

To What Extent Did the Administrative Reform Take into Account Long-Term Changes in Settlement Structure and the Global Competitiveness of Localities?

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Introduction

This article aims to assess the impact of the 2017 administrative-territorial reform on the long-term sustainability of settlements and, in particular, county seats, which function as regional centres for employment and services. Everyday services are organised and new residential areas are planned by local authorities. The construction of expensive

infrastructure that can still be used in the year 2050 or even 2100 is decided at the local level. Consequently, the administrative-territorial reform will affect population distribution.

In my view, the main problem with the administrative-territorial reform as implemented was that when pursuing the goals specified in the Administrative Reform Act,

of increasing the capacity of local authorities to provide high-quality public services using regional potential for development, increasing competitiveness and ensuring more uniform regional development,

it focused only on administrative efficiency and failed to take into account the broader context of development and the settlement system. In places, local leaders' clinging to the little power they had and the political parties' fear of losing power in some counties led to a geographical nightmare, compared to which the 39 districts formed under Stalinist rule in the 1950s seem fairly logical. Just imagine how much easier it would have been to establish local government at the county level and leave the local authorities to deal with their own local matters. Except for the regions around the capital, an average county-based municipality in Estonia would have been somewhat larger than the municipalities in the Netherlands or Sweden, and approximately the same size as in recently reformed Denmark and Lithuania.

The municipalities the size of Saaremaa, for example, could be entrusted with some state functions; they would be able to support entrepreneurs, negotiate with investors, and prepare and manage European Union projects. With tax revenue from a mere 5,000 residents, however, this is not feasible.

Several Estonian county cities that are engines for the development of their hinterland – being the local centres for services, work and networking – are still administratively cut off from their natural hinterland. Cities give the first impression of a region and convey its identity: if a city has a good reputation, the citizens are proud of it and the whole region, the real estate is more valuable and entrepreneurs

are interested in investing and creating new jobs there. The quality of life and services in the urban centre determines the attractiveness of the entire wider hinterland. This could, of course, benefit from a smart urban and regional policy, which is why this article will, in addition to critical remarks, also make suggestions as to how to move forward in this new administrative situation. This administrative-territorial reform is neither the first nor the last.

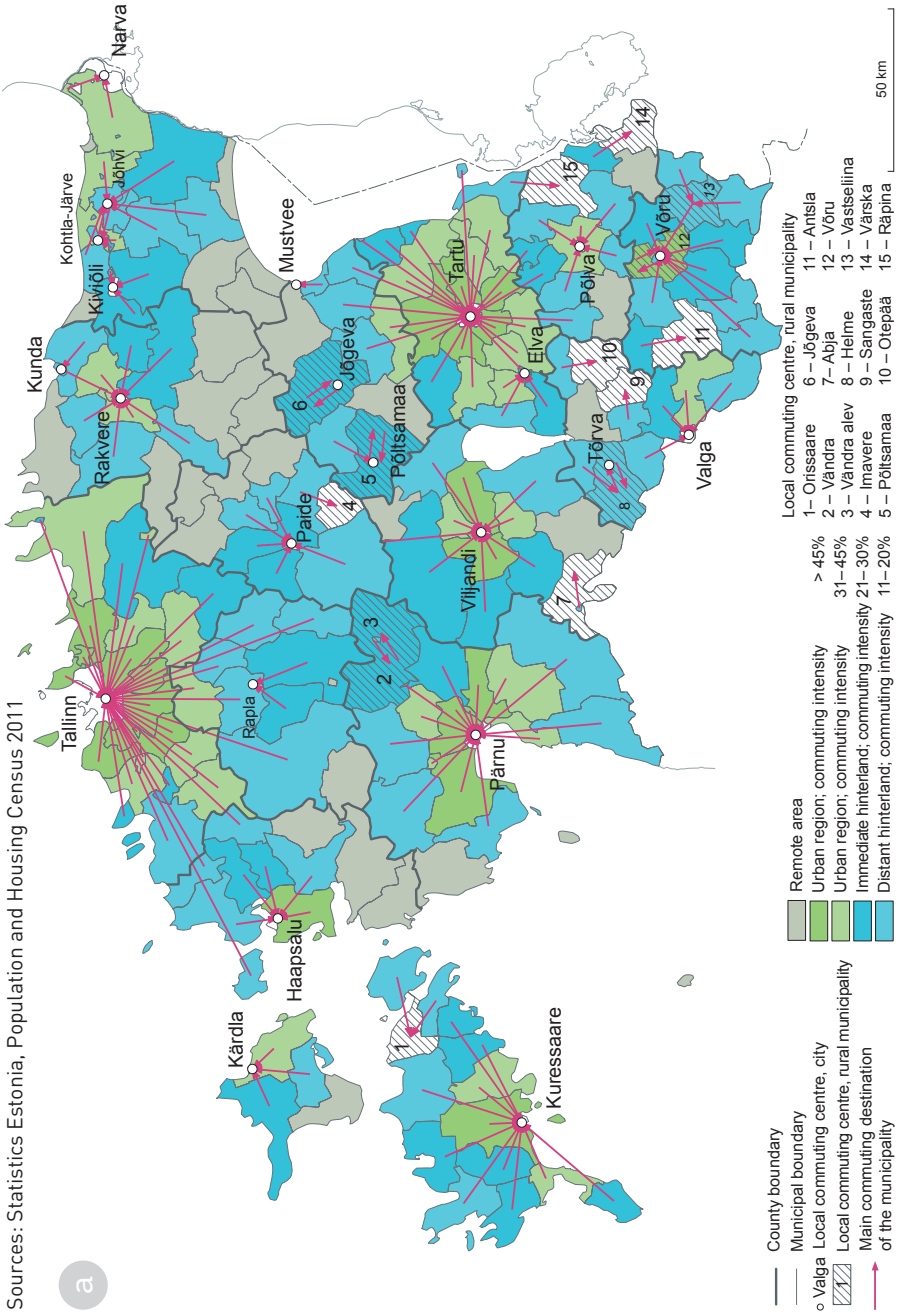
First, let us look at the situation from the long-term perspective. Most reforms tend to solve the problems of yesterday. However, what are the spatial patterns that will prevail in the future? All regions, except the urban regions of Tallinn and Tartu, have lost residents over the last 25 years. Will this trend continue? How should the administrative organisation respond to this?

