DEVELOPMENT PERSPECTIVES FOR THE LAKE PEIPSI AREA

Proposals to activities and extracts from the
LAKE PEIPSI BUSINESS PROFILE

By Palle Moeldrup, FYNS ERHVERVS CENTER TIC and Sten Falling, FREDERIKSBORG COUNTY, Denmark.
Support: Madis Saluveer, PEIPSI CTC


HELSINKI
ST. PETERSBURG
TALLINN
Narva
Tartu
Pskov
RIGA
GULF OF FINLAND
KOHTLA
-JÄRVE
JÕHVI
NARVA
IVANGOROD
Narva
SLANCY
MUSTVEE
LAKE PEIPSI
CHUDSKOE OZERO
GDOV
KALLASTE
STOROZHENETS
ESTONIA
RUSSIA
TARTU
RÄPINA
PÕLVA
VÄRSKA
VÕRU
PSKOV
PECORY
50 km

1. Introduction

The project:

Community Development and Cross-Border Cooperation in the Estonian – Russian Border Area – Second Phase was implemented in the period February 2000 to July 2001.

The County of Funen was main contractor, the Centerfor Transboundary Cooperationand Sustainable Development (CTC) in Tartu was partner in the recipient Countries and Funen Industrial Development Centre and Frederiksborg County were Associated Partners.

The project was financed by the Danish Ministry of Foreign Affairs.

The Great Peipsi Area with a population about 866,000 and a territory of 24,400 km^2 entails a huge development potential which so far has been greatly underestimated and underused. Oilshale in the northern part of the region is used by various industries, construction sand and gravel, dolomite, limestone, clay, gypsum are of importance for the construction materials industry. The cities of Tartu and Pskov are the intellectual and high-technology centres of the region with their universities and other educational and scientific institutions.

As a result the following documents were delivered:

1. **The Lake Peipsi Business Profile (LPBP).** The overall goal of the Business Profile is to provide a description of the regional and economic development patterns in the area, general descriptive and contact information on local development, and to outline the development opportunities for the region. The LPBP is available at www.ctc.ee.
2. **Appendix I** to the LPBP contains a wide variety of statistical data on the region
3. **Appendix II** to the LPBP is an electronic database of Estonian and Russian enterprises in the region
4. **Development perspectives for the Lake Peipsi Area** – the present document – contains proposals for activities from the two Danish experts (Sten Falling and Palle Moeldrup) as well as extracts from the LPBP.

The documents are primarily meant for the following target groups:

- Business people and entrepreneurs in the Lake Peipsi area looking for new cooperation partners both in the neighbourhood and in western countries
- Local and regional authorities and business support structures in the Lake Peipsi area
- Western enterprises looking for subcontractors and business partners.

2. SWOT Analysis

A SWOT analysis was made in Tartu and Pskov at meetings November 2000 in cooperation between the audience and the two Danish experts Palle Møldrup and Sten Falling.

We believe that the result of such a SWOT analysis is much better when made jointly by the two parties and not by one party alone. Below please find the result:

a. Estonian side

Strengths

- Strong cultural background, beautiful nature – a potential for tourism, fishing, hunting
- Costs in Estonia low compared to EU
- Russian language skills
- Qualified, unemployed human resources in certain fields
- Land and forest resources
- Wood processing, timber industry, construction and furniture production, mechanical and metal prod-ucts, textile, clothing, investment goods and goods for consumer market (equipment, food, chemicals, medicine…). Industries of interest: agriculture, greenhouses, non-ferrous metal, ceramic tiles.
- Tartu Science Park

Weaknesses

- Underdeveloped infrastructure – roads and telecommunication
- Young generation fleeing
- Lack of information about the region
- Low international competence
- Structure of population with a huge generation of elderly people
- Insufficient education in foreign languages, communication skills
- Low level of entrepreneurial spirit
- Insufficient co-operation between entrepreneurs and training institutions
- Low average income and high unemployment
- Several large industrial businesses have not been restructured
- Underdeveloped service sector

Opportunities (external)

- Estonia as a link to Russia; transit and logistics
- EU membership gives EU possibilities
- Cooperation between university and companies – scientific cooperation, e.g. molecular biology
- New bio-energy products on the basis of agriculture and forestry
- Niche – agricultural products – new markets
- Vacant production facilities, excess labour supply, vacant land

Threats

- Pollution of the lake and nature
- EU border between Estonia and Russia, new “iron curtain”
- Production costs are even lower in Russia, Ukraine, Byelorussia
- Increasing production costs in the future due to EU membership.

b. Russian side

Strengths

- Experience in extraction and processing of raw materials (clay, wood, sand)
- Low costs
- Authorities and business support systems providing improved assistance for regional economic development
- Manufacturing of chemical and oil products, fertilisers, building materials (Leningrad Region)
- Experience in the production sphere
- Engineering works, electrotechnical production, machine building (Pskov Region)
- Food industry
- Growing agricultural output and income
- Forestry and wood-working
- Relatively low taxes
- Low fuel prices
- Rich historical and cultural heritage
- No political or ethnic conflict risks and not much crime
- Local investment legislation

Weaknesses

- Lack of capital for renewal of machinery and new technologies
- Weak, underdeveloped financial and credit system
- Low buying ability
- Bureaucracy
- Instability in economic and social development
- Problems of border crossing
- Insufficient education in business, information technology and foreign languages
- Insufficient skills in writing business plans / strategy
- Insufficient international business contacts

Opportunities

- Energy saving by using natural gas
- Transit cargo shipping
- Transboundary co-operation with Baltic States
- Mining and production of biologically clean fertilisers
- Agricultural development programme
- Certain production facilities, e.g. in metal and wood processing
- Small birth cohorts in the EU, lack of manpower
- Border trade to and from Russia adding value and solving customs problems
- Pskov to border on EU, i.e. EU will be more concerned about Pskov Region

Threats

- Inflation
- Damage to the ecological situation
- Toughening of visa control
- Unreliable business partners, export intermediaries.

