Chapter 11: Empowering people and enterprises with strong cultural and territorial identity: A case study of Setomaa, Estonia

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Abstract

As put by Dahrendorf (1959): "to be successful means to be liked, and to be liked means, in many ways, to be alike." This chapter describes how to use cultural identity as a tool to analyse and drive economic development through the empowerment of local enterprises and people (Friedmann 1992). Cultural particularities might once have been considered a disadvantage in the modernist standardized world; but cultural assets are now increasingly being viewed as quite the contrary—a source for new regional economies, boosted by the current media-driven world to present difference and alternatives. This case study of Setomaa shows that cultural uniqueness can now be envisioned as a ‘regional advantage’. This innovative approach means that a location ‘on the geographic periphery’ is no more a sign of hopelessness but—in the case of some traditional well preserved amenities—instead is a resource for local enterprises. This is also a challenge to the conventional approach which states that population growth is a lead indicator for regional prosperity: Setomaa is expected to contract in terms of population in the future, however, continued economic development is still possible for the region, due to the focus on leveraging its ‘wealth’ of cultural identity.

1. Introduction

The chapter presents a case study of Setomaa, a region in Estonia. Setomaa serves here as classic example of a region ‘on the geographic and economic periphery’: it is characterised by a lack of large urban centres and is dominated by a continuously declining primary sector. Setomaa has lost the majority of its population due to outward migration; and population decline continues due to natural reproduction as well as net migration being both negative. The decrease in population numbers, including the number of young people, endangers the sustainability of the existing school network, which may give an additional impetus to regional emigration.

However, population processes within Setomaa are not completely negative. There is positive interest in settling in Setomaa, as well as optimism amongst the local population with regard to new people coming to live in the region. Later in the paper we will explain the post-productivist rural development paradigm giving effect to this new optimism. Also, a turn-a-round in Setomaa’s development has been the result of several development programmes that succeeded to combine the particular ‘Seto’ cultural identity with a growing cultural and tourism industry. These interventions have been well timed, allowing for the utilization of the new development paradigm.

combining the ‘Seto’ cultural identity with a growing cultural and tourism industry has helped to reinvigorate economic development in Setomaa

In exploring the challenges, opportunities and learning from Setomaa, this chapter examines the theoretical foundation of post-productivism; overviews the case study region, and describes the development programmes being applied in Setomaa. The chapter then includes an analysis of the structural change in Setomaa enterprises: in particular, whether paradigmatic change and governmental programmes have been utilized by entrepreneurs. The concluding remarks are focussed on the further build-up of similar development programmes in Setomaa and potentially elsewhere.

2. Post-productivism in rural development

Traditionally, economic development policy has focused on the promote of exports to guarantee regional incomes. Usually, an export base divides a local economy into two types of activities: (1) basic industries that sell goods and services to markets located outside the local area, and (2) service
industries that provide goods and services to local businesses and residents. Service industries, unlike basic industries, consist of firms that serve local markets. Examples here include the full range of retail and service establishments that serve local residents, as well as firms that provide goods and (producer) services (inputs) to businesses engaged in basic activities (Mulkey & Hodges 2003).

However, in 1956, Tiebout questioned the ‘export base approach’, by emphasising the importance of existing industries being the basis for the development of any export industry:

“the idea that essentially the export base is the necessary and sufficient condition for regional economic growth may be, by definition, a true statement... Put another way, it is possible to define the necessary condition for regional economic growth as the creation of an export base... Again, formally speaking, it is the ability to develop an export base which determines regional growth. Yet in terms of causation, the nature of the industries will be a key factor in any possible development” (Tiebout 1956, p. 163).

Several influential authors, like Richard Florida, Ann Markusen and Keith Halfacree, have contributed to this discussion over the last decade. Florida (2002) speaks about a “creative class” and the importance of creating an environment that they would like to live in. The presence of a creative class is, in its own turn, the basis for creative industries: it raises the human as well as social capital of a region. Markusen (2004) argues that investment in the local service sector is important because it provides important support to local (export base) economies and income development opportunities for workers. Therefore, economic development policy should focus on occupations (and occupational clusters) rather than industries, as workers are a key source of productivity and entrepreneurial growth in the regional economy (Markusen 2004). Halfacree (2006) also talks about opportunities for more intensive production and ‘counter-urbanisation’ as alternatives in the post-productionist era as outlined below.

