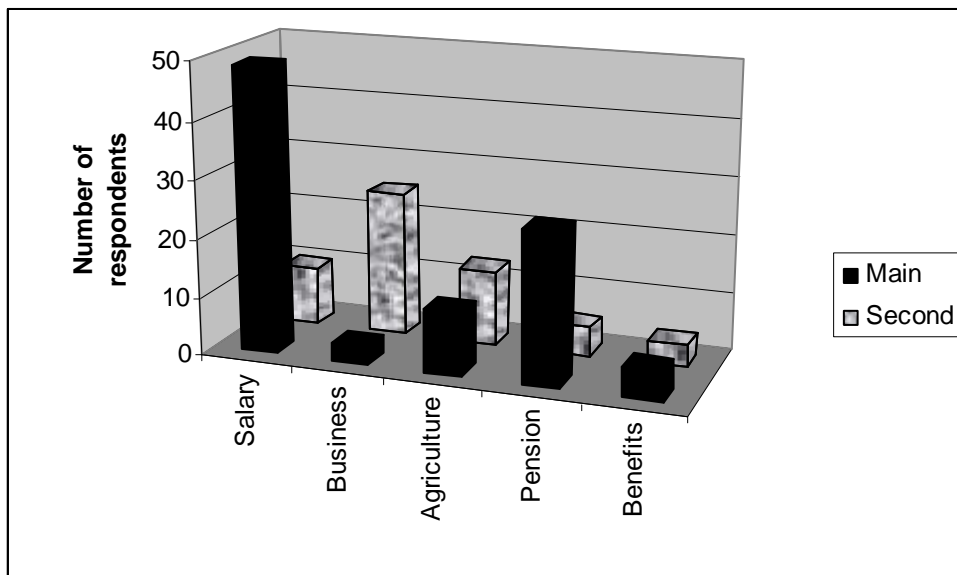


Figure 6.4: Main and second income sources for households (n=90).
Source: Survey data.

Despite the fact that the farms are generally larger than in the Latvian case, less people are involved in farming. 30% of households are not involved in agriculture at all whereas the rest of households cultivate some land. Of the households involved in farming 15% of households have less than 5 ha while 25% have above 50 ha³⁶. However, agriculture is a less important source of income than in the Latvian case. 11% of households have their main income from private farming and 13% of households state farming as providing a second income. The households with main incomes from farming combine these with wage incomes, pensions or on-farm activities in agro-service and forestry³⁷. Households with second incomes from farming have in most cases pensions as their main income. However, most households farm for their own consumption.

³⁶ Landsize data from household interviews and questionnaire data. The questionnaire data on landsize are collected by Mette Bech Sørensen (Sørensen, 2004). In Griskanu municipality in Latvia close to half the households cultivated between 1-5 hectares of land and just five percent cultivated more than 50 hectares of land (Sørensen & Herslund, 2004).

³⁷ In figure 6.4 on-farm activities are included in the category of “business”.

More households than in the Latvian case are involved in business activities that provide an income (28%). However, most private business activities do mainly provide second incomes to wages. The business activities include forestry, mechanical works, farm services, retail, food processing and zonetherapy.

6.1.1 Wage employment

6.1.1.1 Commuting for jobs

Most people that rely on salaries work outside the local municipality. 39% of the sample commutes to Viljandi town or Tallinn for jobs. It is mainly men that commute. Most commuters work in construction, some at sawmills and textile factories and a few in services such as retail and teaching.

Commuting can be difficult without a car. The commuters complain about too infrequent buses and that prices are too high. A man that works in casual construction jobs in Viljandi and sometimes in Tallinn finds it difficult to get to work early enough with public transport (18). When he works in Tallinn he stays for a week at a time. He was an agricultural specialist in the collective farm but has not been able to find employment locally: *"There is no work in farming, only a few weeks a year in the harvesting season... Construction work pays much better"*. He would like to move to Tallinn, where there are more jobs, but it is too expensive to live there. Their flat cannot be sold and they do not have money to buy a flat closer to Tallinn. Their grown-up children have moved to Tallinn

A man with casual jobs in construction says (17): *"The prices on buses are too expensive when you do not have steady employment"*. He sometimes finds jobs in Tallinn and he can get a lift by villagers that have a car. He would like to move to Viljandi or another bigger town where there are better employment opportunities. But as many people he says that he can not afford to move (2, 4, 8, 12, 15, 17).

A teacher, that used to work in the local school, now works in Viljandi (3). He has a car and can get into Viljandi in 15 minutes. There were no jobs locally as many schools have closed. He worked in building sites in Viljandi for some years but recently he got a job as a teacher in Viljandi and was able to buy an old car: *"There are no jobs for teachers in the countryside... Agricultural specialists, teachers and farm workers all fight for the same jobs in construction and sawmills"*.

A woman works since five years as a receptionist in a hotel in Viljandi (16). She has finally decided to move to Viljandi. During the last years she has spent three days sleeping in the hotel and some days home in her flat in the municipality. *"Last year I just used my flat in the village as a summerhouse. But now I have found a small flat in Viljandi. But I do not think I can sell my flat here. There are no buyers so it will be expensive with two flats"*. She was an economic supervisor at the collective farm. *"It was because I knew accounting I got the job in the hotel"*.

A woman working in a textile company in Viljandi tells that she got the job because the former leader of the collective now works in a managing position there (21). She

worked in the cattle stables. He helped getting her employment in the town. She gets picked up by a woman from the neighbouring village in her private car. *“If we could not go by car we would be an hour late every morning. My supervisor from the cattle stables got a job here some years ago. It was through him we got a job. I make pillow cases and have just gotten my grown up son a job”*.

Finding employment is mainly mentioned as a problem by women (e.g. 1, 2, 3, 6, 10, 12, 13, 16, 20, 22). *“Women cannot work in construction sites or sawmills. This is where you can get jobs. We cannot leave our children for weeks when working in Tallinn”* (20).

“It is too costly to take the bus to work each day and then pay for babysitting” (2). Another couple with one child also depends on occasional incomes from construction jobs in Viljandi. The wife was employed at a textile company in Viljandi but they found it too costly for her to take the bus each day. The problem was that they also had to pay to get their two children looked after. *“The kindergarten was free in the collective farm”*. They have taken part in meetings in the “Village Movement” about saving the local school. In this forum the women in the village have organised looking after eachothers children.

6.1.1.2 Local jobs

11% of households have their main income from jobs in the local municipality. The jobs behind “second incomes” are also often in the municipality. Most local jobs are in a wood-processing factory. There are also some jobs in agriculture and services.

Specific experiences and skills are important for finding local jobs. *“I have not been unemployed since the collective dissolved because I have found employment in sawmills and wood processing. But all my neighbours have been unemployed and still many are... You have to have experience from sawmills else there are no jobs”*, a worker at the wood processing factory tells (4). He got the job because he had experience from sawmills in Viljandi, and he considers himself fortunate in comparison with his friends that started private farming or even some of the managers and supervisors at the collective farm, who all have to look for casual employment in Viljandi and Tallinn.

The establishment of the wood processing company has attracted people to the municipality (6). *“It was my mother’s house we inherited. We had a house in Valga³⁸ but wanted to move here because there was employment in the factory. I worked as a supervisor in stateforestry for many years”*. His wife finds it difficult to find a job and their children has moved to Tallinn to study.

A woman working in a grocery store says that she got the job because she has an education in service and management (13): *“I went to Finland some years ago. I worked in a hotel. It was part of my education in service and management. I would like a better job in Viljandi. But my husband uses our car to go to Tallinn and I have to look after*

³⁸ Valga is another county in Estonia.

the children. I do not have time to both look after the children and take the bus to Viljandi”.

The closing of the local kindergarten and the village school has made several women loose their jobs (40). The former kindergarten mistress is unemployed (15). Occasionally she helps out on farms and in a grocery store. Her husband works in construction in Viljandi.

An unemployed woman in her fifties was a dairy maid at the collective farm, but since the farm break-up she has only had seasonal farm work (1): *“Women my age cannot get any other jobs. You have to be young and have done something else than looking after cattle”*. She makes a living on unemployment benefit, her mother’s pension and occasional jobs in agriculture.

Summing up, commuting for employment in urban areas is a main income and activity for rural inhabitants. Local employment is less important for household incomes. In urban areas employment possibilities are mainly unskilled jobs in construction and some skilled jobs in teaching and office work. Commuting can be difficult because of high prices and rare bus services. Some people would like to move to a town to be closer to where jobs are found. Local jobs are in wood processing and grocery stores and there are some temporary jobs in agriculture. Finding steady jobs locally demand experience from the wood industry and skills in service. There are few jobs for women as most jobs are in construction or the wood industry and public service jobs are decreasing. Finding somebody to look after your children while at work is also a reason why less women have salaried employment.

6.1.2 Business activities

6.1.2.1 Farm related activities

21 % of households get an income from farm related activities. These are mostly forestry and agro-services. Such activities supplement in a few cases farming but mostly it is a second income to wages and pensions. There is one household that get a main income from a slaughterhouse business.

The slaughterhouse, where local small farmers bring their animals to get slaughtered, is run by a pensioner (11). In the early 1980s he built a small slaughterhouse in connection to his house where he mainly prepared game from hunting besides his job in the collective. Today he has expanded activities to also include farm animals. Most people do not sell their animals at the market anymore and therefore need them slaughtered for their own consumption.

Ploughing of land for others and sale of wood from private forest land add a second income to several household economies. A man working in construction in Tallinn helps neighbours ploughing their land and sometimes he gets paid for it (22): *“Ploughing land cannot provide you with much money as many people have stopped farming...There are more tractors than farmers”*.

A grain farmer also ploughs land for locals and occasionally cuts forest and sells wood to private people (19). He hopes that his wife can find employment in textiles as ploughing land and selling wood do not provide much income to supplement the low earnings from agriculture.

A household that got land back in restitution tried farming but it was not possible to sell their products of grain and vegetables. The husband did some ploughing of land for a while as he had a tractor. But most people in farming have their own machinery. They have sold their tractor and bought a car instead (20).

Another man tells that he also got a piece of land and forest of 50 ha back in restitution (17): *"Land does not matter. Many people have a lot of land but have stopped farming and taken up wage work... Forest is better to have... It gives a better price"*. He sells firewood and building material to people in the local area. But many other local people do the same and the prices are low. Before he sold wood to sawmills but they now mainly get timber from larger forest owners or even Russia. Therefore he has plans to build a cottage for tourist on his land. He has been inspired by attending a meeting in the town of Suure-Jani held by the agricultural advisory service on farm tourism.

More people than in the Latvian case have been involved in some kind of organised activity. 60% of the sample has attended local meetings. These are meetings arranged by the "Village Movement" and the agricultural advisory service. More than half the sample is involved in associations. This is the "Village Movement" and the "Farmers' Union". A local woman has started a local branch of the "Village Movement" that is a national organisation. The organisation also has a district office in Viljandi town.

Two households have filed for a loan to improve their economic situation. These are households in farming. Three households have taken courses to improve their situation. These are courses organised by the "Village Movement" in "entrepreneurship". People mainly go to "family and friends" for advice but the "Village Movement" and the agricultural advisory service are also used.

Like in the Latvian case most people state no plans for the future. There are 5 households that have plans to start in tourism and two households have plans to leave the area and move to Viljandi. The people with plans in tourism all have attended information meetings on farm tourism arranged by the agricultural advisory service.

6.1.2.2 Selfemployment in local services

7 households have incomes from other than farm related business activities. These businesses are all in trade, but there is also a zonetherapist. The activities are supplementing either pensions or wages.

A family started a grocery store in the early 1990s (12). They bought goods in Viljandi and sold them locally. The initial capital they got from selling their land and forest to another local that planned to start farming. Retail was a good business during the first years but now there are more grocery stores and many people shop in Viljandi. The family shop has difficulties to finance a renovation of the shop so it can live up to health

standards. Today the husband works in Viljandi and Tallinn in industry and sawmills which provides the main income source.

