

Effectiveness of aid granted for the enhancement of agricultural production and rural development

Audit report No. OSIV-2-1.4/07/29 of 4 June 2007

Summary

Grants for EU rural development and agricultural support have served two main purposes: the first is related to the agricultural sector and to the enhancement of its competitiveness; the other covers activities in rural areas and balanced development of rural areas. During the current 2007-2013 programme period, a total of approximately EEK 26 billion of rural development and agricultural support, i.e. an average of EEK 4 billion a year, shall be paid to producers in Estonia. As the EU is looking to gradually reduce agricultural support as from 2013, it is presumed that operators will make production more effective and will be able to survive also with decreasing market support and direct aid.

The NAO analysed the advancement of the current objectives set by the government for agricultural production and rural development as well as the proposed plans for solving the problems that will arise during the new financial perspective period of the EU. The audit relied on the surveys and estimations concerning agricultural production and rural development, and on statistics and analysis thereof. An expert opinion on the sustainability of agricultural producers in the 2007-2013 financial perspective period was provided by the Institute of Economics and Social Sciences of the Estonian University of Life Sciences.

According to the NAO, support for agricultural production and rural development does not improve the competitiveness of agricultural producers to an extent that would ensure their sustainable management. According to the expert opinion, about 70 % of currently active agricultural holdings will face serious problems in the years to come. In the case of cuts in support amounts, only a fifth of professional producers would be able to carry on.

The Ministry of Agriculture, which is responsible for creating the preconditions for the sustainable and diverse rural development, has so far failed to systematically shape rural affairs. Although there are dozens of sector development plans handling also rural development in the country, they are not adequately interrelated, and thus it is not possible to conduct a complex assessment of the overall influence of government-proposed measures on the socio-economic development of rural areas.

Main conclusions

In general, the competitiveness of the agricultural sector is poor. As far as efficiency indicators (yield, productivity, creation of added value and labour productivity) are concerned, Estonia is far behind the old EU Member States. Only large producers are able to produce efficiently.

Lack of investments obstructs the enhancement of competitiveness. According to the estimates, professional producers could theoretically catch up with the EU-15, provided that more than EEK 20 billion will be invested in production during the next seven years. However, the deficit between the required and the allocated funds is EEK 9 billion.

Many small and medium-sized producers will face difficulties already in the next few years. An analysis covering all size groups of agricultural holdings demonstrated that, up to 2010, the producers' problems will be alleviated thanks to support, but from there on more than half of the producers, mostly small and medium-sized, will no longer be able to compete among agricultural holdings.

Establishment of an alternative to agricultural production in rural areas may be painful. Inevitably, in order to receive additional income, some producers will have to diversify and expand their activities outside agricultural sector. However, in rural areas, not many would agree to develop other production lines instead of traditional production. No market information has been given to producers and the Ministry's explanatory work in this matter has been scarce.

The balanced development of rural areas has received little attention. The Ministry of Agriculture has dealt with rural problems from the producers' viewpoint and has not established itself as the developer and implementer of rural policy. Likewise, the Ministry has not asked the Government to extend its powers, so that it would be possible to further direct the rural measures of other ministries; neither has the Government required the Ministry to perform such a task.

Recommendations to the Minister of Agriculture

1. On the basis of estimates, to analyse the actual condition of agricultural producers who may prove to be unsustainable in the years to come, analyse the options for the reorganization of activities as well as problems that may rise upon the termination of activities, and options for the elimination of said problems.
2. If necessary, on the basis of the results of the analysis, to take additional measures in cooperation with other ministries, county governments and local governments, for the employment of people relieved of agricultural production as close to their place of residence as possible, improvement of condition and maintenance of roads necessary for getting to the workplace situated far from the place of residence as well as for the improvement of functioning of public transport, for the retraining of employees relieved of agricultural production and for the elimination of social problems that may accompany the termination of activities related to agricultural holdings.
3. In cooperation with other ministries, to explain as accurately as possible the potential (co)effect on rural development of what has been proposed in the framework of other sectoral development plans. To request the amendment of development plans, if the analysis reveals that said proposals are not sufficient to ensure the development necessary for rural areas. In the framework of the said development plans, to establish continuous monitoring of the implementation and effect of measures which are relevant for rural development, and if necessary, apply for the additional amendment of development plans on the basis of surveillance data.
4. To ensure the existence of a high-quality advisory system and market information as well as their availability to producers; determine the supply and demand of non-traditional and less common agricultural products; help producers get an overview of the functioning of production and marketing and provide solutions for the development of promising production trends and for finding markets.
5. In cooperation with the Ministry of the Environment, to lay down the assessment criteria for environmental condition in rural areas, make provision for the continuous monitoring of changes in the condition of the environment, and in the case of negative indications, for the quick implementation of necessary corrective measures.
6. In concordance with the organizations representing agricultural producers, to select the research institution(s) or association(s) with whom the government will enter into a long-term framework contract for continuous or periodical work, so as to ensure reliable and impartial information for the government and stakeholders as well as estimates on the changes in rural life and agricultural production and their effect on rural population and the environment. Continuous monitoring and analysis of the situation would allow assessing the effectiveness of the support measures in the Rural Development Plan 2007-2013, and where necessary, taking corrective measures, and would ensure the necessary data for the preparation of the rural development plan for the next period.

In his letter of reply, the Minister of Agriculture stated that the Ministry does not concur with three of the five main conclusions. The Ministry has not sought the development and implementation of the entire rural policy, nor will it do so in the future, as it falls within the jurisdiction of other ministries. The Minister notes that the overall rural and working environment issues should be considered within the Government of the Republic on the basis of proposals from the leading ministries in this field.

Furthermore, the Minister of Agriculture argued that the analysis by the Estonian University of Life Sciences on the sustainability of agricultural producers, which the report refers to and which relies on the data provided by the Ministry, does not take into consideration the effect of all support measures. In his letter of reply, the Minister emphasizes that additional surveys should be carried out for the analysis of further development trends in the agricultural sector.

In his reply to the draft audit report, the Minister of Agriculture also provided supplementary explanations and described the legal framework underlying the rural development plan and the measures therein.

The NAO accepts most of the explanations provided by the Minister of Agriculture, but maintains a dissenting opinion on the Ministry's duties in guiding rural policy. The NAO does not consider it appropriate that the Ministry of Agriculture considers the national rural policy as an agricultural policy, and accordingly manages the use of funds of the European Agricultural Fund for Rural Development,

without associating it with development lines which are implemented using money from the other funds of the EU.

In the opinion of the NAO, one of the statutory functions of the Ministry of Agriculture is to develop the national rural policy and request that the duties of the government arising from the said policy be incorporated in the development plans of other ministries.

Tarmo Olgo
Director of Audit
Audit Department IV