It is important to recognise the value of the creative class... to create a regional environment that attracts them, as this will raise both the human and social capital of a region

In the 'post'-productivist era, however, there are more opportunities for counter-cultural, ‘back-to-the-land’ experimentation, almost all reflecting the diversity... that is generally accepted as underpinning the otherwise disputed 'post-productivist term. This era has witnessed a revaluing of less intensive and industrial forms of agriculture, whereby back-to-the-land schemes not only appear less anachronistic but may also add value to their products through demonstrating links to the land. Thus, the diversity of post- productivism potentially opens up the countryside, not just to back-to-the-land schemes but also to other much more 'powerful' interests, such as super-productivism and the kind of mainstream counter-urbanization studied widely in the population-geography literature (Halfacree 2006, 330-1)

Ilbery et al. (1997) defined two major approaches in the restructuring of agriculture:

1) from the early 1950s to the mid-1980s, a productivist approach: modernization and industrialization of agriculture aiming to raise production; and
2) from the mid-1980s, a post-productivist approach integrating agriculture with economic and environmental objectives.

The reasons behind the post-productivist change have been explained by overproduction, withdrawal of state subsidies, increasing competition, growing environmental regulations, a shift in rural development policy (e.g. payments to farmers for environmental protection and landscape) and diversification of farm population strategies (Ilbery et al. 1998). In the 1980s, when resource exhaustion loomed despite tremendous gains in agricultural productivity and industrial restructuring, economic developers began extending the concept of a sound regional economic base to include services. This especially included tourism, with joint consumption of local entertainment (for example,
gambling, music, theatre, sports, and other attractions) by both visitors and locals alike (Fainstein and Gladstone 1999).

Industries like tourism, culture, arts and entertainment have great growth potential for creating jobs outside big centres (Cooke 1997). Tourism is an important asset for regional localities because it values living, business and a creative environment. Tourism creates contacts and brings information and know-how to the locality at a very low cost; as well as being an attractive public relations and image creation channel. At the same time, much of the tourism industry will continue to be reliant upon numerous small businesses important in securing jobs, particularly in peripherally located areas and lower qualified labour market sectors. Hence, in their own time, culture and entertainment have thus come to be looked upon as new industries quite comparable with the high-tech industries in terms of regional economic value (Cooke 1997).

Recreational land use has also been extended as a regional economic development tool. In combination with environmental activities, all other kinds of recreation, producer services (training, in particular), tourism and cultural industries form a wide complex of activities highly applicable for rural and semi-rural areas with natural beauty and a rich cultural heritage. Markusen (2007) argues that cultural activities make contributions to the community far beyond their economic value: …nurturing arts and cultural activities and programming can yield multiple benefits for rural communities. They make communities more liveable, retaining existing residents and attracting new ones, especially retirees. They attract artists who are footloose and who export their work, bringing in income to the community. Spending by tourists and locals on arts and cultural events and products may keep more income circulating in the local economy. Artistic spaces are playing a role in revitalizing older downtown [areas]. Arts and cultural activities have payoffs beyond the strictly economic as well — in civic participation, aesthetic and entertainment pleasure, and solving community problems (Markusen 2007, 8-9).

Cooke (1997) has already asserted that future job growth in post-industrial countries depends on the product innovation of small firms associated with universities, science parks and trans-national corporations. As these are mainly urban forms of business; the key question of economic sustainability for rural regions is not about the efficiency of export branches and services, but rather: how to establish societies that would stay and invest in the region despite better business opportunities elsewhere? True, some concentration points for certain groups and community that can create a cosy environment would be needed anyway, but this might be a village or a small town of a few thousand, not millions, of people.

A key question of economic sustainability for rural regions is not about the efficiency of export branches and services, but rather: how to establish societies that would stay and invest in the region despite better business opportunities elsewhere?