In the early 1990s a woman started a small retail outlet in her house (28). She also sold some forest to buy retail goods after privatisation. But there are only few customers. She has started to sell second hand clothes instead so she does not need to renovate the shop. Today she lives off her pension. It is mainly old people that cannot go to Viljandi to shop that buy clothes in the store.

A woman, that started a massage and zonotherapy salon (10) after taking a correspondence school course in massage and zonotherapy, had been unemployed since the collective farm was dissolved. She and her husband started farming on 50 ha restituted land. However, farming proved difficult and her husband now works in industry and construction in Viljandi and Tallinn. Local people cannot afford much massage but she earns enough to buy groceries. She hopes that people will come from other villages to get a massage and she has advertised in the Viljandi paper. She got the idea for taking the massage course from attending a meeting in the “Village Movement” in Viljandi on “entrepreneurship”.

Summing up, business activities are in most cases supplementing other incomes. Farm related activities take place on-farm. However, most of the households are not involved in traditional farming anymore. People involved in on-farm activities have received tractors or forest in the privatisation. They often started farming after privatisation but did not succeed. Farm services and the selling of wood are for the local market. The incomes and prices are low as many people are involved in similar activities. The slaughterhouse business has less competition and has expanded activities as more locals need their livestock slaughtered locally. Other local services depend on the local market of often the elderly. The local market for retail and trade is difficult as many people shop in the towns. The activities serve as a second income to wages or pensions. Activities in trade were initially financed by sale of forest received in the privatisation. A new skill gave a woman the opportunity to start in zonotherapy.

6.1.3 Summing up: The economy of rural households

The household incomes come from multiple income sources. Households mainly depend on wage incomes. Pensions are the second most important income. About a fourth of households are involved in small scale business, however, mainly for supplementary incomes.

Wage incomes are mainly from commuting to urban areas. These jobs are mostly unskilled construction jobs. There are also factory jobs in textiles and skilled employment in services. It is difficult to commute without a car as buses are infrequent and expensive. Some people would like to move to urban areas to find employment. But they cannot afford it as selling their land and dwelling is not possible. There are few unskilled jobs for women in the urban areas. Commuting can also be difficult to combine with looking after children as kindergartens have closed.

Local employment plays a less significant role in household incomes. Skills and experience in wood processing and shop keeping are necessary to find a job locally other than occasional jobs in agriculture. Women also have difficulties finding local employment. Grocery stores are closing and jobs are mostly in wood processing.

Business activities are selfemployment in forestry and agro-services or trade and service. Business activities are often based on assets received in the privatisation such as forest, farm land and tractors. These households often started individual farming after privatisation. Today farm services and forestry is what is left of the farm activities. The slaughterhouse business is a continuation of semi-private activities before independence. The zonetherapist has obtained a new skill.

All business activities rely on sale and services for the the local market. Wood was prior also sold to sawmills outside the area but local people cannot compete with imported wood from Russia. The zonetherapist hopes to attract a larger market but at the moment she depends on local costumers. Many people shop in the towns which make the local costumers mainly the elderly and poor. Trade businesses therefore have changed products or narrowed activities. The slaughterhouse is the only activity that has experienced a growing local demand for slaughtering of farm animals. But in most cases the local market is small and earnings from business only provide second incomes in household economies. Some households have plans to start in tourism for which they have found information at meetings arranged by the agricultural advisory service.

6.2 The rural business

In the investigated rural municipalities there are businesses in service and industrial production. There are 2-4 grocery stores in each of the three municipalities (see table 6.1)³⁹. Other service businesses are mechanical workshops and more specialised services such as homepage design, electrical works and tourism. Industries are in wood processing and sawmills but also manufacturing of candles and carbonated water. The tourism businesses found are all involved in both tourist accommodation and have seminar facilities.

In the two neighbouring municipalities the collective and state farms were like in Olustvere split up during privatisation. In municipality 2 there was also a large state poultry farm that closed in the mid 1990s (29,41). Municipality 3 is unique as it housed Estonia's second largest slaughterhouse until 1995. The slaughterhouse employed 400 people and was an exporter of meat to the Soviet Union (41). In both places new businesses have recently located.

³⁹ It is only in Olustvere municipality that grocery stores have been interviewed.

Municipality 1	Municipality 2	Municipality 3
Two grocery stores	Two grocery stores	Four grocery stores
Mobile grocery store	Furniture manufacturer	Soft drinks manufacturer
Sawmill	Mechanical workshop	Candle manufacturer
Orchard	Electrical company	Mechanical workshop
Slaughterhouse ⁴⁰	Home page designer	Hotel and bar
Wood processing factory		

Tourism businesses (in northern district)

Guesthouse and seminar facilities for church groups
Hunting tourism and guesthouse
Conference centre for businesses
Guesthouse

Table 6.1: Listed businesses from business survey in three municipalities and tourism businesses in the northern district of Viljandi county

6.2.1 Municipality 1 – Incoming businesses taking over from “old” businesses

In municipality 1, there are 3 grocery stores, the wood-processing factory, a sawmill and a mechanical workshop. Besides the family run grocery store found in the household survey⁴¹, there is one grocery store run by the Estonian consumers’ union and one man selling groceries from a bus. The consumers’ union runs shops in many rural municipalities in the county (41). The local shop run by the consumers’ union has recently started post office services and they also sell non-prescription drugs. This has increased the sale markedly. *“More people shop here now as we offer the same services as in the town”*, the shop assistant says (13). The mobile grocery store was recently started by a man that closed his grocery store a year ago. He drives around to the many villages that now are without a local store and sells basic groceries such as salt, soap, bread and sweets. *“It is difficult to keep the prices low. The consumers’ union sells a more varied selection of products and has lower prices. Therefore family stores are closing. But there are many people that come and shop in my bus”*. Villages without grocery stores are getting more frequent. It is mainly the old and poor that shop locally because they cannot go into town or larger villages to shop (24). He bought the bus from some friends in Finland.

The wood-processing company produces mouldings for construction and furniture (25). It is a branch of a wood processing company in Viljandi. The company started this branch up in year 2000. They located here because there was an empty building of a recently closed sawmill and because the municipality is close to their main customers, furniture and construction companies in the town of Suure-Jani and in the neighbouring rural municipality. The branch employs 15 people. Most of their staff comes from

⁴⁰ This slaughterhouse is described in the household survey

⁴¹ The family run grocery store is described in the household survey.

Viljandi and Suure-Jani town. *“The problem is that many of the local people do not have skills in wood processing”*.

The mechanical workshop and the sawmill are two examples of “old” privatised businesses. The mechanical workshop and a connected gas station were privatised by three former employees (23). They used their own and their parents’ vouchers to buy the mechanical workshop in 1995. The workshop has only few customers. Relatively few locals have private cars and many farms that used to need machinery repaired have closed. They have stopped selling gas as too much investment for renovation of the gas station was needed. The three owners have all moved to Viljandi and now work in sawmills and occasionally commutes to Tallinn for construction jobs. They decided to move because their children would be closer to school and their wives would be able to find jobs. They employ a local pensioner to manage the workshop.

The sawmill was a unit of the collective farm (26) that was making materials for the collective’s building projects and maintenance. It is now run by its former manager, who privatised the building and some machinery. He expanded the business in the 1990s but has now let off most of his employees. His market for timber has diminished because of cheaper Russian timber: *“There is not much good quality wood left locally. Russian wood is cheaper and often of better quality”*. The mill now mainly prepares timber for private forest owners’ own consumption which the owner calls *“sawmill services”*. For staying in business, he thinks the mill needs to specialise in processing furniture on a large scale: *“If you have to stay in the wood business you have to invest a lot of money and start processing instead of just preparing timber...You need to find new markets and learn new skills”*. He has recently started to build cottages for tourists on his farm land. *“Many people I know in the wood industry have plans to start in tourism. You read about tourism in the paper. The agricultural advisory service also advertises for new support opportunities in the paper”*. He attended a meeting on tourism development organised by the agricultural advisory service which inspired him to start in tourism.

There is one on-farm business in the production of fruit and berries. The orchard owner was in charge of the orchards at the state farm. He bought some machinery when the farm split up. He also got a house and land back by restitution. He has 10 ha. of orchards trees and berries and 20 ha. of forest. He financed the initial investments from selling timber from his forest land. Growing berries was more profitable than ordinary farming in the 1990s. He sold his products to a privatised company that makes juice and to a privatised brewery in the county. He knew the people in these companies from his days in the state farm orchard. The state farm sold produce to the same two companies. However, these companies are now increasingly using concentrates/extracts and imported apples and berries as these often are cheaper than local products. Therefore he has plans to build cottages for tourists instead. He has like the sawmill owner attended the information meetings on farm tourism arranged by the agricultural advisory services in the county.

Summing up, the wood-processing company is the most important private employer in the municipality. However, the staff predominantly comes from Viljandi and Suure-Jani town since it is hard to find qualified labour in this municipality. The local businesses in

more traditional rural production such as sawmilling, mechanical works and orchards are reducing activities and staff. The owners have left for the city or are investing in tourism. Local grocery stores also have decreased activities except for the store run by the consumers' union. By making his store mobile, a local grocer has also been able to stay in business as he can reach a larger part of the poor inhabitants that cannot go to the urban area to shop.

6.2.2 Municipality 2 – New businesses in wood processing and business services

In municipality 2, there are besides two grocery stores both run by the consumers' union, a furniture manufacturing company, an electrical installation firm and a homepage designer.

The furniture manufacturer moved out from premises in Viljandi into the old poultryfarm in this municipality (29). One of the owners originally comes from the municipality, and through personal contacts, they got to use the poultryfarm farm free of charge. The closeness to the town of Suure-Jani that is a wood industrial centre with several factories and much skilled wood processing labour was also important for the choice of location. They chose not to stay in Viljandi because it was cheaper to refurbish the poultryfarm than to buy or build new premises there. Originally they produced timber. But a Swedish furniture company invested in the business and today owns 75% of the shares in the furniture company. The Swedish company provides the designs for chairs and tables that are produced and assembled locally. Different smaller parts for the furniture production they get from different local businesses⁴². In the beginning they employed 10 people, today 50 people are employed. Their increase of staff has mainly been bookkeepers, a designer and people in marketing of which most are from Viljandi and even Tallinn. They have plans to extend activities in making furniture for a wider European market. Until recently they got most of their timber from local sawmills but now most of the timber comes from Russia or a large German owned sawmill in Suure-Jani town that process Russian imported wood.

An unemployed physics teacher started a business in homepage design and computer services 3 years ago (35). He fixes computers and makes homepages for the wood processing company but also for some tourism businesses and shops. The physics teacher worked in Finland during his education and took several computer courses there. He still has contacts in Finland that work with homepage design that he uses for advice in his daily work. He says that homepage design was a more profitable business 3 years ago when there were not many computer consulting businesses. Now Eesti Telecom also contracts with many of the large new companies.

There is also an electrician that does work for the new companies (34). There is much to do. Many of the electrical installations in the old production facilities are in poor condition. Most old production facilities and installations need renovation and often to be completely replaced to live up to the new regulations and comply with the new machinery and computers the companies have. He was a mechanic and electrician in state forestry. After independence the electrician worked at construction sites in Tallinn. There he took courses and learned about new regulations and building standards. He

⁴² Mouldings were produced in Olustvere municipality.

employs six workers mainly from Viljandi technical school. There is still no competition in the area. Most others that work with electrical and mechanical works fix radios, television and tractors.

Summing up, the wood processing company has with foreign investments renovated the old poultryfarm and started furniture production. The company is extending activities and employs skilled people from Viljandi and Tallinn. The company gets some parts to the production from other local producers. Two locals have started "business services" in electrical works and computers and found a market in servicing the incoming company. Both service businesses use skills obtained from working and studying outside the local area.