3. TIME HORIZONS

Based upon our limited number of visits to the Lake Peipsi area in the winter 2000–2001 we do not believe that we have solutions to a lot of problems. However, we feel that it would be productive to further investigate the initiatives suggested below, using different time horizons:

- short term
- medium term
- long term.

Palle Moeldrup, FYNS ERHVERVS CENTER TIC

4. VARIOUS INDUSTRIES

4.1 TEXTILE

In the Russian Lake Peipsi area we visited the following textile enterprises:

1. PSKOV HOSIERY FACTORY
2. SLAVIANSKAYA, Pskov
3. SADOLIN GARMENTS, Slantsy
4. SODRUZHESTVO, Kingisepp.

Further we were informed about "Pervomayskaya Zarya". The head office and factory are located in St. Petersburg and there is a branch in Ostrov in Pskov region, 60 km from Pskov. They make women's garments: dresses, costumes, skirts, trousers, blouses, shirts and shorts from fabric.

Also we were informed about the Tartu Garment enterprises ILVES-EXTRA and SANGAR.

Some of these enterprises, such as Sadolin Garments and Sodruzhestvo, are contract manufac-turers for western customers making clothes designed in the West. Others, such as Slavian-skaya and "Pervomayskaya Zarya", manufacture their own designed brands.. Evidently the tradition and skills in ready-made clothing is a strength to be further developed. Firms, ma-chinery etc. are already existing.

There is a substantial consumption of clothing in the western world, and people do not put off buying new clothes till the old are worn out. They buy when new fashions are launched, i.e. there is a big market for fashionable clothes. Therefore, we find it worthwhile to **investigate whether the Russian Lake Peipsi side could develop into a fashion centre.**

The required crafts seem to be present already. The clothes are of excellent quality. A Design Centre could be established to work continuously with the creation of new fashion and new models. Inspiration could be collected through cooperation with western Design and Fashion Centres. This might be combined with a Design School and vocational training working on rational production methods.

It would also be necessary to develop sales and marketing skills in order to promote Peipsi fashion and create a brand. It should be considered whether the brand should be introduced as an international brand or a Russian brand. A very good web site presentation is required for marketing purposes.

Since clothing traditions and enterprises exist on both the Estonian and the Russian side, future cooperation as suggested above and elaborated in section 4.6 could possibly include both sides of Lake Peipsi?

4.2 Wood

On both sides of the Lake Peipsi we saw a number of wood processing enterprises. Some manufacture wooden cottages, some a little furniture. Some cut the wood and sell it – undried – to the Baltic countries for further working up, for instance into furniture for train compartments. We believe it would be more profitable to **make more refined wooden products such as furniture, windows, and doors.**

More refined wooden products require investment in equipment such drying rooms. We do not know if there is a tradition for more refined wood processing or qualified training. Perhaps training in wood processing crafts could be based on existing education. In other parts of Estonia foreign enterprises have **wooden products made to order.**

This should also be possible in the Lake Peipsi area.

4.3 Metal

In the Estonian Lake Peipsi area we visited the following metal processing enterprises:

1. Balti ES, Narva
2. Evmet–Mehaanik, Narva
3. I & T Metall, Tartu.
4. Tartu Instruments, Tartu
5. Estre, Tartu

We are also aware of the Tartu enterprises Tarkon and Primus Eesti.

There are most probably other interesting metal processing enterprises in the area which we do not know.

Balti ES is owned by Danish Maersk Group for whom it manufactures containers. It also manufactures components for foundry machinery for Danish factory DISA which is also part of the Maersk Group. Evmet–Mehaanik already manufactures for foreign customers including Danish ones. One of its Danish customers has told us that the product which is now manufactured by Evmet was previously manufactured by the customer's own plant in Denmark. However, due to the high cost level in Denmark this was not possible any longer and the company had the option of either stop manufacturing and give up this product line entirely or move the production to a cheaper site. They decided to move and – after an introductory process – they have been very satisfied.

From the Soviet period there is a tradition for metal processing, especially in the Narva area. This is in line with the curricula of the vocational schools which are focused on metal processing and heavy production rather than light industry and IT which are in greater demand today. Tartu Instruments is working with stainless steel, copper, brass, tin plating, and produces many items for export. Estre produces agricultural equipment for small farmers and the forest industry with a very high export rate.

The Russian regions also have a number of metal working enterprises with technologies and equipment for producing electric drives, cables, welding equipment, etc.

Why not utilise this strength and **make the Lake Peipsi area a metal processing centre?**

No matter what activities the Lake Peipsi area wants to focus on there is a demand for outstanding sales, marketing and brand building skills.

4.4 Other sectors

We visited very promising and profitable enterprises such as Samelin Footwear in Tartu. Labour intensive light industry in selected areas seems to be an interesting area for Lake Peipsi. This idea needs to be further developed.

On the Estonian side of Lake Peipsi there is a production of natural medicine based on herbs and leaves gathered in the area. The products are mainly sold locally. Especially in the Räpina area there is an interest in producing the medicine for export. A link is now being established to the Danish industry in this sector. However, EU standards for description of raw materials and products should be observed.

4.5 Tourism

Both the Estonian and the Russian side of Lake Peipsi certainly have interesting attractions for tourism.

Several approaches could be investigated: including 1–2 days' visit in Tartu and Pskov as part of a Baltic round trip, conferences, events or sport tourism. Hunting is already a niche tourism in the area of Räpina.

Tourism can be divided into different categories: eco, hunting, sports, conferences, company bonus etc., requiring different categories of hotels and restaurants. If a multi-star category is required substantial investments will be necessary, so it is a question of choosing categories which can be covered by the existing facilities. The existing facilities can be improved as earnings are made from the tourism.

A limited number of West European tour operators are active in Central and Eastern Europe. These operators should be contacted and invited to the Lake Peipsi area on a free presentation trip in order to make them include the Lake Peipsi area in their programmes. Tourism strategies could be prepared in cooperation with other Baltic countries.