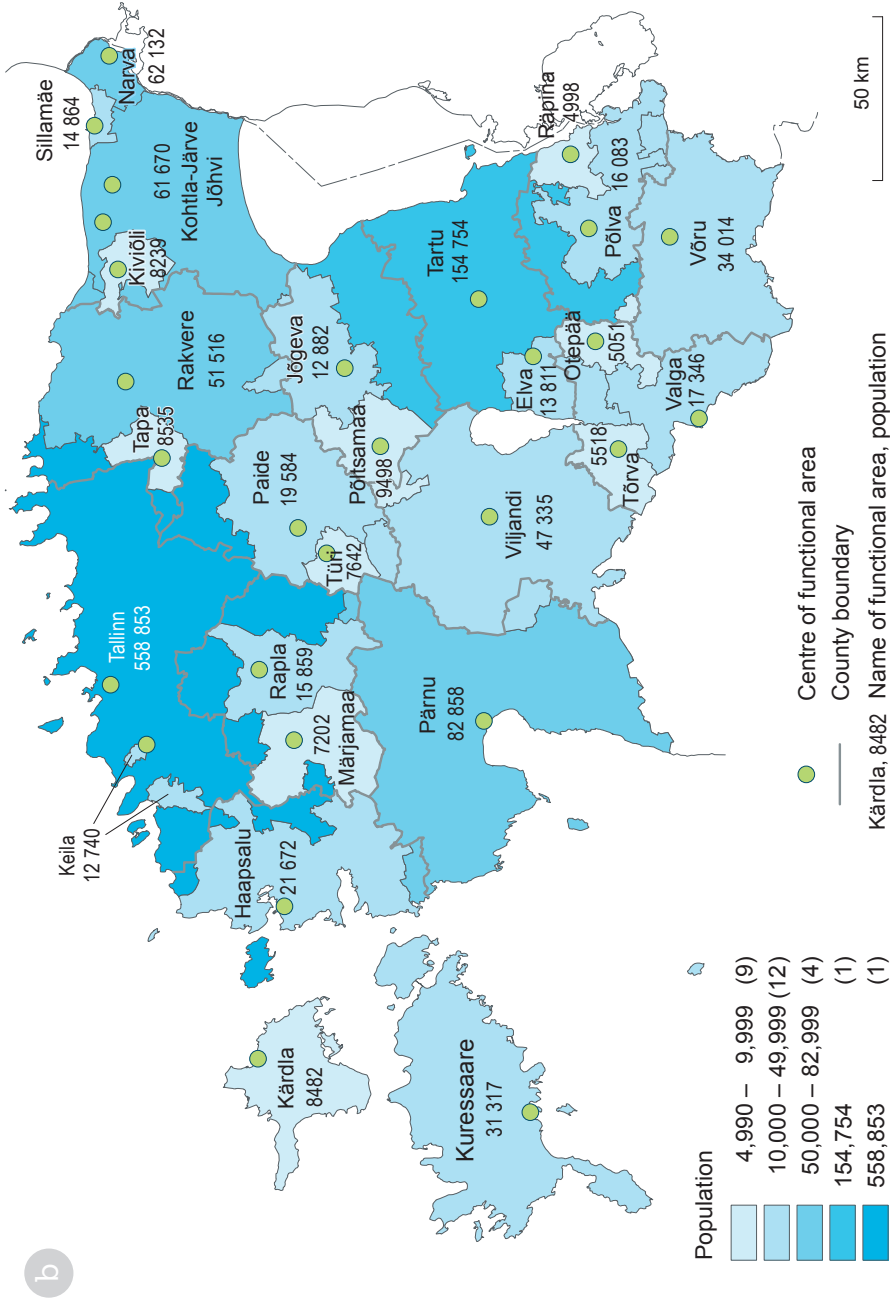
Throughout history, administrative reforms have in fact always been primarily about power. Those in power cannot resist the temptation of profiting from the redistribution of power. The justifications of experts are almost always left in the background and tend to be used to support political objectives. The policy of divide and rule has been literally pursued in recent decades even by the Tories in the UK, let alone in Moldova and Macedonia where the boundaries and administrative divisions were readjusted several times in the interests of political benefit. Hence it is appropriate to look at the experience of other countries, how their administrative structures have developed and how they function.

Another matter of concern is that the state does not know what the state does. In fact, it has of course nothing to do with knowledge but political objectives, which are given priority. On 30 August 2012, the Government of the Republic adopted the national spatial plan *Estonia 2030+*¹ where the key role in the development of settlements has been assigned to county seats, which are the centres of functional urban areas.

¹ <https://eesti2030.wordpress.com/materjalid/planeering-eesti-2030/>

Estonia's labour market areas (functional urban regions) (a), and functional areas with more than 5,000 residents (b), 31 December 2011





Joonis 1.

The administrative-territorial reform essentially ignored the role of functional urban areas and their centres. What is more, the officials who drafted the national spatial plan and who were led by the Minister of Public Administration placed in the Ministry of Finance to prepare the administrative-territorial reform also got rid of county governments, which had previously organised the common activities of counties as functional urban regions. Counties were preserved on the map but without a mechanism for administration or regional cooperation. How shall we move forward?