6.2.3 Municipality 3 – New manufacturing companies

In municipality 3, there are two production units of companies from respectively Tallinn and Switzerland that have located in the former slaughterhouse. There is also a tourism business started by a sawmill owner from Viljandi⁴³. The privatised mechanical workshop of the collective farm recently closed. Two of the four grocery stores are run by the consumers' union.

A Swiss company producing handmade flavoured candles for the world market started in 1999 a production branch in the former slaughterhouse in the municipality (31). The company was looking for places in Estonia where they could start a production. The premises were cheap and in good condition but the company would never have chosen this place if not one of the Swiss managers had been married to an Estonian woman from the county. They would have located closer to Tallinn. She knew the place and helped contacting the local authorities. However, the co-operation with the local authorities is today their main problem and the reason why the Swiss manager thinks they should have located closer to Tallinn as originally planned. He tells that it has been a very difficult process to start a business here. The local administration is not capable of helping companies and especially not foreign companies, neither with tax issues nor legislative problems: *"It is a very bureaucratic system. They come and check the ventilation and our bookkeeping but they cannot help you with anything. You need to know the local administration personally to get them to help. It is very difficult to know how to get even the simplest things done"*. The company is hiring an agent from Tallinn for helping out with different business services, tax and legislation issues. Finding reliable employees is another problem. 15 locals are employed; all people that worked in the slaughterhouse and an economist from Viljandi. There were some incidents with drunken employees in the beginning. Therefore a local who had been a supervisor in the slaughterhouse and he employed local people he knew and trusted. These have in many cases a background as administrative personnel or supervisors in the slaughterhouse. Now they feel they have got together a reliable group of people and they are expanding their activities. Most supplies they need for the production they get from abroad. The raw materials are imported but the boxes for packing candles in are produced in Viljandi.

⁴³ This business is presented in the next part on tourism businesses.

A company that produces carbonated spring water is also located in the old slaughterhouse (30). It started production in 2000 and employs 14 locals, mainly former supervisors from the slaughterhouse. The company headquarters is in Tallinn. This company is owned by six businessmen that also are involved in retail, breweries, wholesale and sawmills. The factory was located here because of a good water supply, good roads to Tallinn and personal relations to the local mayor. The well of the former slaughterhouse is very deep. One of the company owners worked as a manager in the slaughterhouse till the mid-1980s and knew of the place and is related to the local mayor. He employed one of his former colleagues as local manager. It is emphasized that good relations with the local administration are essential for getting permissions and for finding employees. The company has built a whole new warehouse as the old ones were in poor condition. The production is sold to the interior market, but the foreign competition is strong. However, the plans are to extend activities to also include the making of different soft drinks.

Summing up, the industrial production units in this municipality have relatively recently started their activities. They are incoming businesses to the area. Products are sold in the urban area or abroad. Both companies have employed local people and for them it has been important with local contacts for finding reliable personnel and to avoid bureaucracy. Both have plans to extend activities in the near future.

6.2.4 Tourism businesses in the Northern district

There are five tourism businesses in the Northern district of the county. These businesses can be divided into two groups; businesses established by cabbage farmers at privatisation and recently established businesses started by sawmill owners from Viljandi. The first group has existed since the early 1990s while the other two started only a few years ago.

6.2.4.1 Tourism and farming

In 1992 a manager in a state melioration company built a guesthouse (36). Besides his job in melioration he had already in 1987 started cabbage farming. In the late 1980s legislation was softened and it was possible to start up private farming. He started farming cabbage that was sold to the rest of the Soviet Union or as cattle fodder to the local collective farms. It was a very good business then. However, after independence the market went down for cabbage to the Soviet Union. The money he made from farming he invested into building of a guesthouse for 20 people and a seminar-room. He could after independence also get much good building material from farms and firms that got liquidated which he used for building. The guesthouse was built besides his private house on the land he had received back in restitution. In 1993 the first guests came. It was mainly religious groups from Finland. He had been in Finland in the 1980s through his job and made contacts with different religious groups. Today there are Christians groups from both Scandinavia but also South America that come for longer stays, summer camps and seminars from early April to late September. Since he started he has expanded the business to accommodate 50 people. During the high season his wife, two chefs, two receptionists and two workers for building and maintenance help out.

Another cabbage farmer that started farming in the late 1980s besides his job as a manager of a state farm runs a tourism business for hunting tourists (37). At independence his plan was to expand in farming but farming did not show to be a good business. He then invested his savings in building a log cabin and breeding pheasants. He got a large land area (500 ha) back in restitution. This he started to rent out for hunting to tourists from Finland. In the state farm they also breed pheasants. He had been in Finland to learn about pheasant breeding in the late 1980s. In the beginning it was through these contacts, hunting interested Finns came to stay. Through word of mouth and recently also a brochure in Finnish he gets in increasing number of tourists every year. Many Finnish people come to hunt here because it is cheap.

6.2.4.2 Tourism and sawmills

In 2000, a sawmill owner from Viljandi invested means from his sawmill and money from a bank loan into changing a stable into a guesthouse accommodating 40 people and a seminar room (39). He had in the mid 1990s received a house and land back in restitution. At the time his family lived in Viljandi and he owned a sawmill. The sawmill exports timber abroad but the prices are low and the competition from Russia high. Three years ago the man decided to start up tourism mainly because his wife did not have any job. He also hopes that the business will make a profit within few years as he has plans to sell his sawmill. The facilities have mainly been used for local Christmas parties and weddings. At the moment tourism is not a very profitable investment. He hopes that he can get companies from Tallinn to hold seminars and conferences at his place as it is possible for Tallinn inhabitants to reach Viljandi within 1 ½ hour by car. Therefore he registered at the local tourism office and also made a homepage last year.

A hotel and bar have recently been bought by a sawmill owner from Viljandi and his brother (33). The hotel owner comes from the area originally. The brother was an unemployed teacher and is now the hotel manager. The hotel served as a place for hunting parties for party members already in the 1970s. It was then for many years a bar for local people but closed a few years ago. The brothers have refurbished the hotel now providing accommodation for 42 people, built a seminar room and have plans to create facilities for canoing and camping. The money comes from sawmilling and a bank loan. They hope their investments will pay off soon. They have registered at the tourism office and made a homepage in English and hope to get Finnish and Scandinavian tourists. The first season has not been profitable. Their income come sofar from locals visiting the bar and from weddings and local parties using the conference hall.

Another recently new tourism business has been started by another sawmill owner (38). He also received a house and land back in restitution. Here he has built a sauna, a guesthouse for 10 people and a small seminar room. He got the idea to start in tourism because his wife works in the Culture College in Viljandi. They often have visitors from abroad and also from other places in Estonia. Since he started in tourism it has mainly been these groups that have stayed in the guesthouse. They have also held some seminars and training courses there instead of in the college. It is his brother and his wife that runs the place on a daily basis. He invested in tourism mainly to create employment for his family. He has registered at the local tourism office and is a

member of the national rural tourism organisation. He used means from his sawmill but also took a loan to finance the business. It is difficult to get a loan but he had the forest to give as a guarantee. The good thing is that he can pay the loan back from his sawmill earnings despite the fact that running a guesthouse is not very profitable.

Summing up, the tourism facilities are generally quite large with both conference facilities and accommodation. The businesses mainly focus on particular groups of tourists like business conferences, hunting groups, religious groups etc. The tourism businesses that started after privatisation were established with means from farming while the recent start-ups have made investments from sawmilling. The farmers were leaders of state enterprises that had started semi-private farming before independence. The sawmill owners are from the city that have received land and property back in restitution.

6.2.5 Summing up – The rural business in the study region

The businesses in the surveyed municipalities are dominantly in local services or industrial production for markets in the capital area or abroad. The service business is in trade but there are also tourism businesses and more specialised services in electrical installations and webdesign found in some municipalities. The industrial production count sawmills and wood processing but manufacturing of spring water and candles are also found. Sawmills are run by locals while other manufacturing activities are run by companies or businessmen from outside. In all the municipalities there are companies from Viljandi, Tallinn or even abroad that recently have come into the area and started manufacturing. Locals are involved in services but recently urban sawmill owners have started tourism and a chain store runs grocery stores.

The incoming manufacturing industries have come to the area with capital and products from outside. They are part of urban industries or foreign companies or they have large foreign investments. These industries produce for the national market or export abroad. The companies use some local supplies such as mouldings and local water for springwater while timber and other rawmaterials and supplies are from Tallinn and abroad. The incoming businesses have located in former collective and state enterprises because these were cheap and in good condition. The reason why especially the wood processors located in the area was also to be close to suppliers, business contacts and skilled labour. The good roads to Tallinn are also mentioned as important. Most companies have personal connections to the area and have owners or family that are originally from the area. Such personal contacts to the local administration and influential people have been necessary for finding inexpensive facilities and reliable employment. The local authorities, however, are also bureaucratic and not geared to help with tax and legislation. Businesses need to go through the capital city for such advice and business services. All incoming businesses have plans to extend the production.

Opposite, the local timber producing sawmills are decreasing activities. They cannot compete with imported timber. The berry producer has similar problems competing with imported products and the use of extracts. Privatised mechanical workshops are also reducing operation. Privatised machinery and property, specific skills and business

contacts were important for starting activities after privatisation but sawmill machinery, skills in berry growing and connections to breweries and timber agents are not all that valuable anymore. The businesses in more traditional rural activities are struggling with decreasing markets. These business owners are closing businesses, resort to “sawmill services” or have plans to start in tourism.

The incoming companies have created opportunities for other kinds of rural service businesses. Services in computers and electrical works mainly oriented towards the incoming businesses have recently started. The business services are started by locals that have obtained a specific new skill in computers and electrical works from work and study outside the area.

Other service businesses are mainly in retail and trade for the local community. Local shops narrow their product line as competition from urban shops and the consumers’ union stores is hard. The consumers’ union chain stores can compete with urban shops by offering postal services. The mobile store has found a market selling to the elderly in the villages without local stores.

The tourism businesses aim at a market of people from the urban areas and abroad. However, only two tourism providers say that they can make a living from tourism. These two businesses started tourism based on contacts from abroad and they have extended this market. The rest of the tourism providers do not make a profit on tourism yet. They depend on incomes from local parties. The tourism providers have registered at the district tourism office and in some cases also made a homepage and joined the national rural tourism organisation. But at the moment personal contacts to particular markets like church groups, teachers and hunters seem necessary to fill up the large tourism investments. To start in tourism has also been motivated by providing employment for family members and because people received property back in restitution. Thus, starting tourism is mainly for people with means to invest and for people that are not necessarily dependent on a profit. It is businessmen with a background as managers in state enterprises and semi-private farming before independence and people that got land and houses back in restitution and have investments from the wood industry in the urban area.

6.3 Summing up; A new non-farm economy

In this study region the non-farm economy is mainly made up of new businesses and employment. There are few old businesses left. Incoming wood processing and manufacturing activities are taking over as the main local employer. The local retail sector is also now mainly run by chain stores. “Old businesses” are decreasing as traditional rural production in timber, alternative farm production and mechanical works have problems in finding markets. New business services and tourism businesses are emerging and an urban labour market of industrial jobs.

6.3.1 The new business – markets and sectors

Dividing the rural business activities according to markets and sectors (see figure 6.5), a similar picture as in the Latvian case emerges. Farm related activities and also some timber production rely on the local market. Service businesses mainly depend on the local market. Tourism is oriented towards a larger market of visitors from the capital area and from abroad but do also often rely on local visitors. But besides retail and repair services there is another category of “business services”; services servicing the incoming businesses, not found in the Latvian region. The industrial production is exported out of the area. Supplies for the production are also mainly found outside the rural area except for some timber.