This proposal has to be further developed.

4.6 Manufacturers Associations

It is proposed to investigate further the following ideas about creating Manufacturers Associations and development groups such as:

- A textile development group in the Russian Lake Peipsi area
- A metal processing development group in the Estonian Lake Peipsi area
- A wood processing group on both sides of Lake Peipsi.
- A food processing industry group on both sides of Lake Peipsi.

We recommend that the textile enterprises as well as the metal and wood processing enterprises consider whether it would be useful to establish an *Association of North West Russian Textile Enterprises*, and similar associations for metal and wood processing which could handle matters of common interest such as the Fashion Centre, international sales and marketing, brand building, common web site etc. All of these disciplines are very important for international success but implementing them successfully is a demanding and difficult task. We understand that these issues are not well developed in the Lake Peipsi area. The enterprises will have a much stronger position on the international markets if they join forces. A business plan should be prepared for the Association. The financing of the Association could be composed of a percentage of the sale of the member firms and international donors such as Tacis, EBRD and NIB should be approached for help.

The big question is: can enterprises agree to work together and use a part of their income on matters of mutual interest? Can enterprises in Leningrad Oblast cooperate with enterprises in Pskov Oblast and with enterprises in Estonia?

While travelling in the area we felt some mistrust among the geographic areas and intermediaries. However, we are convinced that the total cake will be bigger if efforts are joined. Alone each company is too small for international marketing.

5. Medium and long term initiatives

The initiatives suggested above mainly stimulate "blue collar" jobs. In view of the fact that the cost level in Estonia is expected to rise concurrently with Estonia approaching EU, it is suggested that medium and long-term initiatives be taken to promote "white collar" jobs.

At Tartu University and Tartu Science Park interesting activities exist within biotech, medical science, human genome research, electronics, material science, environmental and IT. The possibility of finding western R&D partners should be investigated. At the present time we find it difficult to evaluate the potential. Perhaps a Think Tank (section 6) could make a contribution?

It is recommended that each region select a few fields from among their strengths, preferably growth areas, and focus all efforts on these fields. It is important that the County and Municipal Administrations, University, vocational education's and private enterprises all work towards the same target, thereby creating synergy. Since resources will always be scarce, the target area(s) should be selected with great care.

The establishment of a Telecom and IT valley in Northern Jutland in Denmark is an example of how effective the joint effort of many organisations directed at a single target can be. In Northern Jutland it was evident that some shipyards would have to close down over a few years leaving many people unemployed. What happened was that a radio factory was founded in the city of Aalborg in 1948. After some years the production was changed into communication equipment for ships, and by spin-off other telecom companies were started. A tradition for telecom equipment had been established and it was decided to focus many resources on telecom and IT. The young local university also focused on this area, and today it is the leading Danish university in this field.

A science park, NOVI, has also been established in North Jutland for IT and telecom purposes. After a few years they succeeded establishing an unequalled development environment attracting R&D departments of world famous enterprises such as Ericsson, Nokia, South Korean Maxon, Italian Italtel and about 35 Danish companies. Some months ago one of the enterprises in this cluster, Flextronics, signed a contract with Siemens for the manufacturing of 33 million mobile phones.

Sten Falling, Frederiksborg County, Denmark.

6. Think Tanks

Lake Peipsi Business Profile states several times that there is a "low entrepreneurial spirit of the population" and that "innovative thinking of local people and businessmen" should be given highest priority.

It is therefore suggested that "think tanks" be established composed of people of very different background and origin. The members meet from time to time and keep in continuous touch by e-mail to discuss new ideas and assess whether ideas are suitable for the Lake Peipsi area. The group should have members both from the Lake Peipsi area and outside in order that the problems are seen from different points of view. The idea is that during their daily work the members may come across ideas that could be useful for the Lake Peipsi area and present them for discussion at the next Think Tank meeting. Especially ideas relevant for growth areas should be promoted in this way.

Most ideas gain considerably in quality by systematic and continuous development. Once ideas have been generated, they should be discussed with many different people and further refined and developed before implementation. We are convinced that this could result in useful business ideas.

The problem is to find the right members and financing for these activities. Members should preferably be business people from many different fields and at the same time have some kind of link to Estonia and Russia. Lake Peipsi members could come from local authorities, Regional Development Agencies or Chambers of Commerce. A chairman – the driving force – should be appointed and an administrative secretariat set up.

This activity could be included in a possible Phase 3 of the Lake Peipsi Project and financed by the project.

7. Development Groups

Among the weaknesses mentioned in the SWOT analysis we have noticed **a lack of entrepreneurial and management skills and too little cooperation between entrepreneurs and functional clusters.** To develop management skills we propose to establish one or several Development Groups of industrial leaders from small and big companies in different sectors. In Denmark such a model of learning has been used with great success having enabled managers to solve problems in a new way. The regional public Consultancy Fyns ErhvervsCenter TIC has gained much experience from handling such a process.

The idea is that companies learn from each other and at the same time participate in goal-oriented educational activities according to the needs of the whole group. The process is a mix of individual counselling and sessions of formal training. The participants can get advice and assistance from the other companies and from specialists, they can share experience and learn from each other, and they can build networks.

The concept is a unique way of generating knowledge about how to run an SME and develop managerial skills.

Some of the need for training in international sales and marketing, brand building, common web site etc. described in section 4 could be dealt with by Development Groups. The Development Groups as well as the goal-oriented educational activities could comprise (foreign) specialists contributing outside knowledge.

8. Business-to-business cooperation

8.1 How to find foreign partners

To find potential partners can be a rather huge task for a company. A **planned** partnering for 10 – 15 companies can be an effective activity. Regional development can be a matter of creating new opportunities for companies as a joint activity for several companies. If the activities are adapted to several companies the total need for resources can be reduced.

We recommend a partnering between Estonian/Russian companies and western (Danish) companies. The objective is to develop direct contact between companies through joint activities in the two geographical areas. The initiative should be based on a definition of sectors of cooperation which are interesting to companies from both sides.