A new trend, very much inline with post-productivism, is setting up tourist farms: the numbers of these have increased remarkably. Referred to as “agriturismo” in Italy, “sleeping in the straw” in Switzerland, “farmstays” in New Zealand, and “farm holidays” in England, agritourism is well established throughout Europe and in many other countries (Rilla, 1999, cf. Beus 2008). For example, in Lithuania, the number of rural tourism farmsteads grew from 202 in 2001, to 531 in 2006 – an increase of 163% (Damuliienė 2009). In Estonia, the number of all recognized rural accommodation establishments1 (including tourism farms) grew from 333 in 2001 to 763 in 2010 – an increase of 129% (Eesti maaturism 2010). Secondary housing and holiday-making in rural locations means extensive weekly commuting that we can observe every Friday night or before public holidays, with city workers driving en masse to the countryside. These people are usually not that much involved in local life and in most cases intend to enjoy the “space of silence”. Thus, the population of these further

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1 The real number is a big question mark as far as officially registered are just part of farms providing accommodation. For example, the Otepää ski resort is able to accommodate more than 6,000 visitors during large events, but it is officially registered as an establishment with less than 3,000 beds.
away rural areas is changing too, but not as rapidly as in the suburbs. Yet several naturally attractive areas may repopulate in a few decades as well. They may gain human capital but will remain sparsely populated and rural in their appearance. In Estonia, recreation by its very nature is highly seasonal. So, two powerful processes – suburbanization and re-urbanization – support the spread of the post-productivist development model in rural areas.

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There are also some other factors, like rising mobility, that are pushing rural localities towards a post-productivist model. A region’s distance to larger, growth-generating urban centres is important in feeding the development of rural communities due to spill-over effects. When suburban growth takes place because of a locational advantage, then the development of more distant countryside depends on local governance and consequently on the administrative model applied in the region. However, the new rural geography is not entirely distance-dependent. Similarly located and resourced neighbouring communities may have remarkably different development patterns (Raagmaa 2002). During the transition periods, when institutional set up and policies are not fixed, local leadership and earlier established networking plays crucial roles. Actors with network power can utilize the resources and competencies of their partners, build trust, link different matters to each other, inspire and excite new development (Sotarauta 2007). Thus, local trust and togetherness – that is, local-regional identity – might be decisive factors when speaking about regional economic restructuring (Raagmaa 2002).

| local trust and togetherness...a decisive factor concerning regional economic restructuring |

3. The importance of regional identity

Keeping the idea of the region (nation, locality) on the table, and knowingly designing regional identity may pacific existing conflict (Amdam, 2000) and breed social capital and cooperation. The regional identity with its ‘institutional thickness’ based on common social space and local culture forms so-called ‘structures of expectations’ (Paasi, 1986). These allow changes in some institutions and the carrying out of painful reforms, without a danger of social collapse. Social space contains a great diversity of objects, both natural and social, including the networks and pathways, which facilitate the exchange of material things and information. Such ‘objects’ are thus not only things, but also relations (Lefebvre, 1991).

Taylor (1982) defined a community as a small stable group of individuals holding common beliefs and values with direct and multi-sided relations. The community is thus a consequence of a complex process of reproduction, production or creation of space. Identity and identification are worked out through issues of belonging and exclusion within some form of communal association (Hetherington, 1998). Social groups are always rooted to the space where they act. People might be different, individually, but they inhabit a common moral and perceptual space, a ‘common habitus’ (Bourdieu, 1990) in which everyone knows their place.

The post-modern communicative space is increasingly diverse, and people have an innumerable amount of variants to choose. The obstacle is not any more distance and lack of communication, like in agrarian (pre-modern) society, and not top-down standardization and belief in meta-narratives like industrial (modern) society. Paradoxically, though, in the condition of absolute information and the possibility of interactive communication, the most problematic issue for the informational (post-modern) society agent is making distinctions between different information and the time limits to deal with the subject. If people are incredulous towards meta-narratives and they ignore general (scientific) truth, then they simply follow some other utopia, imagining and believing that this can bring them a better life. As Mingione (1994) writes, this leads people to greater reliance on informal kinship networks of support. There are a multiple and growing number of spaces where certain types of
communities feel safety. This means that traditional communities with strong internal coherence and identity, that declined heavily during the industrial period but survived in a sense of functional social structures and preserved highly valuable cultural and natural amenities, may hypothetically recover and go through a new renaissance (Figure 11.1).