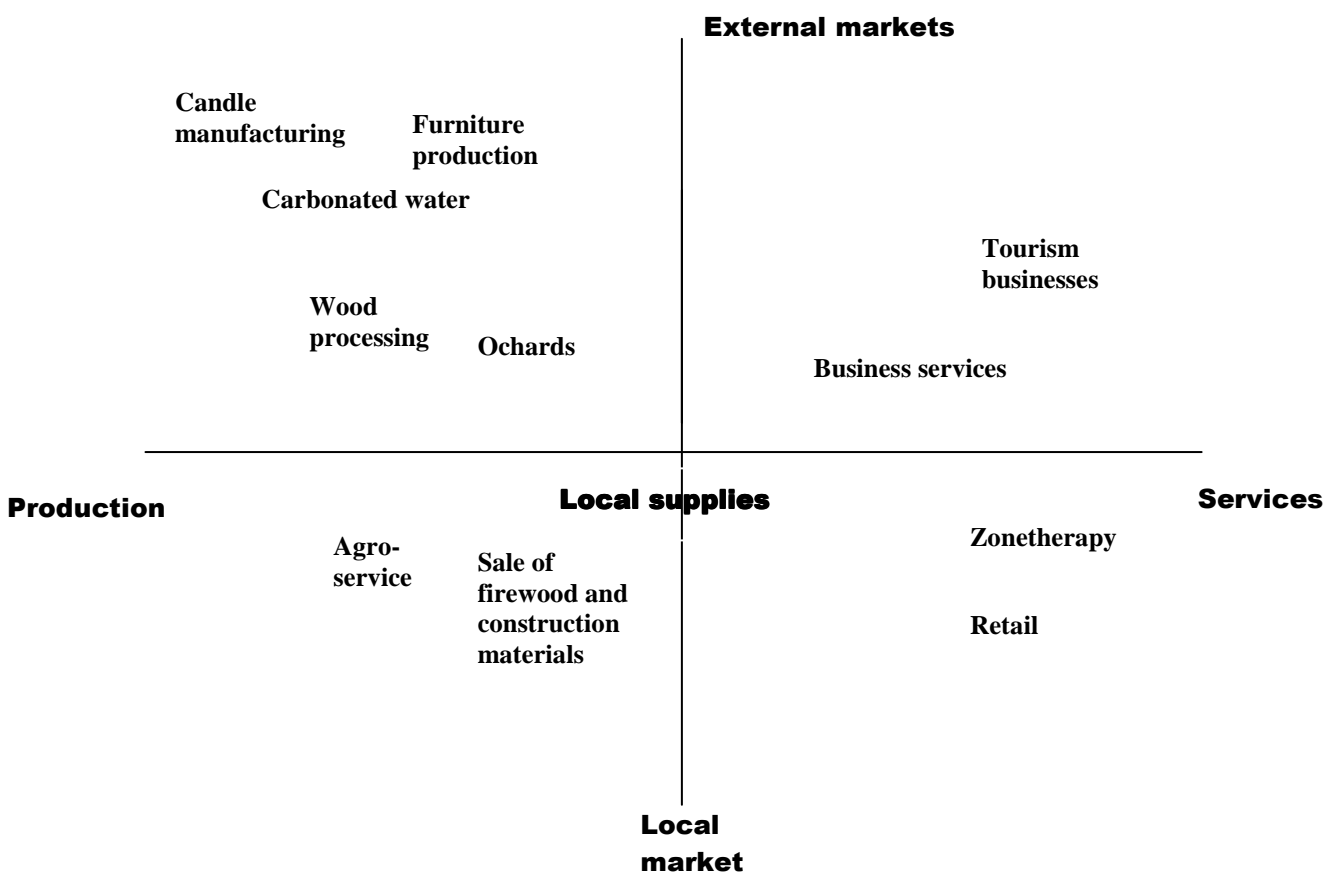


Figure 6.5: Local business activities according to sector and markets.

There are different rural businesses such as family businesses and selfemployed, chain stores, incoming production units of outside industries and sawmill owners from Viljandi setting up tourism businesses. There are only few privatised businesses but as in the Latvian area stores, sawmills and production activities are often residing in refurbished collective farm premises or state enterprises.

The few non-farm units persisting from the collective farm have decreased activities and are in some cases about to start other activities in retail and tourism. The more

traditional activities in agro-services and mechanical workshops; activities related to the farm sector, are today mostly selfemployed activities supplementing other incomes. Recently this is also the case for timber production, sale of wood and alternative farm production. Similarly, businesses in retail and repair works are also mainly small-scale selfemployed activities. Local services that are extending activities are niche services such as the slaughterhouse business and the mobile store, chain stores or services aimed at the incoming businesses. The tourism businesses that get visitors from abroad also expand. However, there are more tourism businesses than demand. Tourism businesses therefore also depend on local visitors.

The production activities in the area are more varied than in the Latvian region. The manufactured products are not only in food products but also in furniture and candle production for foreign markets. The industrial production is mainly made up of incoming businesses; production units of urban or foreign companies or business with large foreign investments. This is a new group of businesses that are not present in the Latvian area. Compared to the Latvian area, these production businesses can invest in renovation of old production facilities instead of leaving the area.

Similar to the Latvian region it is mainly businesses that depend on a market beyond the market of poor local households that show development potential and are extending activities. The local market is like in the Latvian region difficult as locals are poor and people shop in urban areas. But the local market is more diverse as incoming businesses create a demand for new business services.

6.3.2 Employment and incomes – different new labour markets

Similar to the Latvian case the household incomes come from multiple sources. Pensions play a more modest role whereas salaries are of more importance for household incomes. There are no fulltime farmers and farming are are main income in around a tenth of households. More people than in the Latvian region is involved in small scale business activities but as in the Latvian case these are mostly just supplementing other incomes or for exchange in the local community. In this area there are few old activities left and no locals have kept old employment. In figure 6.6 employment possibilities are divided into skilled and unskilled employment and whether it is in the local or urban area. The local labour market in traditional rural industries and unskilled work have diminished markedly while there has been some increase in employment for skilled people in wood processing, bookkeeping and computers. Experience from the wood industry, new skills in service and accounting or personal contacts to employers are in many cases necessary in order to find local salaried employment. New local jobs are often for outsiders that commute out to the area to work. The local labour market plays a minor role for rural household incomes. Unskilled employment is mainly found in urban areas.

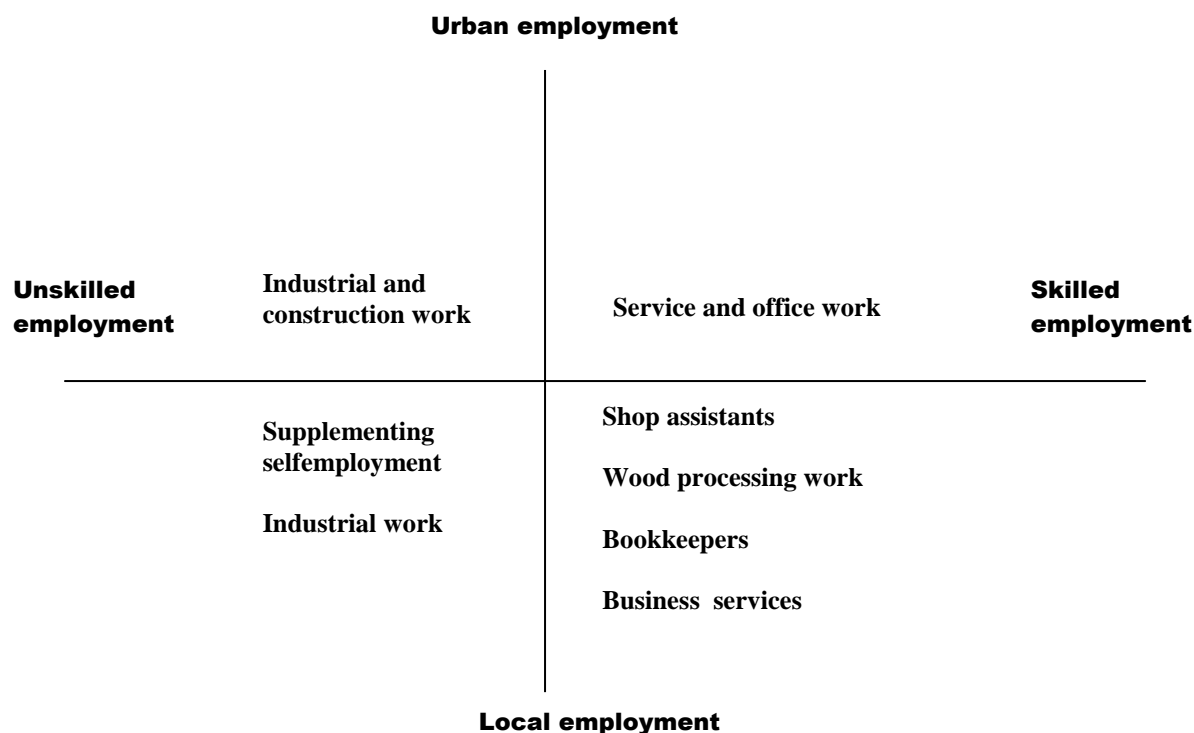


Figure 6.6: The kind of employment and income activities divided into whether it is local or urban employment and skilled and unskilled. Local wage employment is mostly skilled employment in wood processing and services. In urban areas both unskilled and skilled employment is found.

Compared to the Latvian region there is an urban labour market to integrate into. The main possibility for unskilled employment is in construction in urban areas. The labour market has changed from a more closed local labour market to have become part of an urban labour market. People commute to the district capital but also the capital area. However, commuting is somewhat hampered by expensive and not flexible transport between the rural and urban area combined with low earnings for casual employment in construction.

6.3.3 Actors involved and their capacities

In this area skills and assets in wood industry have been very valuable for early business development. Means from farming have been important for the early tourism activities starting just after independence. Capital from semi-private farming before independence was put into tourism. But most investments after privatisation into retail and alternative farming came from forestry. In the Latvian area the dual structure was particular strong as former managers privatised production facilities and farm workers could not obtain enough vouchers to privatise more than small land plots. In the Estonian area it seems as if more people received land, forest and machinery in the privatisation. But even some people have been fortunated with assets or means from forestry and sawmills, many face problems of decreasing markets for traditional rural products and local services. People might have benefitted from specific skills, knowledge and contacts to markets for e.g. berries and timber but without large investments and information and

contact to markets abroad or in the capital city keeping on or extending activities are difficult. “Reach” to capital areas and abroad is essential. Investments but also information and advice from outside are necessary for developing products and activities

Incoming production businesses depend on markets and investments from the capital area or abroad. The development of tourism and recreation are also very dependent on specific contacts to foreign groups. These are often personal relations to particular tourist markets abroad. Without such relations many tourism establishments must rely on mainly local visitors.

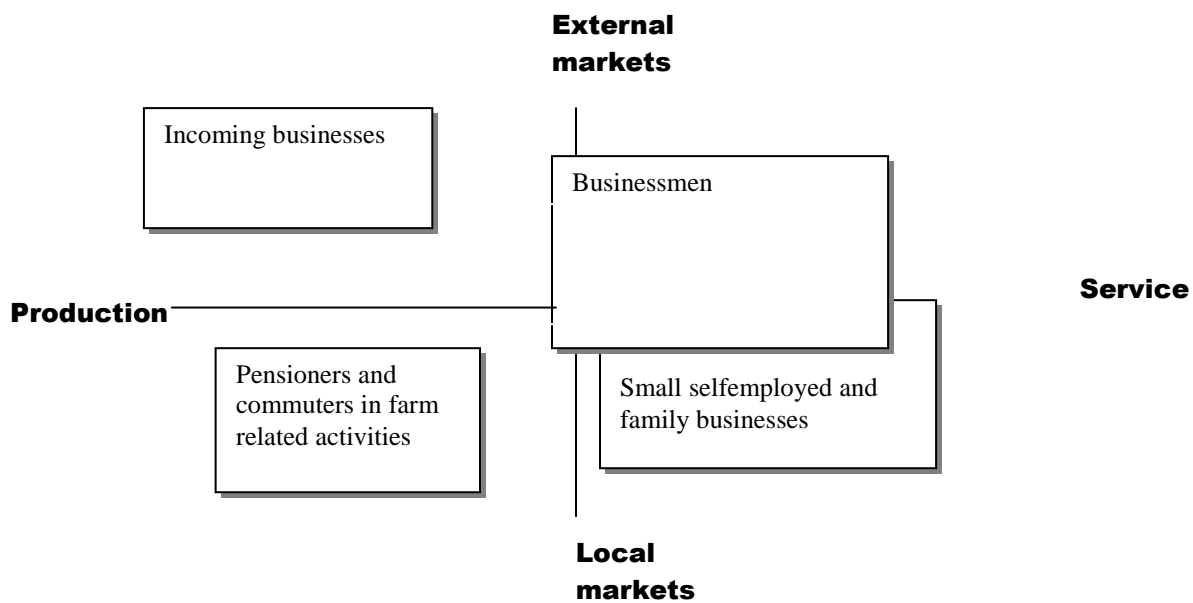


Figure 6.7: Actors and businesses involved in the different activities.