The waves of development for settlements and the impact of the administrative system

It can be assumed that an administrative-territorial reform that changes the size and capacity of administrative divisions has a fairly significant impact on the development of settlement and the regional balance in general. At the same time, this impact cannot be assessed separately from other ongoing processes.

In what follows we will look at the Estonian administrative and settlement system in the wider theoretical and empirical context. We will describe changes in the settlement hierarchy and present a selection of more significant factors affecting the change and resident migration decisions. We will also describe how the division of municipalities (with more than 5,000 residents) resulting from the administrative reform may affect settlement and the mobility of residents.

Relationship between the emergence of a hierarchy of urban regions and the administrative system

In the global context, cities in Estonia are small and located on the periphery of Europe. Only Tallinn belongs to cities of intermediate size and is marked as a MEGA² on maps of Europe. The population of

² Metropolitan European Growth Areas. See <http://ec.europa.eu/eurostat/web/metropolitan-regions>.

the functional urban region of Tallinn³ (Figure 1) has grown close to 600,000 and it forms a labour market area within which travelling takes more than an hour. Tartu in conjunction with its hinterland is four times smaller and is followed by regions of small cities located around former county centres that have 10,000–80,000 residents.

The emergence of a hierarchy of urban cores depends primarily on economic factors but also on the division of power between the local and regional levels (i.e. on subsidiarity), which allows localities and regions to manage their economy.

The decentralisation index prepared by BAK Basel Economics⁴ shows a clear correlation: in countries with a more decentralised administration there are smaller regional differences and greater average welfare (Figure 2).

Metropolisation in Estonia and elsewhere in the world, particularly in developing countries over the last few decades, has created the impression of an irreversible process. Some officials, politicians, economists and even the World Bank have found that the concentration of people in metropolises should be encouraged. It has also been argued in Estonia that Tallinn is too small.

According to the OECD⁵, megacities do not guarantee a global competitive advantage. Rather, it is important to have an urban economic environment that enables participation in the global economy, and institutional capacity. If some areas and residents are left out of the global economy, then these regions will become marginalised: they will not contribute to the creation of value added, they will gobble up money in order to achieve social equality, and require additional resources from

³ Defined as an area where more than 15 per cent of the residents commute on a daily basis to the central municipality. It is reasonable to plan the residential and industrial areas, services and transport of a functional urban region in a holistic manner.

⁴ U. Müller, T. Haisch, 'From Subsidiarity to Success: The Impact of Decentralisation on Economic Growth.' BAK Basel Economics. Assembly of European Regions, 2009; https://wwz.unibas.ch/fileadmin/wwz/redaktion/dekanat/Forschungsseminar_HS09/The_Impact_of_Decentralisation_Urs_Mueller.pdf.

⁵ *OECD Territorial Reviews: Competitive Cities in the Global Economy*. 2006.

The decentralisation index (a), and its link to GDP (b)

Source: BAK Basel Economics 2009

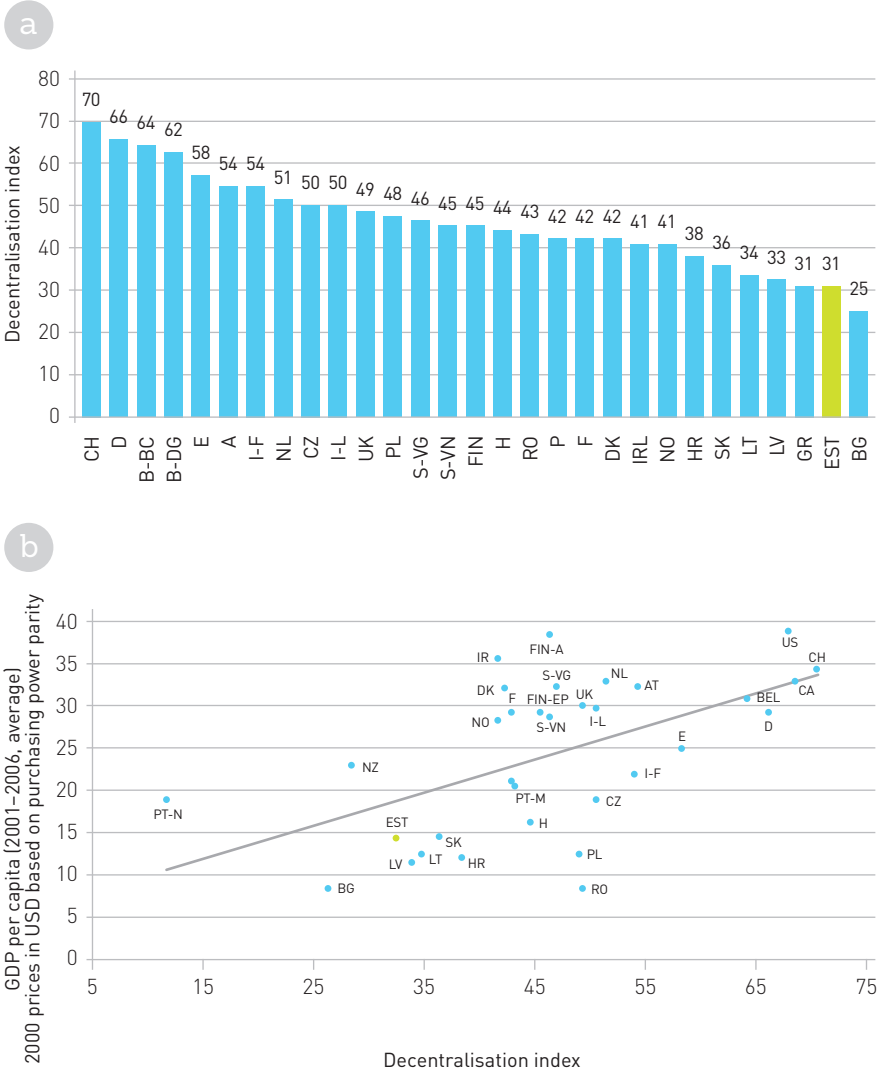


Figure 2.

the state or from citizens and companies in order to ensure safety and security. Metropolisation is not necessarily the only possible, let alone the most sustainable solution for distributing the population, at least not in the longer-term perspective and not everywhere in the world.