Companies seriously wanting to find partners may join the activity. The interest can be based on a wide range of factors, including purchase/sale, technical cooperation, research and development, sub-supplying, joint venture, different kinds of investments etc.

Interested companies will be analysed by the consultants and a company profile will be developed for each company describing both the company and its interests in searching a partner. The process can be supported by workshops and information seminars on specific items. Once the companies have agreed to meet potential partners, a joint activity (visit) can be planned. Interesting examples of business-to-business events with companies from Denmark and other countries are available.

The activities suggested in sections 6,7 and 8 are recommended to be planned and carried out in cooperation between business advisors in Estonia, Russia and Denmark.

8.2 How to negotiate with possible Foreign Partners

Once a contact to a potential partner has been established the question arises: how shall a Peipsi enterprise present itself and negotiate with a foreign partner?

Don't say: I have problems. Come and help me. – No businessman will respond.

Say: I understand **your** problems and I believe I have a solution which **you** will find useful.

In order to do this in a credible way you need to know a lot about foreign people, countries and conditions. Below are listed some tendencies in Western Europe:

1. Western countries are characterised by a high cost level compared to the Lake Peipsi Area.
2. Further we are approaching a situation with labour shortage. 1983 had the smallest birth cohort in Denmark in many years.
3. Therefore, it can be difficult to have labour-intensive work done in Scandinavia (and many other EU countries) in the future.
4. We have very high taxes on everything: income, sale, energy, environment, housing and luxury articles such as cars.
5. A current business trend in Western Europe is *Back to Core Business* with outsourcing as a consequence. Advantages to the West European company are:

a. It turns fixed costs into variable costs

b. It reduces the cost of labour-intensive work

c. It reduces the requirement for investments

d. It fits very well into the predominating Supply Chain Strategy.

The question is whether one or more of these trends constitute an opportunity for a Lake Peipsi company?

A businessman usually has several reasons for making decisions, but one reason is often the crucial one. This is the **key point.** The art of selling has to do with understanding the key point. The key point is not always obvious.

Is a consequence of your strategy that you can only win, if your partner looses? This is not sustainable i.e. your strategy is not good enough. You should aim at creating win / win situations. This attitude should be reflected in negotiations with potential foreign partners.

Requirements to the Lake Peipsi partners:

- Reliable, no surprises please
- Just in time
- Service minded
- Ready to accept responsibility and a certain risk.

8.3 Danish Companies established in Estonian Lake Peipsi

In order to understand what attracts Danish companies to Estonia we should like to add that in other parts of Estonia, Danish companies have been established mainly within the fields of wood processing, furniture production, building materials, manufacturing of plastic products, transportation, consultancies and textile.

8.4 Danish Companies established in Russian Lake Peipsi

The only Danish company in the Russian Lake Peipsi area we know of is Sadolin Garments in Slantsi.

Estonian company	City	DK Mother company	Activities
Balti ES	Narva	Maersk	Metal production
Evmet	Narva	Danish part owner: Tajco	Metal production
Baltiklaas	Tartu	Scan.Gobain Glas	Production of insulation glass
Danexport, Eesti filial	Tartu	Danexport	Wholesale meat & fish
Nycomed Sefa	Polva	Nycomed	Medicine

9. Investments

Focus on investment from Phare, Tacis, EBRD, Nopef, Nefco, NIB and the Danish East European Aid. If you present a good and well prepared (business) plan to these investors there should be a fair chance of getting some money. Brief introductions to the programmes can be found in the sections below. It would be appropriate to go in more detail in a possible Phase 3 of the present project.

In the first instance, do not ask private western enterprises to invest. It will be very difficult to convince them. Your request for investments will be perceived as "how can I help you spend your money in a risky way?". It does not work. You should ask western businessmen: how can I help solve **your** problems in a better and cheaper way?

Tell them what you can offer. What kind of qualifications can you offer? What are the characteristics, advantages and – especially – the **benefits** for western partners?

Investment promotion should shift from general marketing of the country to focusing on western companies' demands, e.g. how can companies benefit from subcontracting opportunities.

As to investment from private enterprises we recommend step by step approach:

a) First work as a subcontractor for labour-intensive work for western enterprises.

b) When this has worked successfully for some time, the western partner may find that it serves his interests to become part owner of the enterprise and invest in new equipment/ machinery.

9.1 EBRD in Estonia

As on 31 December 2000 EBRD had signed 41 projects in Estonia totalling Euro 367.3 million. Of this 75% was for 34 projects in the private sector – mainly finance – and 25% for seven public sector projects. Outside the financial sector, private sector projects were signed with Baltic Food Holding (agro-business), IO Fund – Bunim – Welding (manufacturing), Norma (manufacturing, lifebelts), Baltex2000/Qualitex (textile) and Imavere Sawmill (wood processing).

EBRD focuses on the following main operational objectives:

- Restructuring, commercialisation and privatisation as well as participation by the private sector in infrastructure sectors, including Municipal infrastructure.
- Transactions in the financial sector. These are mainly focused on banking sub-sectors where EBRD can still have an important transition impact or additionality.
- Promotion of restructuring and improved corporate governance of enterprises and SME development. This includes the Turn Around Management Programme (TAM) and the Business Advisory Service (BAS) programme.

Contact in Estonia:

Urmas Paavel
Head of Office
EBRD Tallinn Office
Roosikrantsi 11, IV floor
10119 Tallinn
Estonia

Tel: +372 641 8548
Fax: +372 641 8552

For further information:

www.ebrd.com/english/opera/COUNTY/Estofact.htm

9.2 EBRD in Russia

In Russia EBRD has the following programmes:

a) Russia Small Business Fund

b) Regional Venture Funds

c) Enterprise Support Project.

a) Russia Small Business Fund

Since the programme's inception in 1994 the RSBF has granted 36,700 loans totalling US$ 430.8 million as on June 30, 2000. Please also see www.microcredit.ru (Russian version only). Two different categories of loan are available:

Micro loans

No minimum; maximum US$ 30,000; average US$ 7,500. Terms up to 2 years; average 9 months. Eligible sectors are trade, services and production.