It is distinctive that most recent business developments is started by incomers or are production units or chain stores of outside owned companies. These outsiders or their family are often from the area originally. The tourism owners have all decided to move from the urban area to their restituted property in the rural area. The managers of the incoming businesses all have personal relations to local municipalities or former state enterprises. In these businesses investments, products and advice mainly come from outside the area while local personal relations to influential locals still make it easier to find inexpensive production facilities and to “get things done” locally.

It is locals that are selfemployed in farming, service, retail and sawmills for the local market while it is outsiders that mainly start new production or services aimed at non-local markets (see figure 6.7). However, there are some locals that recently have started businesses aimed at incoming businesses or people from the urban areas. These businesses are, however, based in specific skills in electrical works, homepage design

and in zonetherapy. Skills are mainly new skills obtained from employment or travels outside the local area.

Summing up, when old markets and workplaces disappear, the non-farm economy depends much on attracting businesses and people to the area and also on the extent to which rural inhabitants can integrate into urban labour markets. To keep a local labour market the area has to stay attractive for outside investments. Urban sawmill owners invest in tourism. The incoming businesses have the means to renovate production facilities and develop products that can be exported to urban and foreign markets. Production facilities in good condition, closeness to other wood industries and the availability of trained staff are important local conditions for the incoming businesses. It is therefore essential that people have the skills so they can find employment in the new businesses or start businesses in related activities. New opportunities for locals in business and employment are for people with new skills. But compared to the Latvian areas there is an urban labour market to integrate into for people with skills in farming. Unskilled employment can be found in urban areas but still certain groups of people like less mobile groups and women are excluded from taking part in the new non-farm economy. The Estonian area was prior to independence more agricultural than the Latvian area. Most people had a background in the collective farm and were less affected by urban industries and labour markets. But now the local economy has become more integrated economically with both the district capital and Tallinn. People commute to Tallinn and good roads means that manufactured production can be transported to Tallinn fairly easy.

7. Discussion

The transition from planned to market economy has brought fundamental changes in rural life. The rural economy was in the two areas during the Soviet period based on large-scale agriculture. Both areas have lost their main role and function as agricultural producers within the Soviet Union. This chapter discusses what processes of diversification can be observed and whether the rural areas have found new roles. The findings from the two study regions are compared and also related to concepts and trends identified in the theoretical background.

7.1 The population development – population diversification?

By independence the rural population largely consisted of people employed in the collective or state farms. During privatisation assets were distributed among the rural population. People got land back in restitution, privatised buildings or their household plot. After privatisation the rural population became dominated by small farmers with varying assets and income opportunities. In the years after privatisation there was an increase in population. Some urban residents received property back in restitution. Expensive rents in the urban areas and the possibilities for living with family in rural areas and growing your own foodstuff were reasons to leave the urban areas for the countryside. But there have also been people leaving the areas, particularly young people have left for education or steady employment in urban areas. This out-migration has been partially halted by the difficulties of selling property in rural areas.

Especially in the Estonian area there is a selective out-migration of young people to urban areas. More people would like to move closer to the cities but migration is difficult as selling your land and property will not give you enough means for a place to live close to the capital city. Incomers are often urban sawmill owners that have received property back in the rural area. They have capital from sawmills and invest in tourism in the areas. In the Latvian study region, there is more urban push. There has been an important movement to the area of people that find it expensive to live in the city. These ex-urban incomers are people with little resources.

The areas experience both depopulation and a movement of people from the urban areas. A certain diversification of the population is visible in both areas. However, there is a distinct difference in the resources of the incomers between the two areas. In the Latvian area the increase in unemployed or casual workers mainly attracted by the possibilities of a subsistence income and cheaper living contrasts with the movement of predominantly “middle-class” or “service-class” families to accessible rural areas in Western Europe. In the Estonian area there are some “middleclass” urban sawmill owners that have been attracted by restituted property.

7.2 Farm diversification – From large-scale to very small-scale

Large scale agriculture was the backbone of the rural economy. Most of the non-farm activities were in servicing the local farm sector or processing farm products. During

privatisation such non-farm activities separated from the large farm. From this diversified large-scale agricultural production, farm related activities today mainly take place on-farm at private small farms. Some on-farm activities are a continuation of activities taking place in connection with household plot farming prior to privatisation. Other activities are based in farm machinery and forest received in privatisation. But farm business diversification is very limited.

In the Estonian area a larger share of households than in the Latvian area are involved in small-scale activities based in received farm machinery or forest. But in both areas on-farm activities are related to small-scale subsistence farming. Activities are small-scale and mainly supplementing other incomes and for own subsistence. Products and services depend on the local market, which is limited.

Larger new “on-farm” activities in rural tourism and “alternative farm production” in orchards have not been started with investments from farming but by sawmill owners and people who have forest. Instead of farm diversification, this should perhaps be called “sawmill or forestry diversification”. The small post-socialist farm does not generate much investment for farm diversification.

Some privatised non-farm activities and state enterprises are still in operation, however, common is that these privatised businesses have changed products or services and are not related to the local farming sector anymore.

Thus, the emerging non-farm economy is not connected to the traditional farm sector or investments from farming. Even most people are involved in small-scale farming, the new private farms do not generate much investments for diversification. On-farm diversification is assumed by EU and national governments to be able to make a significant contribution to rural development and alleviate poverty. But farm diversification does not generate much employment or income in these areas. Focusing only on farm diversification leave you with little understanding of the present non-farm economy.

7.3 Industrial diversification - Producing for urban or foreign markets

The industrial production was before independence mainly connected to the agricultural sector or was in traditional rural activities in processing of local resources. Today the production activities are more diverse. There are different kinds of industries; privatised companies, sawmills and companies based on external investments.

The privatised companies are non-farm units of collective farms or state enterprises privatised by former managers or businessmen. These privatised non-farm businesses was called “resilient units” by Swain and Andor (1997) because they more often continued activities compared to traditional farm activities. This was also the case in the study regions in the years after privatisation. However, in the last years the privatised non-farm enterprises have often closed or stopped production activities but in the Latvian area some are still in operation. But these businesses are only “resilient” if they have developed new products and found new markets in the capital areas instead of the

former Soviet markets. The companies are often run by people from outside the local area. To develop new products the companies have changed from local suppliers to importing supplies. The local areas do no longer provide inputs for manufacturing like fish and agricultural products, gravel, and timber. Large investments are also often needed as old production facilities are poorly maintained.

During the 1990s timber production was a profitable business. Well-connected local businessmen sold timber for good prices to capital areas and abroad. But often these businesses are now losing ground and small timber producers have experienced problems because of low prices for timber and competition from Russia. Some local sawmills instead invest in tourism or change to “sawmill services” in the local community. Wood processing and furniture making are increasingly run by incoming production units and outsiders.

There are examples of new incoming industries that are based on external investment. Industries produce more specialised products for specific foreign or urban markets. Similar to “rural industrialisation” experienced in the Western European countryside in the 1970s and 80s, manufacturing industries are attracted to the rural area by lower production costs. Inexpensive production facilities such as empty stables, poultry farms and slaughterhouses attract industries. The companies get most of the supplies from outside the area. But it is not only possibilities for cheap production that have attracted businesses. Closeness to other similar industries in wood processing, a skilled labour force and good roads to the capital area have also been important. This group of businesses can only be found in the Estonian area. Opposite the Latvian area is not attractive to incoming production industries as the area is peripheral from Riga, infrastructure is bad and better production facilities and raw materials can be found elsewhere. Here the privatised production activities intend to leave or close.

There has been a diversification of the industrial production away from mainly processing of agricultural production. There are new opportunities for industrial production of more specialised products to urban and foreign markets. However, investments, supplies and information from outside are necessary in order to develop new products and invest in the renovation of production facilities.

7.4 Service diversification - Filling the service gap

Services were before independence in farm and public services. Since independence new services have emerged filling the “service gap” that was left in the rural areas after many years of communism. According to Swain (2000a) services are the main opportunity for business in the rural areas. In the areas privatised mechanical workshops and farm services have changed to services in repairing cars and radios for private people. Public services have decreased while the number of trade and retail businesses has increased. There are also some service business aiming at a broader market of tourists and the incoming businesses.

The businesses filling the gap are not only “enforced selfemployed” of poor households with no possibilities for employment as proposed by observers. There are small

selfemployed or family businesses but increasingly businessmen and chain stores run both local services and tourism activities. Outsiders from urban areas, often sawmill owners, that have received property back in the area are involved in tourism activities. To start and run a service business investments are needed for either renovation of old facilities or construction of new accommodation and conference halls. The business needs to be specialised to attract larger markets and owners often must have means to cover losses as profits are small.

The service businesses suffer from a weak local purchasing power and difficulties in attracting tourists to the areas. Many service activities have financial difficulties because of decreasing local demand and urban competition. Many grocery stores close.

There are some service activities that have extended activities. These are mainly more specialised services that are oriented on niches in the local market for recreation and slaughter services or activities that service the incoming industries; business services. Then there are some tourism establishments that have attracted foreign tourists.

In the Estonian area incoming production businesses create new possibilities for some local services. In Latvia the variation in services is smaller. The local market is only made up of poor households. In both areas there is an overcapacity of accommodation and conference facilities. The number of tourists is not enough to meet the supply of these services. Tourism businesses must mainly rely on visitors from the local district.

The “service gap” is not yet a profitable business opportunity. Services are a main activity but the local market for services is still small and a service sector for incomers and tourists are only developing slowly. Socialist economies were said to have ignored the onset of the “late modern” era where ex-urban middleclass groups and tourists created a demand for rural service activities. However, counterurbanisation and tourism do still not pose a major opportunity for more diverse public and local service activities in these areas.

7.5 Employment diversification – Integrating into new labour markets

The local labour market surrounding large scale farming has decreased dramatically. Most people have lost their stable salaried employment in the collective or state enterprises. There are still some “old” unqualified jobs left in privatised companies. These jobs are, however, often temporary and unstable. “Old” businesses have been shedding labour and only in a few cases extended the labour force again. Andor (1997) described post-socialist rural areas by a “weak labour force attachment” as there were few new possibilities for jobs.

There are some new job possibilities in the areas. New jobs are in services and the incoming industries. But the local labour market differs between the two areas. In the Latvian area keeping your old job has been the only possibility for employment for many. There are few new local service jobs in retail. In the Estonian area there are no old jobs left and the possibilities for new jobs are more varied. Service jobs are in sale but also bookkeeping, design and electrical work. The new businesses are important

local employers but as much employment demands certain skills or personal contacts, professionals employed in the industries often commute from urban areas. Many service businesses are small and also mainly employ family. The possibilities for new employment are dominantly in the urban areas. The degree of “labour force attachment” very much depends on the possibilities for commuting to urban areas to find employment.