Besides achieving short-term economic growth, the concentration of population in metropolises also has a number of negative consequences, such as increased energy consumption and pollution, traffic-related investment and congestion costs, and various kinds of social problems, such as segregation, poverty, crime and unrest.

The growth of megacities and over-urbanisation are primarily phenomena of extremely centralised and failed states where the authorities do not wish or are unable to implement policies which would balance spatial developments. The excessive growth of metropolises largely takes place at the expense of other regions. Hopeless poverty in remote regions causes larger and larger migration flows and in some regions of some countries it has led to separatism or the tyranny of criminal groupings. In Estonia, too, there are some border areas with ethnic-cultural specificities.

In order to prevent and mitigate these problems, several developed countries in Europe have used more decentralised administrative organisation models, including cultural autonomy, and regional policies that contribute to a more even distribution of jobs throughout the country.

Waves of urbanisation

The post-war wave of urbanisation in Europe and the USA was followed by population dispersal in the 1980s. The growth of metropolises lasts until resources become depleted (e.g. water) and/or when the factors that support population dispersal (price growth, pollution, crime) become predominant. Therefore, at a certain phase of development,

metropolises start to sprawl and even shrink. A number of authors⁶ have addressed the return of population from large cities to smaller ones. The theory of differential urbanisation⁷ (Figure 3) describes the wave of urbanisation; that is, migration to the largest centres (I–III), the sprawl of large cities (IV–V) – internal migration turnaround – and finally, counter-urbanisation or migration (back) to small cities (VI–VII). Some western countries went through the last cycle in the 1980s, which was followed by a new wave of urbanisation in the 1990s triggered by globalisation.

In the 2000s, the population of some Western European countries started to move to small cities (Figure 4). This suggests a new polarisation reversal (migration turnaround). Will this trend also reach Estonia despite the latest massive outflows? Given that external migration in Estonia was positive in 2015–2017 for the first time in a long time and that there are a number of indicators pointing to the continuation of this trend, we cannot exclude the possibility of the regional dispersal of settlement in the future.

The life-cycle and age structure – the baby-boomers of the 1980s are likely to ruralise from the 2030s onwards

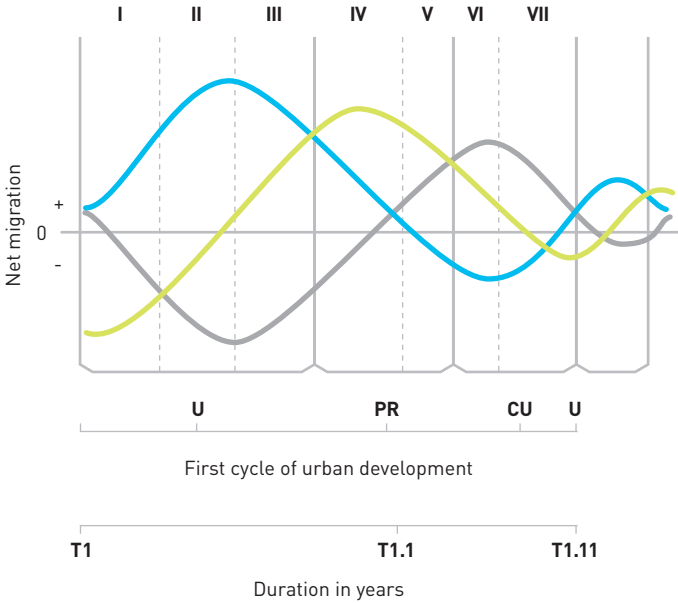
Today, people choose their residence depending on their life-cycle. Young people move to cities to study and make a career, families look for a compromise between a well-paid job and a safe living environment for their children, and at retirement age the decisive factors are the price and quality of the living environment. The Estonian baby-boom generation of the 1980s has urbanised over the past 15 years and moved abroad

⁶ A. Hirschman, *The Strategy of Economic Development*. New Haven. Yale University, 1958.
J. P. Gibbs, 'The Evolution of Population Concentration' – *Economic Geography* 39, 1963.
J. Friedmann, 'The spatial organization of power in the development of urban systems' – *Development and Change* 4, 3, 1973, pp. 12–50.
H. Geyer, 'Expanding the Theoretical Foundation of the Concept of Differential Urbanization' – *Tijdschrift voor Economische en Sociale Geografie* 87(1), 1996, pp. 44–59.
E. Korcelli-Olejniczak, P. Korcelli, 'On European metropolisation scenarios and the future course of metropolitan development in Poland' – *Geographia Polonica* 88, 1, 2015, pp. 107–121.

⁷ H. S. Geyer, T. Kontuly, 'A Theoretical Foundation for the Concept of Differential Urbanization' – *International Regional Science Review* 15, 1993, pp. 157–177.