Some communities are open minded, eager to innovate and to promote new entrepreneurship. Others tend to keep the status quo and preserve existing industrial culture and (power) relations. The latter can be classified as a closed community. In its extreme, a declining economy and rising unemployment may benefit such communities, insulating them from emergence of hidden activities that reflect a change of attitudes rather than a desperate reaction to unpleasant circumstances (Kockel 1993). A locality where the official living standard falls and hidden activities tend to grow will gradually lose its ties with the rest of the nation. An economically and culturally (and therefore often also politically) opportunistic local micro-culture closes onto itself and becomes increasingly traditional and intolerant towards official (national) standpoints and different thinking and thinkers within the locality, let alone new residents and enterprises. Usually, this kind of segregation is associated with the emigration of more capable youngsters who see no possibility for the modernisation of local life and the extremely low business activity due to the lack of societal interaction and the very unfavourable business climate. Otherwise, in an even more negative case, young people may set up gangs and terrorize the provincial townships (Juska & Paulikas 2006). This kind of “hidden” path, starting from an economic or cultural decline, may seriously damage development perspectives for any locality in the long run. Most typically, such societies can be found in declining farm and single enterprise settlements, where the main employer was closed down and many lowly qualified workers remained unemployed.
Some regional communities are open minded, eager to innovate and to promote new entrepreneurship; others are closed – preferring to keep to the status quo and preserve existing industrial culture and (power) relations.

Summing up this theoretical discussion, there is good reason to argue that during the transition from a dominant, industrial economic development model towards a post-productivist paradigm, there is hope for some peripheral, sparsely-populated and economically long-term declining regions. Where these can succeed in keeping their local culture, strong spirit and togetherness, a positive development track can opening, presenting new and growing economic opportunities. However, in the case of continued closeness and the absence of successful, economic flagship projects, a further decline is inevitable.

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4. Case study description: Setomaa, the border of the Western World

4.1 Location, demography and culture

Setomaa is located in the South-Eastern corner of Estonia bordering Russia and Latvia. The historical Seto area has an area of 1700 km². According to the present territorial division, Setomaa includes Mikitamäe and Värска rural municipalities from Põlva county and Meremäe rural municipality and a part of Misso rural municipality from Võru county, and the area inhabited by Setos in Petseri (Pechory) district of Pihkva (Pskov) oblast. The area of Setomaa on the Estonian side is 613 km² with an average population density 6.6 persons per square kilometre. It accounts for 1.4% of the area of Estonia and 0.3% of Estonian population (Statistics Estonia). The corresponding proportions of Estonia in the European Union are 0.27% of population and 1.03% or the area. The distances of municipal centres from county centres are in the range of 34–40 kilometres; and 263–283 kilometres from the capital city Tallinn.

Today, the Setos live predominantly in the Republic of Estonia and their total number is estimated to be around 10 000–13 000, with about 3000–4000 in Setomaa². According to data from the Estonian Bureau of Statistics, the population of Setomaa numbered 4,058 persons in 2010, of which 1,022 persons in Meremäe, 1,024 in Mikitamäe, 710 in Misso and 1,302 in Värска, and it has decreased by 18% since 2000 (Figure 3). The proportion of people aged over 65 in Estonia was 15.0% in 2000 compared to 17.2% today, by comparison Setomaa's share of the elderly did not increase, although this age group in Setomaa is significantly higher than the average for Estonia: in 2000 25.4% and in 2010 25.0%. The share of young people has decreased significantly faster in Setomaa than in the average for Estonia. However, despite social and political changes that have caused the Setos to move outside their historic region, they have largely remained in good contact with the region. The borders of Setomaa have been moved several times in recent history, resulting in Setomaa becoming very complicated and fragmented. Setos form a specific cultural space, where there are tight connections to the other regions, mainly with the capital city Tallinn and university town Tartu. In that respect, Setos behave on the national scale like Jews or Palestinians on the global level attempting to support their fellow countrymen where-ever they live.

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Seto's are a fenno-ugric ethnic group, their language belongs, along with Estonian, to the Balto-Finnic group of the Finno-Ugric language family (Eller 1999; Kasak, 1998). According to several other

² The 2000 census of the Republic of Estonia did not provide a possibility for the Seto to register separately.
authors, Seto is not a separate language but rather a dialect of Estonian (Erelt et al. 2007), with separating dating back to the 13th century. Seto was developed while under the influence of orthodox and Russian culture, while Estonia became dominantly Lutheran. By the mid 2000's, 36% of the inhabitants of Setomaa considered the Seto language to be their mother tongue or first language. A similar number indicate the Seto language is their local language. Approximately one third of the population consider the Seto language to be an independent language. However, these responses differ by age; people under 35 years of age said their mother tongue was Estonian (87%) but for people over 35 years of age a large proportion consider both Estonian and Seto language as their mother tongue respectively 47% and 40% (Mäger et al 2006), so there appears to be a clear trend of diminishing identity.