The Latvian region has been characterised by a radical decrease in industrial production and employment in the district capital and the area is peripheral from the capital of Riga. Before independence more local people were involved in commuting for employment in urban industry than today. The Estonian area was prior to independence more agricultural and was less affected by urban industries. But now the local economy has become more integrated economically with both the district capital and Tallinn. The idea of “in-situ urbanisation” proposed by Korcelli & Nowosielska (2000) where the rural area does not experience a massive depopulation but becomes a residential area for the local people that commute to urban labour markets is a possibility in the Estonian area. The area has become part of the Tallinn labour market and many people also commute to the district capital. However, for many people it can be said to be some kind of forced “insitu urbanisation” where it is the unskilled people with few assets that stay in the rural area and have to find jobs outside and the more resourceful can move to the urban areas altogether. For the unskilled and low paid people commuting can be difficult if you do not have a car as public transport is expensive and not made for daily travel.

The diversification of employment possibilities depends on the development of business in the rural areas and very much on the distance to growing urban labour markets. But employment diversification is limited by the fact that many people cannot integrate into the new labour markets because of lack of skills and contacts.

7.6 Multiple incomes – Income diversification

From stable employment in collective and state enterprises people now rely on multiple income sources. Even if many people are involved in farming, farming only makes up a small share of the rural incomes. Farming is small-scale mainly for own consumption. There are few full-time farmers selling to the market. Non-farm incomes make up most of household economies.

The main income sources for rural inhabitants are pensions and salaries. These incomes are supplemented with small scale farming, farm diversification and in few cases trade and retail.

Salaried employment is a main income source for household incomes. But it is distinctive that the local labour market is of minor importance in household incomes. The new businesses have created few possibilities for local inhabitants. Salaries from employment in urban areas provide the major income source for rural households. However, common for most salaried employment is its casual and unstable character. Salaries are often second incomes to pensions in households. In the Latvian area where

employment is often casual and difficult to find a process of marginalisation takes place. Pensions are the main income source in the rural area.

Household incomes have become more diversified but many households also mainly depend on pensions and transfer incomes. In national figures the rural areas also showed to have diversified. The sectoral distribution of employment and incomes were mainly in secondary and tertiary sectors. But the rural areas were also characterised by unemployment and poverty. For many rural inhabitants in the study regions stable farm employment has been replaced by unstable non-farm employment or small scale business activities; more like a “down-ward adaptation”. Rural diversification is expected to be able to alleviate poverty, but diversification is not always an “upward” adaptation.

7.7 Social diversification - People and the limited action space

For some people the income in the collective farm has been substituted by private business activities or a steady wage job, but many people have only found unstable employment or selfemployment providing little incomes and they often depend on pensions. The population, the activities and incomes are more diverse but an increasing inequality between people can also be observed. Certain individual skills and assets have been necessary to possess in order to find employment and to start business. “Economic capital” in the form of assets obtained in the privatisation such as a tractor, vans or production facilities made it possible for some people to start a business or trade it for money to invest into other activities. “Human capital” such as skills in forestry, services and management were essential for non-farm business and finding employment as farm experience were not sought after. “Social capital” in the form of contacts to local influential people similar to “political capital” that was proposed as typical for the socialist era made it possible for some people to acquire buildings or machinery inexpensively to start up activities like grocery stores, sawmills or production. It was people with these “capitals” that initially had the possibility to exploit new opportunities and be entrepreneurs and not just “enforced selfemployed”.

The combination of different types of “capitals” has been crucial. A non-farm skill without any means to invest or access to production facilities makes it difficult to stay in business. In article 1, rural businesses based in only a specific skill or social relations are termed “vulnerable entrepreneurs” compared to mainly businessmen and managers of privatised enterprises that have buildings, means to invest and contacts to other leaders. These are “flexible entrepreneurs”. The many people that received few assets in the privatisation and mainly had skills in agriculture had little choice in replacing lost incomes at all after privatisation. Their “action space” for engaging in new activities was limited.

There was a social diversification between different rural inhabitants. After privatisation there was a “business class” of businessmen and former managers and then small scale farmers or unemployed struggling to find ways to survive. The businessmen and managers of privatised companies had the capacities of exploiting new opportunities where the farm workers had few choices of replacing incomes from the collective farm.

In the Latvian area the dual structure was particularly strong as former managers privatised production facilities and many farm workers could not obtain enough vouchers to privatise more than small land plots whereas in the Estonian area more people received land, forest and machinery.

However, people might have benefited from specific assets in the privatisation and relations to local leaders but today without large investments and new information and contact to markets abroad or in the capital city extending activities or finding employment are difficult. "Reach" to outside the local area is essential. Today the social diversification is between people with reach and people without. People with reach have easier access to new information and skills. "Human capital" on how the new system works, skills in service and computers and information on new markets and products are essential today. Persson et al. (1997) found that the difference in reach between traditional and ex-urban rural households were marked in the Western European countryside and could explain why it was mainly incomers that were involved in new business developments. A "counterurbanisation-led" business development was distinctive. In the study regions counterurbanisation is not a strong phenomenon. However, it is increasingly the little group of incomers in the countryside such as incoming production businesses and urban sawmill that are running rural businesses other than small scale farm related activities. These groups have access to investments and information from outside while many local people must leave businesses because of no access to investments and information on new activities. Few local households are involved in business that has found a market outside the local area. Such activities are taken on by outside businessmen and incoming businesses. Therefore integrating into a new labour market is a necessity for most rural inhabitants. Physical reach and mobility is especially important for the unskilled farm workers as unskilled employment is mainly found in the urban areas. Even in the Latvian area where incomers were people with less resources compared to incomers in the Estonian area they often have better contacts to the urban labour markets and therefore more possibilities to find salaried employment than many locals.

Those who rely exclusively on devalued capitals are likely to become marginalized. Extending the individual "action space" for rural inhabitants is therefore essential.

7.8 Network diversification

The local organisation, which existed in connection with the collective farms, has not been replaced by many new associations and public institutions. The collective farms organised public services, social events and holidays and people were part of working brigades and local clubs etc. (see article 2). Today low civic engagement and a limited number of institutions characterises the rural areas.

Western European studies on non-farm employment suggested that a distinctive feature of rural regions that had experienced a rise in non-farm activities were local networks between public institutions, businesses and the local population. Such local networks could provide information on new products and markets for the local population.

In the study areas only few people and businesses are organised in associations or actively seek information on non-farm opportunities. Many people do not trust the government, banks or official institutions (see article 2). But there are also only few institutions to approach. The agricultural institutions are just like before independence the only public actor concerned with rural issues. The main institution people have been in contact with is the agricultural advisory service. There are some people with a specific trade such as baking, riding or pottery that are members of a national trade organisation. And it is noticeable that people that have attended local meetings held by the agricultural advisory service or people that are member of associations have in many cases been inspired and now have plans to build fishponds or have started new activities in riding, baking and pottery. So it is possible to spread information in the rural areas.

But for many people when the organised activities in the collective farms have disappeared, only neighbours and family are left to rely on. These networks are important for survival but they cannot provide investments or much information on new markets. The network of “old” business managers often reached further outside the very local area to other managers and mayors in the wider regional context. This kind of “political capital” were important after independence, but those who only depend on relations to local former managers or Russian business contacts have difficulties in finding markets and financing and information for new services or products. These “business networks” can become too closed and outdated as local mayors and transformed businesses loose influence. These can be “stagnating networks” (article 2). However, these networks are still important but cannot stand alone. The managers of the incoming businesses find investments, products and advice mainly from outside the area while local personal relations to influential locals still make it easier to find inexpensive production facilities and to “get things done” locally.

In these areas rural inhabitants and businesses work isolated from official institutions, and only a few attend local meetings. As the number and kinds of organisations and institutions are few, possibilities for information and learning about other opportunities than farm diversification are limited. Some people have the capacity to convert their devalued capitals into valuable ones through relations to outside the area. They can find own contacts and information in the capital area while others depend on that such information is spread in the local area through organisations and networks. Unemployed or retired farm workers make up a large proportion of the rural population and they are economically weak and socially little organised. Therefore many people and also many businesses have few possibilities to change their capitals and extend their reach. In especially the Latvian area participation in more organised activities are limited. In the Estonian area more people are organised as there is a “village movement” locally. The “village movement” provides some more possibilities for courses in entrepreneurship and organising child care when public services close.

Those who rely exclusively on now devalued capitals were likely to become marginalized. But when the institutions and networks to change them are few, the “action space” for engaging in new non-farm activities is for many people ever diminishing.

7.8 Summing up – What new roles?

The national figures showed that the rural incomes were diversified but also that rural areas experienced high unemployment and poverty. This study also shows that the rural incomes are diversified. Farming has very little importance in household incomes. But the local perspective of this project gives an insight into why diversification does not mean higher incomes and prosperity in these rural areas. The non-farm economy is weak and does not provide incomes or employment for a large part of the rural inhabitants. Many people cannot exploit the few new opportunities and the regional conditions are changing. The two study regions were respectively an “agricultural region” and an “industrial region” but today they have lost these roles and new roles are only emerging slowly.

7.8.1 Processes of diversification

Some “business diversification” has taken place. From mainly being in farm service and processing, the rural business is now also in services and industrial production. But only some businesses and branches show viable whereas others experience great difficulties and create little incomes. The more traditional and place specific rural business in farm related activities and processing of local produce are diminishing. Farm related activities and also local timber production are predominantly small scale depending on the local market and providing little incomes. The main opportunity for business development is to find a service or product that attracts a larger market than the local. As described in figure 7.1 it is the industrial production and some services that attract a broader market than the local. However, it is evident that these business developments demands great investments and information from outside. Often it is outsiders to the areas that are involved in such activities.

Until now such new business developments have created some new employment possibilities which, however, can be difficult to get for many local people because of lack of required skills. The “employment diversification”, thus, depends on whether local people can integrate into the new local labour market but even more so on the possibilities for commuting to employment in the urban areas. Urban employment is essential for rural incomes.

The time dimension is important here as the conditions have changed over time. What is apparent is that the non-farm economy has changed markedly over the last decade. The drivers and conditions for the rural economy changed at independence and are still changing. The rural economy has become more diversified from mainly being connected to local farming activities to now being generated by demands for services, production for outside markets and urban labour markets. But non-farm incomes are often unstable and small and pensions are a very important income in the rural area. A process of marginalisation takes place alongside the new processes of diversification.

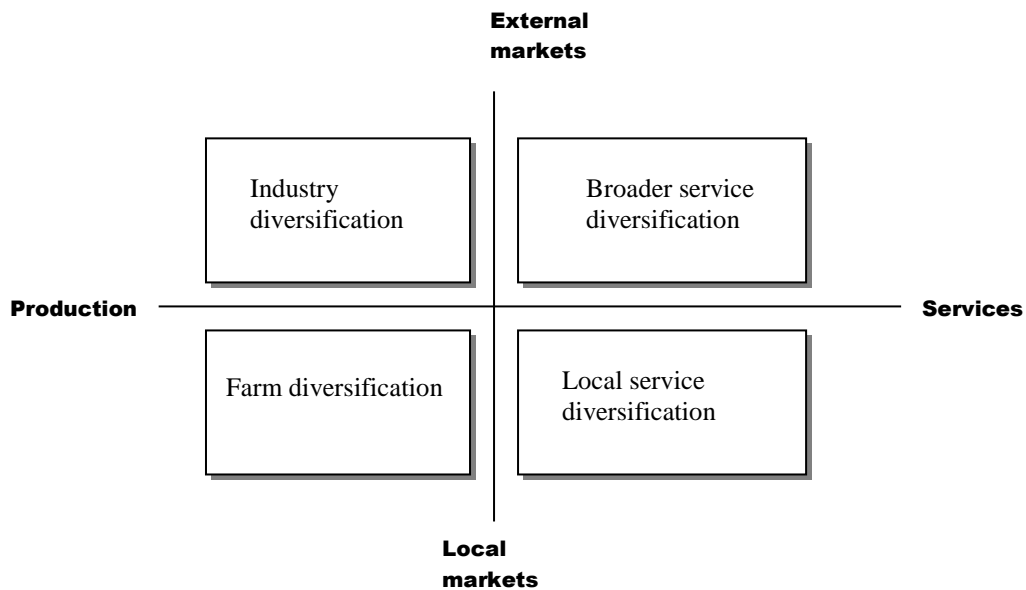


Figure 7.1: The types of business diversification divided into sectors and markets.