The differential urbanisation model

Source: Geyer and Kontuly 1993

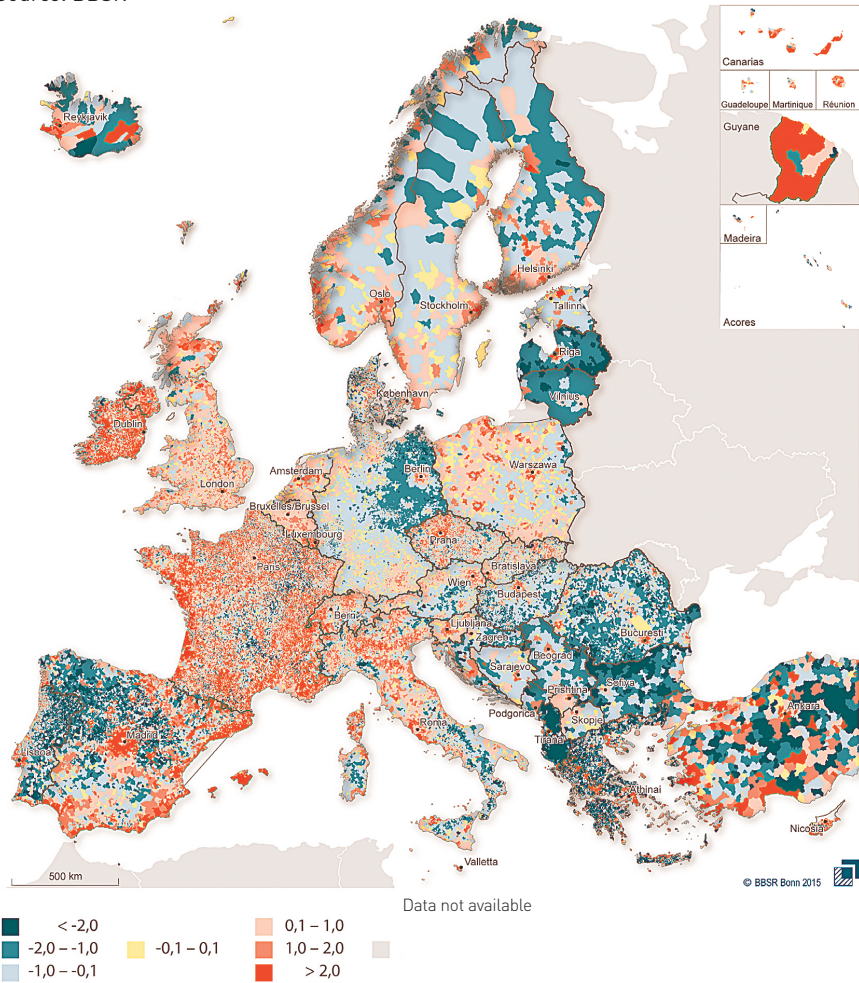


- I** Early primate city stage (early growth of large cities)
- II** Intermediate primate city stage (fast growth of large cities)
- III** Advanced primate city stage (halt in growth of large cities)
- IV** Early intermediate city stage (fast growth of intermediate cities)
- V** Advanced intermediate city stage (halt in growth of intermediate cities)
- VII** Small city stage (fast growth of small cities)
- U** Urbanisation
- PR** Polarisation reversal
- CU** Counter-urbanisation
- Large cities
- Intermediate-sized cities
- Small cities

Figure 3.

Changes in the population of European local administrative units (LAU 2) 2001–2011

Source: BBSR⁸



Joonis 4.

⁸ Where the population in Europe is growing or shrinking. Bundesinstitut für Bau-, Stadt- und Raumforschung; <http://www.bbsr.bund.de/BBSR/EN/SpatialDevelopment/SpatialDevelopmentEurope/AnalysesSpatialDevelopment/Projects/PopulationDevelopment/population-development.html?nn=392744>

Net migration rate of young people aged 15–29 years (a), and older people aged 50–69 years (b) on the basis of municipalities, 2000–2011