Setomaa is in an economic periphery, like most geographic borderlands in Estonia. Historically, Setomaa used to be one of the poorest areas in the country (Figure 4). The original quite a dense population, Seto lost a majority of people after WW II. No large scale industries were established there except for two companies (Värcka Resort and Värcka Water), which utilize local mineral water and curative mud reserves. The transition period of the 1990s and the achievement of Estonian independence from the former Soviet Union caused a further shock to the economy as the border closure effectively cut the well-established border trade. Former economic co-operation and business networks at the border have disappeared or changed their character; nowadays, there is an extensive semi-illegal border trade with fuel, alcohol and cigarettes. The re-orientation of the economy in new conditions has been painful and resulted in the impoverishment of the population. Hypothetically, the location of the EU border and presence of border stations should give greater opportunity for legal border trade and business development. Paradoxically, the location on the border means a higher level of security exists because of the presence of power-structures such as border guards and customs authorities.

On the other hand, because of Setomaa's location on the border of Eastern and Western cultures they have managed to maintain their cultural originality and identity. The most significant, visible and beloved element of Seto culture is their traditional singing, called "leelo", that has been listed by UNESCO as an intangible cultural heritage since 2009. Seto leelo is a unique polyphonic local style that has evolved from earlier "runo" singing traditions of the Balto-Finnic people. The choir repeats or varies the lead singer’s lines in two or three voices. Women have been primary bearers and developers of leelo. Choirs unite women of different ages and allow them to transmit traditional knowledge (UNESCO 2009). However, a number of popular local folk-rock bands use leelo as the basis for their repertoire. Leelo is an integral element of the Seto culture. Choirs have been established in Setomaa and in larger Estonian towns where the Seto currently reside. Leelo is a cornerstone of Seto identity and can be heard at almost all Seto community events. Both leelo choirs and other members of the community sing. Being efficient transmitters of Seto culture they are the hubs of the community and embody the Seto identity, also outside Setomaa (UNESCO 2009). Besides leelo, traditional handicraft, architecture, local food and even Seto weddings and local celebrations have become widely known and are extensively used in tourism, but also increasingly as a marketing tool for manufacturing enterprises and sanatoriums.

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4.2 Setomaa development programmes and studies

In 1993, the Petserimaa³ parliamentary support group was established to deal with border, citizenship and ownership issues. The Setomaa regional development programme received an amount of 640000€

³ Official name for Seto county before WW II.
(10 million Estonian Crowns) for five years from 1997; dealing mainly with resettling and infrastructure but also cultural issues (Siseministeerium, 2011). In 2003, a Setomaa cultural development programme was opened that had been supported mainly by local museums, leelo choirs, handicraft and media outlets (Kultuuriministeerium, 2011). A union of rural municipalities of Setomaa organised, in co-operation with Statistics Estonia, University of Tartu, the Võro Institute and OÜ Saar Poll, on the order of the State Chancellery, an extensive survey in 2005, which covered six rural municipalities in South-Eastern Estonia located near the border: Meremäe, Mikitamäe, Misso, Orava, Vastseliina and Väraska. The aim of the survey was to get an overview of the problems of the above-mentioned rural municipalities regarding social, cultural and economic sustainability. Based on the findings, decisions were to be made on the measures taken to improve the population’s economic situation, and so create prerequisites for the preservation and development of cultural heritage in the survey area. The results of the survey were widely introduced (Mäger et al 2005) and used in compiling the (new) programme document of “Setomaa Development Programme 2006–2010” (Setomaa... 2006). While compiling the analysis for 2010, data collection works were not made in the volume of 2005, but data obtained from public sources were analysed. This concerns first and foremost official statistics and data of Tax and Customs Boards, in addition interviews were conducted in focus groups. As a result of the work of experts, the document “Qualitative and quantitative survey of the situation in Setomaa’s 4 rural municipalities. As evident from Figure 5, governmental programmes were rather small – good for so-called "soft" projects.