7.8.2 Roles and function

New roles for the rural areas are emerging slowly. The rural areas are still places of production. However, the production activities have changed markedly. The role of the study regions as suppliers first of agricultural products and at the moment of wood is declining. They do no longer provide much input for the local manufacturing businesses such as timber, fish and agriculture. The areas are to some extent suppliers of cheap production facilities. Large stables, tiled non-farm production units, poultry farms and slaughterhouses from the Soviet period house transforming businesses but have also attracted new manufacturing businesses; a “rural industrialisation”. The production activities in the rural areas are today in manufacturing of imported supplies of timber and food products based on investments from outside. Cheap production facilities are important for incoming businesses locating in the areas but just as important are local factors such as a skilled labour force and relations to local administrations.

The rural areas as places of consumption are only emerging slowly. The market for services is still mainly made up of locals. Tourists visiting the areas are still few and not enough to fill up the present facilities. Counterurbanisation of urban people searching for the “rural idyll” cannot be observed. There is some “middleclass” urban sawmill owners that have been attracted by restituted property. They are very important for business developments in tourism but the areas are not residential areas for middleclass ex-urban commuters. The skilled urban people employed in new jobs in the rural areas mostly commute from the urban areas. In-situ urbanisation in the rural area is a possibility in areas with urban labour markets also providing unskilled employment.

7.8.3 Conditions; regional and individual

The development of a service society and new export markets in Western Europe add new structures potential to influence and change the countryside to a more diversified

economy but locally the non-farm economy is somewhat weak. The extent to which new processes of diversification gains foothold and create employment and income in the areas depends very much on the distance and relations to the urban markets and labour markets and the skills and capacities of people. Figure 7.2 summarizes the changes in role and function of the rural areas and the main regional and individual conditions for the development of a non-farm economy in the study regions.

The difference in regional context between the areas can explain some of the differences in the extent and strength of the non-farm economy. The two study regions were respectively an “agricultural region” and an “industrial region”. The agricultural production and employment has dramatically decreased in both areas and so has the industrial production activities both in the rural area and also in the city that was characteristic of the Latvian industrial region before independence. The regions have not developed into “recreational regions”; tourism can still not make a living for many of the rural households involved. Neither are the regions A- areas that experience a rising population of “middle-class” incomers from the urban areas. The regions are B- areas that lie outside the main commuting zone of the capital areas. However, it is very much urban development that influences the rural diversification in the areas. The regional setting especially the distance to a growing urban area is increasingly crucial for opportunities for exports and urban salaried employment and also somewhat for the slowly emerging tourism. The orientation towards the capital areas has placed the rural municipalities even more in their differential regional context. Even none of the study regions neighbours capital areas it is still the Estonian area that lie closer to a capital city than the Latvian area. And the district capital in the Estonian area offers more employment than the Latvian that is characterised by heavy unemployment. The Latvian area is becoming more peripheral in social and economic terms while the Estonian area is integrating with urban areas.

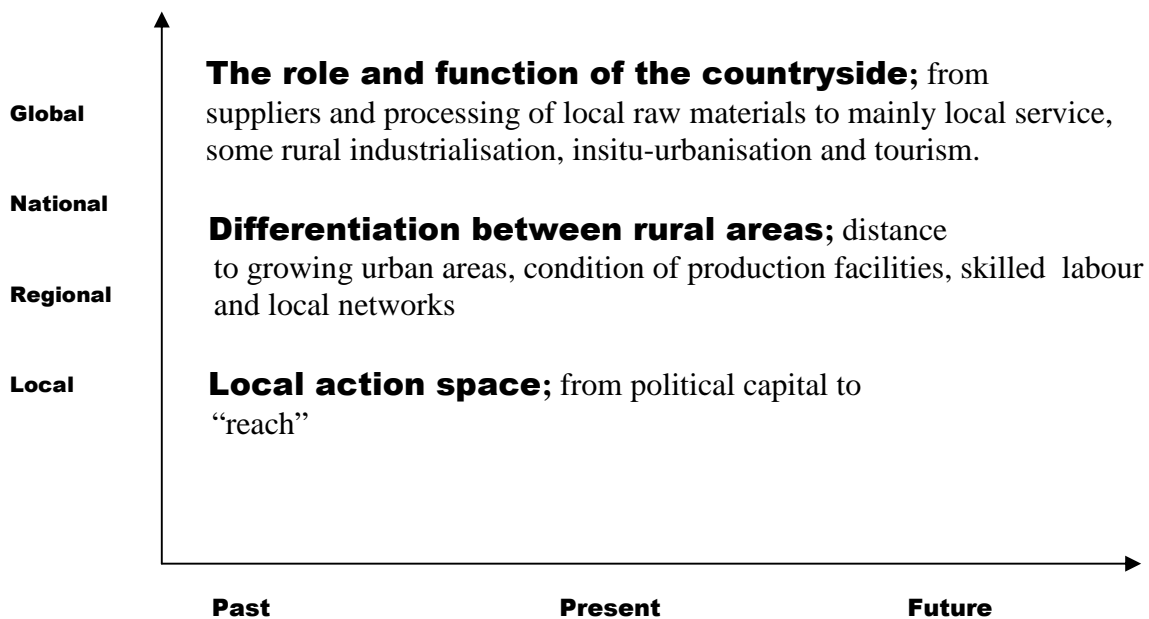


Figure 7.2: The conditions for rural diversification in space and time.

The drivers for the present non-farm economy are very much exogenous to the areas. The scope for rural diversification seems to be about integrating into the new economy. It is from outside the area investments are found for renovation of production facilities. Markets are outside the rural areas and information on products comes from outside. But what is clear is that diversification in areas like this is not something that just develops but a process that needs an active effort and specific local capacities. So the endogenous capacities are important. But the endogenous potential and more place specific conditions like production facilities, infrastructure, skills and very much the local institutions and organisation of people appear weak. The difference in quality of infrastructure and the production facilities from the Soviet times is evident between the two areas. Besides the long distance to Riga the bad infrastructure is a reason why production businesses leave the Latvian area.

The rural areas and inhabitants are to find new roles in a more open system, where rural diversification is about learning new skills and integrating into the broader society and urban development. In these areas parts of the rural communities become “hidden economies” as proposed by Raagmaa (1997) that do not integrate into the new labour markets and markets. It is obvious that many people and businesses have difficulties in exploiting the new opportunities. Many people lack skills and relations to outside the areas. Some people are pulled by new opportunities while many are pushed by low incomes. The local capacity for withholding, developing and inducing new activities is therefore weak.

7.8.3 Policy

Today most support for rural areas is financial support to modernisation of agriculture through the EU SAPARD funds. In SAPARD there are also some support for “economic diversification of rural areas”; support mainly for farm diversification and tourism at individual households.

The diversification found in the study areas does not reflect the vision and expectations for tourism development and farm diversification creating employment and alleviating poverty. In the rural economies in the study regions traditional farm diversification is not important for employment or household incomes but it is essential for survival. Several people in the local areas have or have plans to invest in tourism accommodation. But tourism needs high investments which make it only very few people that is able to start such activities but also the number of tourists needs to be promoted. The development of tourism businesses are more supply than demand driven. Tourism is mentioned in regional development plans for both areas as the main opportunity. But tourism seems as a too fragile element of rural diversification. The Regional Development Plans for the counties also see the wood industry as a major future perspective. Small sawmills are disappearing but large firms might move into the areas with foreign investments if there is a skilled labour force, production facilities in good conditions and helpful local administrations.

Promoting a stronger non-farm economy needs to be many-sided. Policies must include investments in infrastructure and old production facilities but must also help people obtain new skills and contacts to outside the area. In order to encourage diversification,

policies and programmes must work to extend the “action space” for exploiting new opportunities. Support for on-farm activities needs to be accompanied by education and mobilisation of local people.

There are different people in the rural area and therefore different policies are needed. Some people respond to financial support and better loans where others need to get new skills and support networks before they can respond to traditional support programmes. When learning about new sectors, markets and supplies come from outside the district and when most people are not organised and there are few institutions for advice and information, the potential for dissemination of new ideas is low. In order to convert the devalued skills and even the “political capital” into valuable capacities, learning about the new situation is essential. The possibility to change capitals is essential but unfortunately the institutions for supporting this change are not in place.

8. Concluding remarks

The rural economy has changed dramatically during transition. Before independence the rural economy in the two study regions was centred around large-scale farming. Besides agriculture, non-farm activities like mechanical workshops gave technical assistance and service to agriculture, while processing units took care of processing of local agricultural produce or other local raw materials like gravel, timber or fish. During privatisation assets from the large farms and state enterprises were distributed among the rural population. Most people got land back in restitution or privatised their household plot while some privatised buildings, workshops or processing plants. After privatisation the rural population was dominated by small farmers with varying assets and income opportunities and some people running privatised businesses.

Today the rural incomes are diversified. From stable employment in collective and state enterprises people make a living from multiple income sources. Even if many people are involved in farming, farming only makes up a small share of the rural incomes. Farming is mainly small-scale and for own consumption. Non-farm incomes make up most of household economies. The main income source for rural inhabitants is pensions and salaries from construction and services.

The rural business activities are in local services and industrial production. The areas are still places of production but the more traditional rural business in farming and farm related activities like farm services, mechanical workshops, food processing of local products and also timber production are diminishing. Today activities related to farming and local timber production are predominantly small scale and for sale in the local market or for own consumption. Production activities are in manufacturing of food and wood processing. The industrial production is sold to the capital area and abroad. Supplies for the production are no longer local farm produce or raw materials but found outside the rural area.

Service businesses are mainly local services in trade and repair while there are some activities oriented towards a larger market of tourists and businesses. The rural areas as places of consumption are only emerging slowly. The market for services is still mainly made up of locals. Tourists visiting the areas are still few and far between and not enough to fill up the present facilities.

The local labour market has decreased markedly since independence. Jobs in traditional rural industries and farm work have diminished while there has been some increase in mainly skilled employment in wood processing, accounting and services. Manufacturing and services have taken over as the main local employer. Salaried employment is a key income source for households but it is distinctive that the local labour market is of minor importance in household incomes. The new businesses have created few employment possibilities for local inhabitants. New local jobs are often for outsiders that commute out to the rural area to work as they have the skills in services and bookkeeping.

Salaries from unskilled employment in construction and services in urban areas provide a major income source for local rural households. However, common for much salaried

employment is its casual and unstable character.

The rural economy works within changed frame conditions. The agricultural markets have diminished. With the development of a service society and new export and labour markets come new possibilities for a more diversified economy but locally the diversification processes are weak. The local perspective of this project allows an insight into why a non-farm economy in transition is vulnerable and weak. Many people cannot exploit the few new opportunities because of lack of skills and assets and the regional conditions are changing. The two study regions were respectively an agricultural and industrial region but today they have been stripped of these roles of which new ones are only emerging at a slow rate.

The difference in regional context between the areas gives different conditions for the development of the non-farm economy. The distance to a growing urban area is increasingly crucial for opportunities for employment but also for businesses settling in the area. The possibilities for commuting are a major difference between the two areas. In the Latvian area unemployment in the county capital means that people that have lost their employment in the rural area have few possibilities to find replacement. Incomers from the urban area are moving to rural areas looking for possibilities of a subsistence income and cheaper living. A process of marginalisation takes place and pensions are the main income source in this area. The Latvian area is becoming more peripheral from the capital area of Riga while the Estonian area is becoming part of the labour market of the county capital but also of the capital area. In the Estonian area unskilled people and former farm workers have the possibility to find employment in the urban area. People commute to Tallinn. It is also only the Estonian area that has seen an increase in incoming industrial companies and urban sawmill owners starting tourism activities. These are attracted by good roads to Tallinn but also very much local conditions such as production facilities in good condition and the availability of trained staff. It is therefore essential that people have the skills so they can find employment in the new businesses or start businesses in related activities.

