Land improvement grants

Audit Report No OSIV-2-6/05/23 of March 22, 2005

Executive summary

The State Audit Office (SAO) has audited the provision of grants and other assistance for the management of land improvement systems. The objective was to inspect whether the state aid had been given in compliance with the established procedure, but also to evaluate if such procedure was rational and in line with the goals set for grant approval.

It was in 2003 that for the first time since the restoration of Estonia's independence the government provided financial assistance for the maintenance of amelioration systems - EEK 15.7 million in total. No allocations were made in 2004, and the Ministry of Agriculture applied for EEK 9 million from the 2005 budget for this purpose.

726,748 hectars of 1.12 million hectars of arable land in Estonia have been drained. The Estonian National Development Plan 2004-2006, endorsed by the Government of the Republic, reads that "… 70 percent of the drainage systems were built over 20 years ago. Land improvement systems become outdated (fully depreciated) after 25-30 years. /---/ Decline in agricultural production and shortage of investments in the sector reduces the proportion of lands with good and satisfactory drainage by approximately 3-4 percent a year. /---/ In terms of agricultural land, we are facing a situation where well-drained cropland may go to waste on idle areas in 6 to 10 years and all drained lands may go out of agricultural use in 25-30 years".

The existing reconstructed or to-be reconstructed amelioration systems on usable land have to be properly maintained in order to keep them in good working order for longer (i.e. in order to cut the costs for the correction of failing systems). This obligation has been laid on the land owner (amelioration systems are located on both state and private lands) and on persons using the land improvement systems belonging to other persons.

In 2003, an estimated 10 percent of all land improvement facilities were managed with the assistance from the government, the bordering of managed areas on idle areas diminished the potential effect arising from maintenance/management activities.

The Government has no overview of the scope of maintenance work performed by land owners and users for their own money. According to the specialists of the Ministry of Agriculture and the land improvement bureaus, the routine maintenance of most land improvement systems has remained largely unaccomplished, and in order to ensure the proper functioning of these systems, the ordinary management practices are insufficient, instead it requires remarkably greater expenses.

Well-functioning amelioration systems would enable to reduce exposure of agricultural producers to excessive moisture in rainy years and hence cut the government expenditures on partial compensation for the loss of crops (e.g. in 1998 EEK 227 million was paid to agricultural producers in compensation for crop failure).

At present the government has no comprehensive overview, which would draw on reports or surveys, of the condition of land improvement facilities, or a scheme for fixing the order of maintenance and restoration works on these facilities; neither are there clear-cut criteria set for making decisions on these issues. The government has paid and will pay, probably also in 2005, grants to those applying, without giving any specific government directions for the preservation and development of amelioration systems.

It was noted in the course of audit that in 2003 assistance was provided for the maintenance of systems on lands that were not used as profit yielding land or about which it was evident that maintenance alone cannot substantially improve their condition. Such assistance did not accord with the aims of land management as provided in the Land Improvement Act – to preserve and enhance the production value of profit yielding land and residential land; any such use of resources cannot be regarded as efficient and effective.

Expenses incurred for the performance of agricultural engineering works were also reimbursed, although agricultural engineering cannot be seen as the maintenance of land improvement facilities.

Some of the employees of the land improvement bureaus who evaluated and approved of the work

schemes submitted in the process of applying for assistance and who also monitored the accomplishment of such works, belonged to the Boards of the land improvement associations applying for grants, in this way violating the requirement of the civil service code of ethics that an official should avoid situations, even seeming situations which might throw doubt on his/her impartiality and objectivity in handling issues.

The methods used for the allocation of grants by the Agricultural Registers and Information Board who administers the land improvement grants and the control procedures used by the said Board and the land improvement bureaus ensured that grants were paid to persons who actually maintained the land improvement systems and payments were made according to the rates established by the Minister of Agriculture. However, the SAO cannot confirm that all applicants were treated equally – some of them were allowed extra time for the completion of procedures required for application, but not every applicant was notified of such possibility.

Major proposals to the Minister of Agriculture

- Take inventory of the land improvement systems in government ownership and on the basis of estimates obtained in the course of such inventories, decide which land improvement systems and in what order should be maintained and renovated, with due regard to the need to raise the production value and the productivity of land through such works.
- Initiate amendments to the Rural Development and Agricultural Market Regulation Act so as to make provision for the establishment of requirements for land areas with improvement facilities which qualify for maintenance grants, or to delegate authority to the Minister of Agriculture for establishing requirements thereof.
- With prior approval of the Minister of the Environment, make a proposal to the Government of the Republic to add a provision to the procedure for granting usufructuary rights to state-owned land or for the establishment of a usufruct over state-owned land which would obligate the usufructuary to undertake maintenance work on the land improvement systems situated on the plot in the usufructuary's temporary use and authorises the grantor to terminate the usufruct agreement and make a claim, if necessary, on the usufructuary for the inflicted damage, if this provision has been violated.
- In the procedure for the payment of grants, make provision for the obligation of a landowner to implement good agricultural practices (for the purposes of the Water Act) in the use of land improvement systems.
- Initiate amendments to the Land Improvement Act and the Rural Development and Agricultural Market Regulation Act in order to make provision for the obligation of landowners to record the repairs and maintenance works performed on land improvement facilities in the field books (and/or maintenance books) kept by them and for the condition that state aid for the repair and maintenance of land improvement systems is granted only to those persons who keep correct records thereof.
- In the procedure for the payment of grants, set forth the terms and conditions for the application for and payment of grants to landowners who operate under a partnership agreement.
- In the procedure for the payment of grants, lay down if and under which conditions can the grants be given if the works actually performed differ from those specified in the annual plan.
- Take action in order to ensure that the employees of the land improvement bureaus exercising control over the compliance with the provisions of the Land Improvement Act and other acts related to it, withdraw from the Boards of the land improvement associations subject to their supervision.

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The **Minister of Agriculture** concurred with the findings of the SAO stating that although a lot of funds had been invested in amelioration in earlier years, the maintenance of land improvement systems in the state as a whole was below the required level.

The Minister has declared that most of the proposals by the SAO will be taken or have been taken into account. Compliance with maintenance requirements is intended to be achieved by necessary amendments to the Rural Development and Agricultural Market Regulation Act and the Forest Act. In her reply, the Minister paid attention to the fact that the land improvement systems on the land in government ownership (in this respect the rights and responsibilities of the manager of state assets are executed by the County Governments) are not properly maintained because the county governments do not have funds for this purpose. The Ministry has notified the Government of the Republic of the problem.

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The SAO has sent the draft audit report to the **Director General of the Estonian Agricultural Registers and Information Board** for comments. In the reply of the Board, attention is drawn to problems that might emerge if the Board started to award grants also to partnerships as associations of people without the status of a natural or a legal person.

The full texts of the opinions by the Minister and the Director General of the Agricultural Registers and Information Board have been appended to the audit report.

Olav Lüüs
Chief Auditor
Audit Department IV