In addition to the Setomaa Development Programme 2006–2010, there are other ongoing development programmes in Setomaa, namely the Norwegian Financial Mechanism backed “Setomaa Development Plan for 2009–2013 with a vision up to the year 2015”, and “Borderlands Leader. Development Strategy 2008–2013” financed by the EU LEADER programme. There are also significant investments made by the Estonian Road Administration to provide new roads and by the Schengen facility to develop a new railway border station. Both employ several small local companies in construction works.

4.3 Assessment of Setomaa’s enterprise development and industrial restructuring

This section describes an assessment of entrepreneurial activity undertaken in Setomaa, using both statistical and qualitative methods. We analysed annual reports (2001-2009) from the Estonian Commercial Register and personal income tax data (2002-2010) from the Revenue and Customs Office. The collection of data was seen as important to measure the actual level of enterprise development and particularly for ongoing restructuring. When analysing the enterprise data, we compared Setomaa with other peripheral areas (excluding the county centres) of Põlva and Võru counties. In addition we carried out group interviews with representatives of the five most important enterprise sectors of Setomaa: culture, tourism, agriculture-food, manufacturing, and transportation. Of interest were the causes of restructuring, the level of connections between enterprises with "Seto identity " as well as results of governmental programmes to develop the economy.

The five most important enterprise sectors of Setomaa include culture, tourism, agriculture-food, manufacturing, and transportation

4.3.1 The analysis of the annual reports

The main economic indicators of Setomaa are significantly better than those of the peripheral rural areas of Põlva and Võru counties (Figure 6), especially with regard to the growth of fixed assets and profitability (Figure 7). In 2000–2008 the net sales of Setomaa’s enterprises were growing, but in the rural areas of the Põlva and Võru counties there was a slight negative trend. The positive change in Setomaa’s net sales may be explained by two leading enterprises, Väraska Sanatorium AS and AS Väriska Vesi (Väraska Water). The net sales from these two businesses account for more than a half of the respective sales of Setomaa. A comparison of fixed assets for Setomaa and the peripheral rural areas of Põlva and Võru counties revealed a stronger positive trend for Setomaa’s enterprises, although due to the economic recession the value of fixed assets has decreased everywhere. Due to the
small size of Setomaa, there are more fluctuations because of irregular activities of timber and real
estate companies, but also due to large investments by Värska Sanatorium AS and AS Värska Vesi.
Overall the relative growth of Setomaa has been quite constant with Setomaa’s enterprises managing
to maintain a profit in 2008. Profitability in the Põlva and Võru counties has been negative due largely
to economic recession.

The enterprise and employment structure of Setomaa has undergone essential changes during 2000–
2008 (Figure 8). The agro-food sector has increased, largely as a result of European Union
agricultural subsidies introduced in the middle of the 2000s. These subsidies contributed to the growth
of fixed assets but also encouraged farmers to declare their economic activities that until then had
remained hidden. Agricultural indicators have also increased due to subsidies from the Agricultural
Registers and Information Board (ARIB), which had underestimated income. The majority of
agricultural producers are private entrepreneurs who do not have a Commercial Register and therefore
estimates of income were unreliable or difficult to estimate. The agricultural sector has increased with
farms being formed into commercial enterprises. As a result, the number of enterprises has tripled and
employment has doubled, however profitability indicators have decreased. The decrease in the profit
was due to a large price fall in agricultural products in 2008–2009.

The manufacturing industry has increased the level of fixed assets and net sales during the 2000’s.
The sector continues to be important employer in Setomaa, although it has reduced employment by
one-third. At the same time the industry has been increasing profitability since 2005. The number of
companies has also grown although it should be noted that AS Värska Vesi accounts for over one half
to three-quarters of Setomaa’s industrial fixed assets.

The wholesale and retail trade sector lost their ground significantly in Setomaa in the mid-2000s due
to the so-called “Euro-Standards” which resulted in the closure of many small stores. The number of
enterprises decreased from 13 in 2000 to six in 2003 and the number of employees from 53 to less
than 30. As a result the whole sector recorded a loss for the period 2002–2005. Since then the number
of companies and profitability has grown, but employment has been static. The introduction of chain
stores in the 2000s and tight competition offered by large supermarkets outside the regions impacted
sector activity negatively.

The tourism sector (hotels-restaurants) has started to grow vigorously since 2004 with new enterprises
entering the market. The turnover started to grow in 2006 although decreased again in 2008. The
profit achieved a peak in 2007, the last year of the boom and then started to decrease rapidly.
Employment meanwhile has been maintained. Employment in the sector is most likely larger than
reported as several tourism farms and guesthouses operate as private enterprises.