The individual conditions for exploiting new activities also differ between people in the rural areas. For some people the income in the collective farm has been substituted by private business activities or a steady wage job, but many people have only found unstable employment or selfemployment providing little incomes and often depend on pensions. The population and activities are more diverse but an increasing inequality between people can also be observed. Certain individual skills and assets have been necessary to possess in order to find employment and to start business.

Finding employment or starting business was after independence based in the distribution of assets in the privatisation of collective farms and state enterprises. Buildings and machinery were important for starting activities. Specific non-farm skills or relations to local influential people were also essential. The people involved in business was people that received farm machinery or forest and in many cases managers from the local collective or state enterprises who privatised the enterprise or whose personal contacts made it possible to attain buildings or machinery to start up activities like grocery stores, sawmills or production activities.

Increasingly contacts to capital areas and Western markets and suppliers are necessary for rural business development as local and Russian markets are diminishing and local influential people have lost power. Managers that depend mainly on the local market often experience low sales and income while it is businesses that have found a product that can be sold to urban areas or abroad or a service that attracts a larger market than the local that expand. But developing and financing a product and service that can attract a larger market need investments and often also supplies and information from outside the local area. Today there are privatised enterprises, local businessmen and some local selfemployed engaged in rural business but increasingly urban businessmen and incoming businesses with external capital and business networks are taking over. The areas are not residential areas for many ex-urban movers but increasingly the little group of incomers in the countryside such as incoming production businesses and urban sawmill owners are running most rural business activities. These groups have access to investments and information from outside while many local people must leave businesses because of few means and little information on new activities. Local inhabitants are mainly involved in small scale farm related activities and local services and unskilled employment while it is incoming businesses and outside businessmen that engage in exports and tourism and find employment in new rural businesses. Business activities only add a small part to local household incomes.

A crucial point is that many rural inhabitants have difficulties in exploiting the few new opportunities for non-farm activities. As many people have mainly skills in agriculture, few means and assets and no contacts to markets and labour markets outside the area, they cannot find employment or start business activities.

The conditions for non-farm activities and incomes depend much on the presence of non-farm activities before independence, in both production facilities but also in the skills and relations people have. But since independence markets for farming and traditional rural services and products have decreased and the “old” labour markets have diminished. Therefore the extent to which businesses have found markets outside the local area, people have been able too integrate into the new labour market of service and construction jobs and the areas maintain to be attractive for incoming businesses and people are essential for the diversification of the rural economy.

The transition from centrally planned economy to market economy has had an enormous impact in the rural areas. Agricultural production and employment has decreased dramatically. The rural economy is diversified, however, the diversification does not mean higher incomes and prosperity for many rural inhabitants. The population, the activities and incomes are more diverse but rural areas suffer from unemployment and low incomes and a strong dependence on pensions. The non-farm economy does not provide incomes or employment for a large part of the rural inhabitants. The diversification found in the study areas does not live up to the vision and expectations for tourism development and farm diversification creating employment and alleviating poverty. In the rural economies activities taking place on-farm is not important for employment or household incomes but it is essential for survival. Several people in the local areas have invested in tourism businesses. But tourism needs high investments which make it only very few people that is able to start such activities but

also the number of tourists is also small. There are more tourism businesses than tourists in the areas.

Encouraging a stronger non-farm economy needs to be many-sided. Support must include investments in infrastructure and old production facilities but must also help people obtain new skills and contacts to outside the area. In order to promote diversification, policies and programmes must work to extend the possibilities for local inhabitants for exploiting new opportunities. Funding needs to be complemented by education and the local population's self motivation.

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Annex 1

The Latvian case study – List of interviews

Village survey – List of household interviews, Spruzeva village, Griskanu municipality, 5-8th of October 2001, Listed are people present at the interview⁴⁴

1. Unemployed woman and retired mother (age 30, 61).
2. Couple (age 45, 49); wife working in farm cooperative and husband in occasional farm work and own sausage making and retired father.
3. Couple (age 55, 52); husband supervisor in mechanical workshop and wife unemployed kindergarten teacher and retired mother. (taped)
4. Man and daughter (age 52, 18); man occasional work in mechanical workshop and daughter in hairdressing in Rezekne City and retired mother. (English)
5. Man (age 47); unemployed mechanic and retired father.
6. Couple (age 69,65); retired and built a fishpond and homebrew.
7. *Man (age 49); occasional work in agro-service station.*
8. Woman (age 56) work in farm cooperative.
9. Woman (age 80); retired and selling knitwear and sausages.
10. Couple (age 69, 73); both retired and selling some farm produce. (taped)
11. Man and retired mother (age 47, 80); man occasional construction work and mother retired.
12. Woman (age 35); cleaner living with her retired parents.
13. Man (age 47); railway attendant and retired mother.
14. Couple (age 57, 56); husband truckdriver and wife in local trade and retired mother.
15. Woman (age 29, 32); shop assistant, husband unemployed construction worker, built a sauna (English)
16. Couple (age 46); man economist in county council and wife working in the local council. (English) (taped)
17. Man (age 40); bus driver. (English) (taped)
18. Woman (age 56); worker in industrial bakery in Rezekne City.
19. Man (age 45); owns a van and do transport jobs.
20. Man (age 39); unemployed and selling occasional pottery.
21. Couple (age 78, 69); retired and have beehives and make sausages.
22. Couple (age 29, 32); unemployed living in retired parents' house.
23. Woman (age 32); unemployed living with parents.
24. Man (age 43); temporary construction work and selling of vegetables, sausages and agro-services and retired mother.
25. Couple (age 32, 37); woman unemployed and husband fixing cars.
26. Pottery workshop; potter.

⁴⁴ The first person listed is the "head of the household".

List of business interviews, Griskanu municipality, 1st-5th of October, 2001.

27. Grocery store; daily manager of shop and owner. (English)
28. Gas station; shop assistant.
29. Post office; postal employee. (English)
30. Family grocery store; mother and grown-up daughter. (English)
31. Grocery store; owner. (English)
32. Agro-service station; director.

List of business interviews in Rezekne county, 8th-11th of October.

33. Freight company; one of owners.
34. Hardware store; one of owners. (English)
35. Heating and maintenance services; owner.
36. Mechanical works; owner.
37. Dairy company; daily manager.
38. Riding school; owner. (English)
39. Fish processing; owner in Rezekne City (English).
40. Repair workshop fixing radios and cars; owner.
41. Pasta sauce manufacturer; daily manager.
42. Bakery; owner.
43. Mechanical workshop; owners.
44. Sawmill, guesthouse and hydroelectric plant; owner.
45. Sawmill and hotel; owner.
46. Family tourism business; owner.
47. Mechanical workshop; owner.

List of Interviews with key persons in Rezekne district

48. Griskanu municipality, head clerk, 1st, 4th, 7th of October.
49. Inara Skudra, Business development services, Kaunata municipality, 9th of October. (English)
50. Sandra Tucs, Head of the Local Womens Organisation, 8th of October
51. Mr. Arbidane, Working in the local administration in Nagli municipality, 9th of October.
52. Ligita Lebeda, Rezekne District Tourism Information Centre, 3rd of April and 10th of October. (English)
53. Sandra Ezmale, Regional Development Agency, 3rd of April. (English)
54. Maija Muceniece, Latgale Business Support Centre, 3rd of October. (English)
55. Inese Kursite, Project leader of Rural Partnership Programme, 3rd of October. (English)
56. Mushroom farm; owner, 8th of October. (English)

List of interviews with key persons in Daugavpils and Riga, April, 2001

57. Inga Goldberga, Director, Latgale Region Development Agency, 2nd of April.
(English)
58. Inara Stalidzane, Head of Rural Partnership Programme, Latgale Region, 2nd of April. (English)
59. Hans Kurt Rasmussen, Pre-assessing Advisor Latgale District, 2nd of April.
60. Baiba Rivza, Professor, Latvia University of Agriculture, Jelgava, 8th of April.
(English)
61. Zaiga Krisjane, Dr. Researcher at the Institute of Geography, University of Latvia, 9th of April. (English)

Annex 2

The Estonian case study – List of interviews

Village survey - List of household interviews⁴⁵, Ulde Village, Olustvere municipality, Estonia 16th-19th of October 2001.

1. Female pensioner and unemployed daughter (age 76, 52).
2. Construction worker and unemployed wife with one child (age 28, 29).
3. Schoolteacher and unemployed wife and one child (age 45, 39). (English, taped)
4. Sawmill worker and unemployed wife and two children (age 43, 37).
5. Retired man and wife (age 76, 80).
6. Sawmill worker and unemployed wife (age 45, 47). (taped)
7. Retired man (age 71).
8. Unemployed teacher (age 48). (taped)
9. Construction worker and teenage son (age 43, 17).
10. Masseuse and zonetherapist and construction worker (age 45, 47).
11. Man (age 78); running a slaughterhouse business.
12. Woman (age 42); family run shop and husband in construction work.
13. Shop assistant and construction worker and one child (age 32, 31). (English, taped)
14. Unemployed textile worker and construction worker and two children (age 28, 30). (taped)
15. Unemployed kindergarten teacher and construction worker (age 45, 47). (English/taped).
16. Receptionist in Viljandi hotel (age 36). (English)
17. Man in occasional farm and construction work and retired mother (age 48, 75).
18. Farm and construction work and unemployed wife (age 49, 52).
19. Farmer and wife (age 46, 48).
20. Man and wife; both unemployed and three children (age 43, 49). (taped)
21. Textile worker and construction worker, son and retired mother Parents (age 42, 47).
22. Construction worker and unemployed wife (age 48, 50).

List of business interviews, Olustvere municipality 18th-20st of October

23. Mechanical workshop; owner.
24. Mobile shop; owner. (English)
25. Wood processing; daily manager.
26. Sawmill services; owner.
27. Berry and orchard farming; owner.
28. Second hand shop; owner.

List of business interviews, Two neighbouring municipalities, 21st-24th of October

29. Furniture manufacturer; managing director. (English)

⁴⁵ The people participating in the interview are listed. The person mentioned first is the main respondent in the questionnaire survey.

30. Spring water manufacturer; daily manager.
31. Swiss candle manufacturer; daily manager. (English)
32. Sawmill and mechanical workshop; owner.
33. Hotel and bar; owner. (English/taped)
34. Electrician. (English, taped)
35. Homepage designer. (English, taped)

List of interviews with rural tourism businesses, 25th of October, 2001

36. Guesthouse for church groups; owner.
37. Hunting and pheasants; owner.
38. Bed and breakfast; owner.
39. Conference centre, owner. (English)

List of interviews with key persons in Viljandi district,

40. Head secretary, Olustvere municipality, 16th of October.
41. Kaja Kaur, Head of Viljandi District Village Movement, 15th and 26th of October. (English)
42. Peter Aree, Mayor Suure-Jani Town, 26th of October. (English)
43. Piia Kask, Karski-Nuia Tourist Information Centre, 31st of March and 25th of October. (English)
44. Ivar Lepmets, Head of Business and Development office, Viljandi district, 30th of March. (English)
45. Andres Roigas, Regional development officer, Viljandi District, 30th of March and 15th of October. (English)

List of interviews with key persons in Tallinn and Tartu, 27th-29th of March 2001

46. Kadri Kreisman, Rural Development Specialist, Estonian Fund for Nature, 27th of March
47. Renate Pöder, Estonian Farmers Federation, 28th of March
48. Kaidi Nõmmerga, Estonian Rural Tourism Association, project manager, 28th of March
49. Rivo Norkoiv, Consultant, 29th of March
50. Riin Saluveer, Bureau of Rural Policy, Ministry of Agriculture, 28th of March
51. Dr. Garri Raagma, Researcher, Institute of Geography, Tartu, 28th of March.