Small loans

Maximum US$ 125,000; average US$ 58,000. Terms up to 3 years; average 9 months. Eligible sectors are services and production.

For further information contact:

Russia Small Business Fund
European Bank for
Reconstruction and Development
Ul. Bolshaya Molchanovka 36
Bld. 1, 121069 Moscow

Tel: +7 095 799 55 77
Fax: +7 095 799 55 88.

b) Regional Venture Funds

The RVFs are designed to support medium-sized enterprises (under 5,000 employees) that have been privatised.

The RVF invests by purchasing newly issued equity capital either alone or in combination with other financing schemes. The RVFs require representation on the Board of Directors and other rights enabling them to monitor the investments.

Minimum investment in any enterprise is US$ 300,000. The maximum for Northwest and West Russia is US$ 6 million. The principal criterion is that the expected return on investment is commensurate with the risk.

As on June 2000, RVF investments totalled over US$ 180 million in 73 companies.

EBRD Regional office in St Petersburg
Robert Sasson
Head of St Petersburg Office

Bankers: Eric Rasmussen, Alexander Sundeyev and Alexei Sheloukhin

25 Nevsky Prospect
191186 St Petersburg

Tel: +7 812 326 2525
Fax: +7 812 326 2526

c) Enterprise Support Project

As part of the Financial Institutions Development Project (FIDP) and under the post-privatisation Enterprise Support Project (ESP), EBRD and the World Bank provide a co-financed credit line of US$ 300 million for the financing of restructuring investments in medium-sized and large private-sector Russian enterprises.

The credit line will be provided through a group of 34 Russian commercial banks, two of which are listed below:

Industry and Construction Bank
Mr. Michail Klimenko
17/218 Kovenskii Per
St. Petersburg, 191 011 Russia

Tel & fax: 812 329 8333

Petrovsky Bank
Ms. Elena Dorofeeva
26 Nevsky Prospekt
St. Petersburg, 191 186 Russia

Tel: +7 812 314 6560
Fax: +7 812 219 6391.

For further information:
www.ebrd.com/english/opera/COUNTY/rus05.htm

9.3 Tacis

The Tacis programme apply to the Russian side of the Lake Peipsi. A new regulation was passed for Tacis on 29 December 1999 and made valid from 1 January 2000 to 31 December 2006.

Recognising that the development of private enterprise is frustrated in the partner countries due to lack of financing, Tacis funds can now also be used to support investments.

9.4 Phare

The Phare program apply to the Estonian side of the Lake Peipsi. The conditions can be found in *"Guidelines for Phare Programme implementation in Candidate Countries for the period 2000-2006 in Application of Article 8 of Regulation 3906/89".*

The overall objective of the Phare programme is to help the candidate countries to prepare to join the European Union.

Each candidate country has prepared a preliminary National Development Plan including Phare of the key development priorities. Phare support for investment will be concentrated in a limited number of regions selected by the candidate countries.

Phare will co-finance measures which address the following objectives:

- Increasing the activity of the productive sector
- Strengthening human resources
- Improving business related infrastructure.

The type of contracts Phare may finance in this area includes training, twinning, technical assistance, supplies and civil works contracts.

A general SME facility has been developed in cooperation with EBRD. This facility provides low-cost finance to intermediary banks that have programmes to on-lend the funds on favourable terms to SME's in the partner countries.

Besides Phare, two other EU instruments are available namely ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD) Special Accession Programme for Agriculture and Rural Development).

9.5 NEFCO

The Nordic Environment Finance Corporation finances projects with a relevant environmental effect, e.g. reduction of pollution in the Baltic Sea. Priority is given to the Baltic Sea Region, e.g. Estonia and Northwest Russia. Projects could be:

- Modernisation of industrial plants and energy utilities.
- Purification of water and waste water, or waste management.
- Companies manufacturing environmental equipment.

NEFCO's participation could be through equity and shares as well as medium and long term loans on market terms. There is a special Nordic Facility for selected environmental projects in the neighbouring region which can be supported by grants.

It is a precondition that northern enterprises take part.

Further information: www.nefco.org.

9.6 Nopef

The Nordic Project Export Fund grants favourable loans and grants to Nordic companies for making feasibility studies in internationalisation projects or project export deals. The project must be outside the EU and EFTA countries.

Examples of feasibility studies are evaluation of potential business partners, preparation of a business plan, analysis of alternative financing etc.

Project export is defined as system or turnkey delivery to a specific customer.

Examples of internationalisation projects are acquisitions, setting up a fully owned subsidiary, joint venture with a local partner etc.

This facility addresses the western partner in a cooperation project.

Further information: www.nopef.com

9.7 NIB

The Nordic Investment Bank makes Project Investment Loans (PIL) for infrastructure investments in the private sector. The loans are long term, up to 20 years, and on market conditions, yet maximum 50% of the project.

NIB also offers investment loans for projects in the Baltic countries to Nordic enterprises investing in these countries.

Finally NIB offers Environmental Investment Loans to public and private environmental projects in Northwest Russia and the Baltic Sea area. The projects must reduce environmental damage including transborder pollution.

Further information: www.nibank.org

9.8 Danish Bilateral Central and East European Aid

The DANCEE facility for environmental protection accepts investment projects which include project design, construction and operation, and even supply of equipment. There is no fixed maximum limit to the equipment part of the budget. However, the applicant must substantiate the relevance and environmental protection impact of the equipment purchased and the amounts have to fit into the current planning of DANCEE.

All other Danish programmes, i.e. the Technical Administrative Support, the Social Initiative, the Democracy Fund, accept only very limited amounts for equipment such as a portable computer for the project manager.