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Surprisingly, there are only three transport and storage enterprises in Setomaa. The modest status of
the transport sector is somewhat surprising given the border location of the area. It is expected there
are a number of self-employed individuals providing supplementary transport services to the region.
The launch of the Koidula frontier railway station should provide the transport sector with new
opportunities for employment.

In 2008, the statistical classification of economic activities in the European Communities (NACE)
field “Public administration and defence; compulsory social security; education; health and social
work” included three enterprises. In Setomaa, it included the Värksa Sanatorium with all 82
employees in the sector. The sector has undergone stable growth and increased employment by a third.
In 2008, there were only two cultural enterprises with no salaried employees in Setomaa. The total
turnover was slightly over 12,800 € with a profit of 6,500 €. This growing sector is operating by self-
employed people who operate as non-profit associations and thus they have no obligation to submit annual reports or supply data.

4.3.2 Employment situation and structural change according to income tax receipts

In 2005–2007, the number of taxpayers in Setomaa increased rapidly to over 2,500 persons (Figures 9 & 10). However after the economic crisis a rapid fall has occurred with the number of taxpayers decreasing by 700 persons (28%). However it should be noted that only a third of the taxpayers of Setomaa receive incomes from Setomaa employers. During the period of rapid economic growth for the country the share of taxpayers registered in Setomaa decreased from 41% in 2003 to 31% in 2007, which indicated improved work opportunities outside the region. Average salaries also increased rapidly up to 2008, mainly because of employees working outside Setomaa. After 2008 salaries decreased although there appears to be a levelling out in 2010s.

The share of persons employed in the food sector remains at about 6% (Figure 11). In the timber and forest sectors employs is around 7%. Other industrial jobs make up about 18% but are mostly outside the Setomaa area. The manufacturing industrial employment has decreased losing almost half its employment during the decade. External employment has also declined although during the boom period a slight increase was evident. The average salaries of manufacturing employees has increased during the crisis, indicating a more efficient work organisation, but also new technology that has led to reducing the number of employees and payment of higher salaries to those who had remained. Employment in the services sector has been more stable in Setomaa, although it decreased by about a hundred persons during the crisis. External employment in the services sector increased by nearly 500 persons between 2005–2007, but decreased by an equivalent number after the financial crisis. About 200 persons work in Setomaa from outside the area with a larger proportion working in the non-public sector. Local employment in Setomaa has been stable, but modest. While official figures indicate most employment is outside the region it should be noted that there is significant local employment in local stores and gas stations. The average wages and salaries of sales employees has continued to grow through to 2009 although this has been as the expense of intensive layoffs of low-salaried employees and/or closure of smaller enterprises.

Construction has undergone the most drastic rise and fall in employment with a quadrupling of employment during 2002–2007, and then a decreased by one third subsequently. Construction employees work outside Setomaa as a rule, only a few builders receive salaries in Setomaa. Transport and storage enterprises employ over 100 people, but as their headquarters are also located outside Setomaa we do not know whether these jobs are in or outside the region.

The number of jobs in the accommodation-catering sector is small with only 35 taxpayers, but it is increasing in spite of the financial crisis.

The local public sector of Setomaa is relatively stable, although it has lost 133 jobs during the crisis. The number of taxpayers in the health and social work sectors of Setomaa has doubled, and is approaching 200 but was not impacted by the crisis.

The situation is interesting in the arts and entertainment sector (Figure 12). The number of persons employed in the arts and entertainment sector for the period 2005–2008 grew almost fourfold, before decreasing back to 2002 levels. This anomaly can be partly explained by the cultural projects of the "Taarka" performance and film-making, but also by the fact that instead paying "official" salaries the cultural self-employed person works for free during difficult economic times.

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4 Several enterprises (eg. retail chains) headquarters are registered outside the region.
4.3.3 Qualitative analysis

Considering gaps in official statistics, we arranged group interviews with leaders from dominant sector enterprises to investigate the current state of Setomaa business development, but also to obtain feedback on government programmes. Setoma’s entrepreneurs’ opinions of the state of Estonia are positive (whereas attitudes in many other Estonian regions is fairly negative). National structures are functioning well and the presence of defence and security forces operating along the border have resulted in national investments in the infrastructure, especially at the Koidula’s frontier railway station and for road construction. Entrepreneurs’ attitude to local governments varies. In general, they are satisfied with the administration of the Värska municipality, but more was expected from other administrations The Union of Municipalities of Setomaa was assessed as functioning efficiently.