Source: Statistics Estonia¹¹

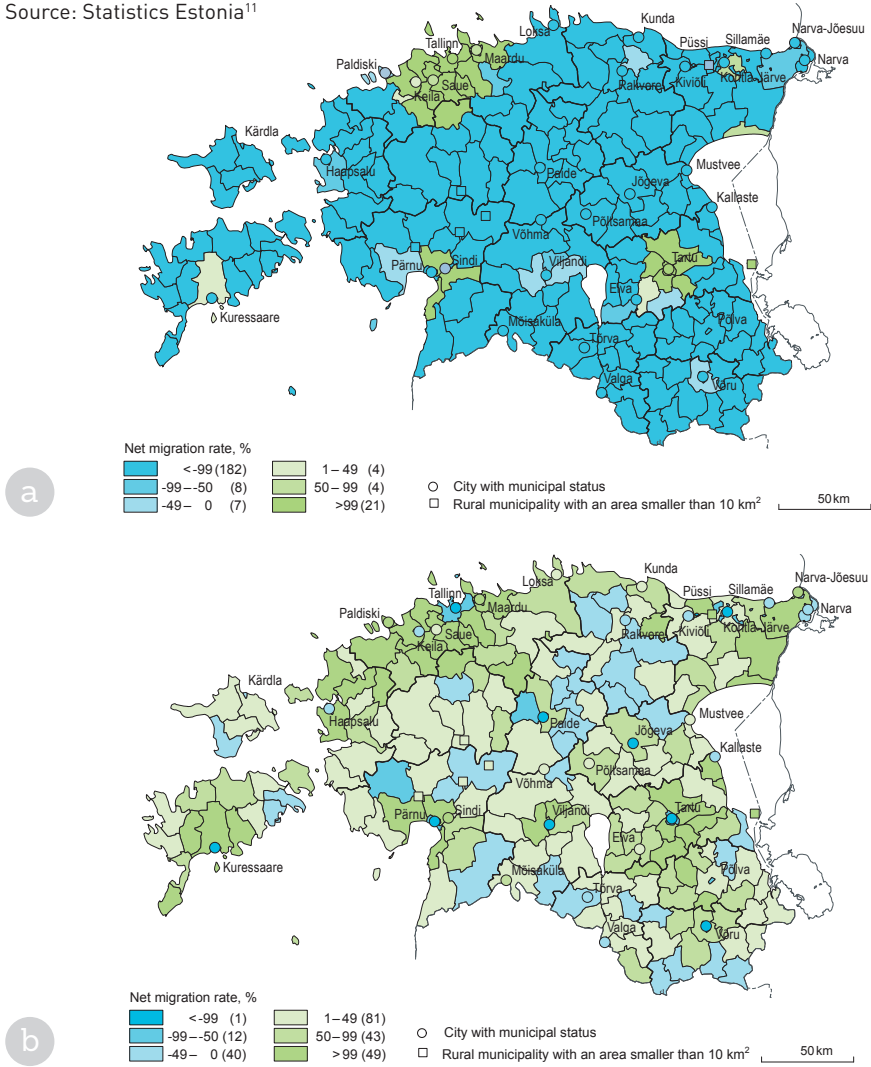


Figure 5.

¹¹ Eesti piirkondlik areng. 2015. Regional Development in Estonia. Eesti Statistika: Tallinn, 2015; https://www.stat.ee/valjaanne-2015_eesti-piirkondlik-areng-2015.

in search of work, especially during the economic crisis of 2009–2011. This generation will turn 50 in the 2030s and will probably place greater emphasis on their living environment, will gradually retire from active career and return home.

Up until now this has been the pattern of behaviour of Estonians (Figure 5) and Europeans in their late middle age. Therefore, small Estonian cities may grow on account of the people who are currently living in Tallinn and Tartu, and also in Finland and other foreign countries, as many of them will return home or inherit real estate from their parents or relatives. There is an increasing number of people from the core of Europe who have second homes in the Mediterranean countries as well as in southern Sweden and Norway.⁸

In the longer-term perspective, due to the shortage of water and rising summer temperatures resulting from climate change, people will prefer the wetter and cooler Baltic Sea region to Mediterranean countries. Rail Baltic and improving connections may stimulate these processes.

Cycles of technological development and possibility of green dispersed growth

Even technology changes settlement structure. Every 40–50 years, the global economy plunges into recession, and subsequently reaches out for new heights of growth with the support of new technologies. These technology-based development cycles have been called Kondratiev waves⁹: during crises the profitability of companies falls, some companies of the old economy disappear and new ones will have a chance to grow.

⁸ D. K. Müller, *German second home owners in the Swedish countryside: on the internationalization of the leisure space*. Umea, 1999.

Nordregio, 'Second homes in the Nordic countries' – *Journal of Nordregio* Vol. 7–2007.

⁹ J. A. Schumpeter, *Business cycles: a theoretical, historical, and statistical analysis of the capitalist process*. Mansfield Centre, Connecticut: Martino, 2006 [1939].

C. Perez, *Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages*. UK: Edward Elgar, 2002.

The financial crisis of 2008 signalled that the world which had become globalised in the second half of the 20th century through micro-electronics and aviation had become sick, and that the fifth Kondratiev wave had come to an end.

The field of eco-energetics will grow in all likelihood but this requires considerably more space. Wind generators can be erected in locations where there is wind and where they are acceptable to the inhabitants. Solar panels should be installed close to consumers but there is not much space for them in large cities. Due to transportation costs, the best location for a biofuel-based cogeneration plant would be close to the resources and industrial housing. A green economy also entails energy efficiency and better planning: the geography of a settlement which has been optimised through energy and time consumption differs significantly from that of current settlements. The urban environment of large cities that is dependent on energy, food and water, which all have to be brought in on a massive scale, should become even more expensive due to increasing environmental taxes. In particular, the environmental load of the residents of sprawling motorised large cities is significantly larger than that of the residents of small cities.¹⁰

And there is more to this. Robert Putnam¹¹ has described how, by 'bowling alone', Americans have lost their friends and family life because driving from their suburban houses to their offices in the city takes several hours away from their day. The results of the lack of a spatial policy and the stigmatisation of small cities as 'depressing' can be seen in their extreme form in over-urbanised developing countries.

¹⁰ A. Poom, *Spatial aspects of the environmental load of consumption and mobility*. University of Tartu Press, 2017.

¹¹ R. D. Putnam, *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon & Schuster, 2000.

The return of geopolitics and the strategic value of low-density settlement

Due to the changed geopolitical situation, the governments of the European (eastern) border states obviously have to critically review the settlement trends in the remote regions of their countries. Major countries, such as Russia, China, Iran and Japan, have started to redistribute their spheres of influence. In one of his articles, Estonian statesman Raivo Vare¹² concluded: geopolitics is back. Furthermore, pre-Second World War rhetoric and methods are also being used again.¹³

How to survive when electricity disappears from cities, tankers do not bring any oil and supermarket doors remain closed? We still cannot grasp how much the situation has changed. (Interview with the Estonian politician Kaido Kama)¹⁴

Some do worry, however, which is confirmed by the presence of NATO battlegroups in Estonia. In recent interviews, several state officials have said that the most important reason for a more balanced development of settlement was the evacuation of the population. Estonia needs a plan for extreme situations where due attention has to be paid to low-density areas and small cities.

The key to maintaining low-density areas is the strong county city

As a result of the above-described waves of settlement and changing migration processes, it is expected that people will return home from abroad and large cities. Technological developments and eco-energetics

¹² R. Vare, 'Miks Venemaa Ukrainat kiusab' – *Postimees*, 28.08.2013; <https://arvamus.postimees.ee/1363542/raivo-vare-miks-venemaa-ukrainat-kiusab>

¹³ W. R. Mead, 'The Return of Geopolitics. The Revenge of the Revisionist Powers' – *Foreign Affairs*, May/June, 2014; <https://www.foreignaffairs.com/articles/china/2014-04-17/return-geopolitics>.