10. Conclusion

A number of initiatives have been suggested in order to increase the economic activity on both sides of the Lake Peipsi. The key words are:

- A textile fashion centre
- More refined wooden products
- A metal processing centre
- Tourism
- Manufacturers associations
- Tartu University, Tartu Science Park
- Think tanks
- Development groups
- Business-to-business cooperation.

It is suggested that these initiatives be implemented in a possible future Phase 3 of the present project. The contribution of the Danish project partner could be:

- To plan the initiatives in details together with the Lake Peipsi partners and to prepare proposals for how to implement the initiatives
- To contribute knowledge
- To co-ordinate the cooperation with possible EU stakeholders.

Appendix
Lake Peipsi Area background information

A.1 Outline of the region

Lake Peipsi (Peipus, Chudskoje) forms a natural border between Estonia and Russia. The lake covers an area of 3555 km^2.Lake Peipsi is an eutrophic and highly biologically productive lake. Eutrophication due to significant nutrient loads in Lake Peipsi represents a major threat for the water quality of the lake, although during the last decade the situation has improved.

The Peipsi basin has a temperate humid continental climate, the average temperature in July is +17°C, in January –7.5°C. Windy weather prevails throughout the year, annual precipitation amounts from 550 to 855 mm. In winter, the lake is covered with ice for 4 months.

Fishing, agriculture, handicrafts and trading have been the traditional means of providing daily bread.

In the Business Profile we proceed from the understanding that administratively we would have to deal with two entities – the Great Peipsi Area in general (4 counties in Estonia, 5 districts in Russia) and the Small Peipsi Area (i.e. the municipalities directly bordering the lake). The "capitals" of the Peipsi region are Tartu (95,000 inhabitants) in Estonia and Pskov (201,000 inhabitants) in Russia.

The Great Peipsi Area with a population of about 866,000 and a territory of 24,400 km^2 (excluding Lake Peipsi) entails a huge development potential which so far has been greatly underestimated and underused. Oilshale in the northern part of the region is used by various industries, construction sand and gravel, dolomite, limestone, clay, gypsum are of importance for the construction materials industry. The cities of Tartu and Pskov are the intellectual and high-technology centres of the region with their universities and other educational and scientific institutions.

A.2 Political-administrative background

Regardless of the past, at present Estonia and Russia are focusing on bilateral relations on the resolution of practical questions and on preparing concrete agreements in the economic, social and cultural fields.

The scope of the sensitive issues in the Estonian-Russian relations has remained more or less unchanged during the last decade:

- the state border treaty (still unsigned though a lot has been done and in principle only the signatures for the treaty are missing)
- the rights of 'compatriots' in Estonia (most of whom still do not have Estonian citizenship though the liberalisation of the respective legislation has been going on in Estonia for a while).

On state level, the political framework for more integrated cross-border Cc-operation is provided for the local authorities to pursue. Since 12 January 1991, 24 agreements and contracts have been signed between the Estonian Republic and the Russian Federation or their respective governments.

Whenever state affairs allow, the local county and Oblast, i.e. regional entities and their daily cooperation are the credibility criteria of the actual cooperation. That is why it is quite obvious that the actual cross-border actors are not the states but regional structures, local municipalities, businesses and people.

While Estonia has been following an established tax policy for many years with only some minor changes introduced lately, the Tax Code of the Russian Federation is in the process of gradual enforcement. This affects to a certain degree also cross-border business and trade, but nevertheless, one should keep in mind that the amendments in the Russian tax system are following larger patterns, eventually designed to produce a coherent system.

A.3 Lake Peipsi sub-regions

The target area of the report in Estonia consists of four lakeside counties (Ida-Viru, Jõgeva, Tartu and Põlva) that cover an area of 11,224 km^2 ($^1/_4$ of Estonian territory) with a population of 444,500 ($^1/_4$ of Estonian population).

The **Ida–Viru County** is highly urbanised with 89% of the population living in towns and the average population density being considerably higher than elsewhere in Estonia. The region produces 9.4% of the national economy turnover of Estonia thus being the second and strategically most important industrial area in Estonia. Environmentally, the area is one of the most problematic due to great sources of industrial pollution – oil-shale mines, chemical and power production plants.

The **Eastern Estonian** target region covers, in a wider dimension, four counties (Jõgeva, Tartu, Põlva and Võru). As Võru County does not border directly on Lake Peipsi it is not considered in the report. One tenth of the total turnover of the national economy is produced in East Estonia. The region has traditionally been dependent on agricultural production, although natural conditions in the southern part of the area are relatively unsuitable for agriculture. At the same time – the recession in agricultural development in this region has been the steepest in Estonia. Other main areas of activity have been forestry, foodstuff industry and timber processing.

The municipalities bordering Lake Peipsi are in general quite different from the average county level as far as business and socio-demographic features are concerned. The more noticeable development clusters are Iisaku, Mustvee and Räpina.

The **Russian part** of the region consists of the Leningrad and Pskov Regions (Oblast).

The area of the **Leningrad Region** is 84,500 km^2, which constitutes nearly 0,5% of Russia's territory. The population is 1.7 million, $^2/_3$ of it is urban. The region includes 3 entities directly related to the lake – Slantsy District, the town of Ivangorod and Kingissepp District.

The area of **Pskov Region** is 55,300 km^2 and the population amounted to 830,000 in 1999 (0.5% of the population of the Russian Federation). The local entities related to the lake are Pskov District, City of Pskov, Pechory District and Gdov District.

The total population of the Great Lake Peipsi region in Russia is 421,000 inhabitants, out of which 325,000 live in towns.

According to different evaluations of "depression" or "socio-economic well-being", the Russian lakeside districts are in the category of "doing quite well" compared to the rest of Pskov and Leningrad Regions. Kingissepp District and the city of Pskov are considered to be the best.