As a rule, other businesses were not considered competitors, especially if they operated outside the region. Co-operation between enterprises is also improving although competition between business operators in Setomaa was reported among cultural and tourism enterprises.

| Co-operation between enterprises is improving; and local entrepreneurs considered tourism, culture and agriculture-horticulture as the most promising fields of activity in Setomaa |

Local entrepreneurs considered tourism, culture and agriculture-horticulture as the most promising fields of activity in Setomaa. With regard to production of timber and manufacturing, the entrepreneurs were sceptical because of competition from large enterprises and the scarcity of local labour, capital and market. Access to labour was seen as a problem. There was no opportunity to purchase labour from outside the region as it was seen as being too expensive. Regarding the local business environment, the Setomaa Development Programme and other State funded measures were considered positive. Most businesses have obtained some benefits from these programmes. One problem raised by the respondents was the accountability of firms receiving funds. It was believed that tighter measures may be required to ensure accurate reporting of results and performance.

5. Discussion and conclusion

The main economic indicators of Setomaa were found to be significantly better when compared to those of the peripheral rural municipalities of Põlva and Võru counties, especially in regard to growth in fixed assets and profitability. Since 2004, profitability has been rising and has not been much influenced significantly by the economic recession. Setomaa businesses have gone through serious restructure towards the tertiary sector. Successful and growing new economies are tourism, health – (spa treatments), handicrafts and arts, with potential also for local food. However, growth in handicrafts and the cultural sectors remain largely invisible because of a large grey (underground) economy.

Setomaa is restructuring according to the post-productivist paradigm: manufacturing is becoming more effective through the use of new machinery and gradually replaced with health/hospitality and arts sectors. The strength of Setomaa’s economy (measured by "official" numbers) lies in two enterprises using local resources: Värska Sanatorium and AS Värska Vesi. Both are proud Seto enterprises and believe one reason for their success has been effective marketing using Setomaa as a trade mark. Another positive factor comes from locally-owned and managed small enterprises that create close co-operation and actively seek outside opportunities. An important third factor originates from clever and effective network leaders, who on the one hand have been good network agents, but on the other they have been extremely successful in lobbying ministries and parliamentary bodies to keep Setomaa development and cultural programmes alive. Another success factors has been good co-operation with Setomaa’s local government leaders who promote "Seto" regardless of political of personal interest. Here the strong cultural and territorial identity really works positively. Finally, because of a very positive image, many people from outside, including "native" Setos keep their second house and often take part in local cultural and social activities - the so called “seasonal buzz”
(Majavaara 2008) is important when making contacts in the capital city or when launching new projects. These changes highlight how Setomaa is becoming a more post-productivist region.

Clever and effective network leaders have worked to keep Setomaa’s development and cultural programmes alive

The population of Setomaa is not likely to grow in the following years. Rather, the opposite is expected. However, positive changes have occurred in the attitude of people towards the likelihood of life continuing in Setomaa, the belief in the possibility of the region being able to do something has grown, people are proud of the original Seto culture and see it as an opportunity for continued economic development.

6. References


Fig. 12.2. Setomaa regional development and cultural programme assignments in Million euros.

Fig. 12.3. Main economic indicators of enterprises of Setomaa & peripheral areas of Põlva & Võru counties (2000=100%)

*Source: Commercial register.*
Fig. 12.4. Employment of main industrial sectors (value chains) in Setomaa (right scale) & peripheral areas of Põlva & Võru counties (left scale).

*Source: Commercial register.*
Fig. 12.5. Number of taxpayers living in Setomaa (left scale) & the proportions of jobs located in Setomaa (right scale). 
Source: Estonian Tax and Customs Board.
Fig. 12.6. Number of all Setomaa taxpayers according to their main workplace and number of people commuting Setomaa from outside. 
Source: Estonian Tax and Customs Board.
Fig. 12.7. The proportion of taxpayers living in Setomaa according to main economic sectors.

Source: Estonian Tax and Customs Board.
Fig. 12.8. Number of Setomaa arts sector taxpayers according to their main workplace and number of people commuting Setomaa from outside. Source: Estonian Tax and Customs Board.