¹⁴ 'Intervjuu Kaido Kamaga' – *Eesti Ekspress*, 2.9.2015; <http://ekspress.delfi.ee/intervjuu/kaido-kama-ellujaamisopetus?id=72333675>.

will contribute more than before to the development of cities with 10,000–100,000 residents (in the global context all small cities), and it will be strategically extremely important again for Estonia to maintain viable low-density settlements. How can we guarantee this?

Did those planning the administrative-territorial reform assess how the processes described above would progress and whether the emerging administrative structure would be suitable in the future? Did they estimate the impact of the new administrative system on the development of settlement? Did they assess the strategic needs and risks? The explanatory memorandum to the draft act on the administrative reform states that,

the act will have a positive impact in all areas listed in Article 46(1)1)–5) of the Rules for Good Legislative Practice and Legislative Drafting: social (including demographic) impact; impact on national security and international relations, on the economy, on the living environment and natural environment, and on regional development.

Unfortunately, as in several other memoranda to draft acts, it is a hollow declaration. The main focus was on the voluntary phase and the minimum criterion of 5,000 residents, which was not a sufficient incentive for the formation of divisions based on urban regions. The small size of the grants for mergers resulting in municipalities with more than 11,000 residents and the vague definition of the merger grants for mergers involving several counties were perhaps meant to calm the experts who were against the continuation of micro-sized rural municipalities. Those planning the reform had no spatial vision, and did not look at the map or take into account the wider context.

Small cities, such as Lihula, Otepää and Tõrva, indeed gained residents and increased their tax base as a result of the administrative reform. One could think that this will have a positive impact on their development. As they will also receive some resources from the central government, their post-merger budgets may seem like they have made

big step forward although the merged local governments will have to cater to people living in a considerably larger area than before.

Unfortunately, there are only a few functional areas with 5,000 residents that can be defined as daily commuting areas (see Figure 1b). The reform in fact copied the model of 39 small districts from the 1950s, albeit by occasionally forming even more unnatural combinations. The examples here include the excessively stretched out Pärnu city, the competing centres of the counties of Põhja-Pärnumaa, Järva and Rõuge, and the circular rural municipalities around cities.

A great cause for concern is the development of the cities of Rakvere, Viljandi and Võru, which remained on their own, and the cities of Haapsalu, Paide and Pärnu that merged with some neighbours but whose actual hinterland is much larger than that of the new municipality. Although there is a demand for services from these cities, the willingness to contribute jointly is limited. There is a risk of duplication. In the 1950s, the leaders of small districts built pompous central buildings, and in the 1980s, collective farms and enterprises built sports halls and swimming pools – calling them among others vegetable warehouses and fire water-reservoirs – in small cities and towns but not in the above-mentioned cities which would have been their natural location. The role of county cities will be discussed in the last part of this article.

And now let us turn to the most important aspect – global competitiveness in the future. Someone has to bring together the region's entrepreneurs and other parties, (jointly) finance centres for business development, plan and construct infrastructure, plan transport and education in a larger territory than that of even the most merged municipalities. If a region is unable or unwilling to manage the emergence and entry of new companies, there will be no hope of attracting young educated people to the region.

There is no reason to develop infrastructure and services in a declining region: the cumulative decline will progress even more rapidly, and in the end the gap in the quality of life and services compared with

central regions will widen to such an extent that even holiday-makers will leave. As the fathers of families who either move to or remain in Finland or the county of Harjumaa cannot participate in the Estonian Defence League, there is no need to explain the impact of the situation on the security of the country. Until there is no viable solution to the development of regional enterprise, it is quite difficult to believe that in the new structure of local government and under the leadership of the current leaders the positive impact promised in the above-mentioned explanatory memorandum will indeed materialise.

It is extremely critical that the leaders of small cities, which look like villages in the global context, who have started to transform them into new capitals will be able to see the need for a support system for cross-border enterprise and innovation, and the advantages of jointly organised and financed services. The history of local administration in Estonia and the European experience¹⁵, however, has shown that more often than not they will just be satisfied with their local position and benefits. Next, let us look at administrative reform experiences in selected European countries.

The experience of administrative innovation in European countries and the reasons for the centralisation of administration in Estonia

The sample of comparable countries includes the closest neighbours Latvia, Lithuania and Finland, and some countries whose territory is comparable to that of Estonia. The latter include Denmark, the flagship planner in Europe, which successfully implemented an administrative reform in 2002–2007; the Netherlands, whose population density is ten times higher than in Estonia; and Slovenia, which has a similar population, settlement structure (Maribor is a significant secondary centre like

¹⁵ F. Barca, 'An agenda for a reformed cohesion policy. A place-based approach to meeting European Union challenges and expectations', 2009; http://ec.europa.eu/regional_policy/archive/policy/future/pdf/report_barca_v0306.pdf.

The share of local and regional expenditure in GDP and total public spending in selected countries (%), 2013

Source: OECD 2013

| Country | Local and regional expenditure | | % EU average | |
|-----------------|--------------------------------|----------|--------------|----------|
| | % GDP | % Budget | % GDP | % Budget |
| Denmark | 36,4 | 63,8 | 229 | 195 |
| The Netherlands | 14,3 | 30,5 | 90 | 93 |
| Finland | 23,9 | 41,4 | 150 | 126 |
| Slovenia | 9,6 | 16,1 | 60 | 49 |
| Lithuania | 8,3 | 23,3 | 52 | 71 |
| Latvia | 10,2 | 27,5 | 64 | 84 |
| Estonia | 9,9 | 25,8 | 62 | 79 |
| EU | 15,9 | 32,8 | 100 | 100 |

Table 1.