The population of the biggest cities (2000):

Estonian Lake Peipsi		Russian Lake Peipsi	
Tartu	95,000	Pskov	201,400
Narva	73,830	Kingisepp	52,500
Kohtla-Järve	51,930	Slantsy	49,900
Sillamäe	18,770	Pechory	13,700
Jõhvi	13,190	Ivangorod	11,900
Jõgeva	6,240	Gdov	5,700
Põlva	6,325		

A.4 Economy

Estonia's most impressive accomplishments include a free market, strong growth, the attraction of substantial foreign investment, low indebtedness and an orientation of trade to the West.

The Great Lake Peipsi area's economy can be best characterized by referring to different zones within the region: Ida-Viru industrial zone, Tartu and its neighbourhood (education, science and various industries), the forest zone and the fishing zone. In North-East Estonia the main priorities are industry, business, transport, and education as well as environment. In Eastern Estonia the key priorities are industry and business, tourism, and education as well as agriculture and rural development.

As regards the economic sectors in the Estonian part of the region, the majority of the enterprises represent the primary sector. In the Small Lake Peipsi area, sole proprietors dominate in number, followed by SMEs. The number of employees at enterprises is usually below 10, which means that micro-enterprises dominate. The highest wages in the Great Peipsi area are in the finance sector, state administration, social insurance, energy, gas and water management and warehousing.

The share of foreign capital is smaller in the enterprises in the Small Lake Peipsi region than the Estonian average. 60% of all investments in small and medium-sized enterprises in the region are made from own capital, i.e. from the enterprises' revenue. Exports prevail in the foreign trade of the municipalities in the Lake Peipsi region, mostly to Northern and Western Europe.

The aim of the Estonian business support network is to support small and medium-sized enterprises and start-ups in all regions in Estonia. The network consists of the Estonian Regional Development Agency (ERDA), business support and advisory centres providing minimum services on contractual basis, and the business consultants. ERDA is represented in the Lake Peipsi region with two offices – Ida-Virumaa and South-Estonia. Besides, there exists also the Tartu Science Park and a few business incubation centres.

The **Russian Peipsi region** is not very rich in mineral resources and belongs to a risky agricultural zone, for which reason the value of its arable lands is relatively low. Therefore manufacturing enterprises are historically best developed in the region. Enterprises making chemical and oil products, fertilisers and building materials prevail in Leningrad Region's districts. Engineering works and electrotechnical production dominate in the districts of Pskov Region. The food and light industries as well as trade are developing in the whole Great Lake Peipsi region. Almost all existing enterprises including those that are not working are supplied with basic communication means necessary for efficient functioning.

Many companies involved in the manufacturing industry are in a difficult situation brought about by the Russian economic crisis of the 1990s: many production facilities are empty but some steps have already been taken towards the restoration of production. In these conditions investment in the capital assets of the companies is particularly important, especially investment in the renewal of machines and equipment and introduction of new technologies. Due to notable interest and support on the part of authorities, not too high taxes, good labour force, developed infrastructure and low fuel prices in the domestic market, investment in production could be very efficient. A considerable number of investment projects, some of them involving serious foreign partners such as Ford and Caterpillar, are already under way in Leningrad Region. Many Pskov companies also successfully cooperate with foreign partners.

Furthermore, investment risks are quite often seriously overestimated. The study of the investment attractiveness of Russian regions published in the journal Expert, No. 41 of 30 October 2000, classes Pskov Region as a place where business risks are most strongly overestimated by investors. Leningrad Region is one of the most attractive areas in terms of investment but risks are also considered to be high. In the Great Lake Peipsi region, there are virtually no political or ethnic conflict risks and not much crime. Possible marketing in Europe and the Baltic countries also minimises many economic risks, particularly those related to the low purchasing capacity of the local population. Moreover, the socio-economic performance of the region has been improving for more than two years.

Small businesses are mostly production-oriented. For example, in the Leningrad Region the proportion of industrial companies is 23% and the proportion of building firms 18% of all such businesses, while the proportion of trade and catering companies is almost 10% lower than the Russian average. Up to 1,500 small businesses or 8–9% of all registered companies are set up in the Region each year.

Fourteen per cent of the entire working population, including secondary employment, work in small private companies (Russian average is 12%). Most are engaged in industry (30.6%), trade and catering (26.2%) and building (24.1%). The Region's small companies provide more than 16% of all services (Russian average 10%.)

According to expert opinion, in order to improve the investment climate in the Great Lake Peipsi region the highest priority should be given to:

- improving the quality of education and labour force
- fostering innovative thinking of local people and businessmen
- development of infrastructure facilities (roads, telecommunications, etc.)
- more effective and stronger assistance from local authorities
- assistance of the state and business support systems to the economic development of the region
- improvement of the image of the region
- labour productivity.

Educational Institutions

Estonian Lake Peipsi

Tartu University

Estonian Agricultural University, Tartu

Tartu University Eurocollege

Tartu University, Narva College

Virumaa College

Sillemäe Institute of Economics and Management

Baltic Defence College, Tartu

Räpina Horticultural School

Kallaste Vocational School

Russian Lake Peipsi

Pskov State Teacher Training Institute

Pskov Volny Institute

Pskov Branch of St.Petersburg Technical University

Pskov Branch of Moscow Open Social Sciences University

Pskov Department of St.Petersburg Finance and Economics University

Pskov Branch of Novgorod Institute of Law

A.5 Measures affecting future development

In the Estonian regions belonging to the Great Lake Peipsi area (Ida-Viru, Jõgeva, Tartu, Põlva counties), the main socio-economic indicators are below the national average. To promote development, all these counties have worked out their medium and long-term development plans concentrating on area-specific issues.

The region as a whole faces the following key issues:

- High unemployment rate (but also availability of a lot of skilled labour)
- Low average income (but also low labour expenses for local companies)
- Low entrepreneurial spirit of the population due to the domination of large industrial businesses, several of which have not yet been restructured and/or privatised (all these industries employ labour with very high competencies)
- Low average income but fast developing forestry, wood processing, high-technology and service sectors

In addition Ida-Viru County has to deal with

- Industrial pollution
- Underdeveloped services sector that at the same time is the fastest developing sphere of activities

An additional focal feature for Jõgeva, Tartu and Põlva counties is

- Modest development of alternative rural business activities (but a great potential in alternative or niche products)

The administrations of most Russian lakeside regions – Pskov, Pechory, Gdov, Slantsy and Kingissepp districts and the cities of Pskov and Ivangorod – either have been or are actually working on socio-economic development programmes 2000–2010. The vast majority of the regions are planning to develop industries requiring minimum funding such as agriculture and fishing, more effective use of mineral deposits, timber harvesting and wood-working, mining and production of biologically clean fertilisers (peat, sapropel, etc.). Several regions also intend to open some food production enterprises processing fish and agricultural produce. At the same time, it is planned to revive the heavy industry including unique engineering and metal-working enterprises. Furthermore, the regions propose to use their rich historical and cultural heritage and therefore set up new companies in the tourist and recreational business, develop new tourist routes, etc.

A.6 Important organisations for future cooperation

University of Tartu Innovation Office
Department of Research
and Institutional Development
Ülikooli 18-301, 50090 Tartu, Estonia
Tel +372 7 375 510
Fax +372 7 375 508
e-mail: skahu@ut.ee
http://www.ut.ee

Estonian Regional Development Agency (ERDA)
Oleviste 3/Pikk 61, 10133 Tallinn, Estonia
Tel: +372 6125 141, 6125 143
Fax:+372 6125 144
e-mail: ersa@erda.ee
http://www.erda.ee

Estonian Chamber of Commerce and Industry
Toomkooli 17, Tallinn 10130, Estonia
Tel +372 646 0244
Fax +372 646 0245
e-mail: koda@koda.ee
http://www.koda.ee

Association of South Estonian SMEs
Uuno Ader
Kalevi 59, Tartu 51010, Estonia
Tel +372 7 431 036
e-mail: uader@hot.ee

Chamber of Commerce and Industry,
Pskov Region
15 A, Sovetskaya Str., 180000 Pskov, Russia
Tel +7 (8112) 16 38 83
Fax +7 (8112) 16 00 52

Pskov Enterprise Support Centre
35, Sovetskaya Str, off 16 & 17, 180000 Pskov, Russia
Tel +7 (8112) 16 40 47
Fax +7 (8112) 16 47 78
e-mail: lpcpskov@ellink.ru

A.7 References

1. Survey of Regional Investment Climate, a joint work by the PHARE project "EU Support to Regional Development in Estonia" and the MINISTRY OF ECONOMIC AFFAIRS, July 9, 1998
2. Business Cooperation Platform for Innovative Entrepreneurship Support, "Green Paper"
3. Tartumaa 2000+, Published by TARTU COUNTY GOVERNMENT
4. Tartu County, traditions, people, development. Published by TARTU COUNTY GOVERNMENT
5. Tartu Business Directory. Compiled by the CHAMBER OF COMMERCE AND INDUSTRY, Published by TARTU COUNTY
6. Small Enterprises in Estonia, PHARE 1998
7. STATISTICAL OFFICE OF ESTONIA, http://www.stat.ee
8. Districts of Pskov Region. Statistical data. Vol. I,II. Pskov Segion State Statistics Com-mittee. Goskomstat PF, 2000.
9. Demogcrafic Insicators of Pskov Region. Statistical Data. PSKOV REGION STATE STATISTICS COMMITTEE, 2001.
10. "Expert" Magazine no 41, 30 October 2000.

Conclusion

Present strengths of the Lake Peipsi Area:

- A triangle of strong regional development "boosters" (Tartu, Pskov, Narva)
- Tartu as a polyfunctional centre (versatile educational institutions, vocational training, medical services, high-technology companies, woodworking, food and light industries, etc)
- Traditionally strong industries in Pskov (mechanical engineering, electrotechnical, timber and woodworking, food and light industries and construction materials)
- Narva as an east-west logistics hub where textile, construction material, limestone, metal processing and power generation are strong traditional industries
- Low production costs, experience of sub-contracting to western companies in several areas of activity
- Low risks of political or ethnic conflicts
- Vast land and forest resources, good ecological situation
- Qualified and skilled labour force in a number of sectors
- Developed physical infrastructure that is an integral part of a wider European network (roads, railway system, international airports in Tartuand Pskov, border crossing points), good logistics location.

Sectors worth considering investment in the Small Peipsi area are wood-processing industry, all forms of handicraft, processing of agricultural produce, fishery and various forms of tourism.

For the future development it is important to have a consensus concerning the priorities of the region, and that there is a will – especially at the local and regional political level – to allocate the necessary resources to areas given highest priority. "Focus" and "cooperation" will therefore be key terms. The indications of growing consensus, readiness to cooperate across borders and sectors, and finally, the awareness of the importance of regional development initiatives, constitute an important first step towards a more positive development in the region.

Contact info

Sten Falling
Project Manager
Education, Industry and Culture
Frederiksborg County
Amtsgården, Kongens Vænge 2
DK-3400 Hillerød, Denmark
Tel +45 48 20 53 32
Fax +45 48 20 53 98
E-mail sfs@fa.dk

Palle Møldrup
Managerial advisor
Industrial Development Centre Funen
(Fyns Erhvervs Center-TIC)
Denmark
Tel +45 70 211 850
e-mail: pm@fec.dk

Madis Saulveer
Peipsi Center for Transboundary Cooperation
Veski 69, 50409 Tartu, Estonia
Tel/Faks 372 7 421 001
e-mail: madis.saluveer@ctc.ee
www.ctc.ee

Olga Vassilenko
Peipsi Center for
Transboundary Cooperation – Pskov
Naberezhnaya reki Velikoi 6, of. 30
Box 470, Pskov 180007, Russia
Tel/Faks: 7 8112 720 688
e-mail: pskov@lake-peipus.net

The publication of this brochure has been supported by the Royal Danish Ministry of Foreign Affairs

Publisher: Peipsi CTC, 2001