Tartu in Estonia) and location (in the neighbourhood of the rich countries Austria and Italy), and who is considered to be a star pupil in Eastern Europe, just like Estonia. The comparison is based on the still unpublished data from the ESPON COMPASS¹⁶ project and comparable data from the OECD in 2013¹⁷ (Table 2). According to the latter, the share of Estonian local government expenditure in GDP and total public spending was 9.9 % and 25.8 %, respectively, which is considerably lower than the average in EU countries (15.9 % and 32.8 %, respectively) and the average in the OECD unitary countries (13 % and 29 %, respectively).

¹⁶ <https://www.espon.eu/planning-systems>

¹⁷ <http://www.oecd.org/regional/regional-policy/country-profiles.htm>

Despite the universality of spatial processes (like commuting), which should and indeed does lead to functional urban regions with similar geography and mobility patterns, territorial governance across countries is completely different. The formation of administrative structures is obviously determined by political interests rather than the functionality of the space.

Administrative reforms are usually initiated by central governments and tend to meet resistance. It is critical that the ones being reformed are interested in participating in the process. An example of a country where there was broad-based agreement regarding the planned administrative change is **Denmark**, where the state-county-local system introduced by the reform in the 1970s was replaced in 2007 with a model based on competitiveness: 275 municipalities were merged to form 98 municipalities, which are on average the largest divisions in continental Europe, and 14 counties were merged to form 5 regions of state administrations mainly responsible for health. The formation of the large municipalities was possible thanks to the activities of active communities and non-profit organisations whose joint ownership also include some energy companies and public utilities. County-level planning was abolished and focus was placed on economic growth and development strategies as well as obtaining access to EU funding.¹⁸ There were also some local authorities in Denmark which were against the changes, but as the majority wanted more power and money, they were mostly in favour of the reform. Today, Denmark is the most decentralised unitary country in the world (Table 1).

In **the Netherlands**, there have been no significant administrative innovations recently and the provinces continue to play an important role in the balancing of state and local interests. The constitution of 1815 established a decentralised two-level local government system

¹⁸ Niels Boje Groth, 'Targeted project – at the request of regional stakeholders', seminar presentation at 'New thinking of territorial governance with special focus on the Baltic States', Vilnius, 17 November 2017.

that is regulated by the law on provinces and local authorities. In the Netherlands, the chairman of the provincial assembly and the mayors are historically appointed by the central government. Since 2001, local and provincial authorities can participate in these appointments. Over the years, the number of municipalities has decreased through mergers from 913 (1970) to 390 (2016). There has been a discussion on merging the provinces since the 1960s but this has not happened. The activities of the eight urban districts established by the central government in 1995 were stopped in 2015, and the governing bodies of the metropolitan regions of Amsterdam and Rotterdam Den Haag were established. There is a network of 2,200 village and community councils in the Netherlands, whose activities are regulated by the law on local authorities and private law.

Finland is one of the most decentralised OECD countries. There are 313 municipalities in Finland. There are 19 regional councils that function as associations of local authorities. Only one of them – Åland Islands – is an autonomous province with an autonomous administration. In recent years, Finland has implemented several municipal reforms as a result of which the number of municipalities has decreased from 475 in 1976 to 313. One of the problems of voluntary mergers has been that the disparities between the development of the municipalities that merged with urban centres and the development of remote municipalities and those that did not merge has increased. The revenue base of the latter has become insufficient for providing health and social services to their ageing population.

The year 2015 saw the beginning of a county government reform, as a result of which healthcare, social services, rescue services, development and cultural work as well as spatial planning will be the responsibility of the counties. After the implementation of the reform, regional governance will be completely changed: more than a half of the current budgetary resources will be transferred to county councils, elected by direct popular vote. In Finland, 89 local, 21 regional and 9 state level

service centres of the central government are currently being reformed. The reform includes changes to social security, the tax board, employment, the enterprise register, rural development support, land-use planning, citizenship and migration, and the labour inspectorate. These state functions will be essentially duplicated by local governments and the future counties, and the reform aims to bring them all under county governments.¹⁹

Slovenia has 212 municipalities, of which 109 have fewer than 5,000 residents, which is the minimum size criterion under the Local Self-Government Act in force since 2005.²⁰ Prior to the 1994 reform, there were 62 municipalities and 3 specific socio-political communities in Slovenia. These included 1,203 local communities and 5,595 villages. After the 1995 reform, there were 147 municipalities and their number increased later on. In 2000, two NUTS 2 regions under the EU cohesion policy were formed in order to continue receiving cohesion grants from the EU. There are 12 NUTS 3 regions, the smallest of which is Zasavska with a territory of only 264 square kilometres and a population of 43,775. There are associations of municipalities and regional development agencies in these regions, whose activities are somewhat broader than those of the Estonian county development agencies. As in the case of county associations of local authorities in Estonia, it is not easy to reach agreements and joint activities tend to be based on the needs of single municipalities, there is a lack of qualified specialists and significant overlaps with similar local organisations. In 2008 and 2011 there were attempts to create a regional administrative level but these were unsuccessful.

In Lithuania, there are three territorial levels: 10 counties, 60 municipalities and more than 500 elderships. The only administrative

¹⁹ http://valtioneuvosto.fi/en/article/-/asset_publisher/10616/tutkimus-valta-ja-vastuu-jaetaan-uudelleen-maakuntauudistuksessa

²⁰ F. Žohar, 'Possibilities to reform the system of municipalities in Slovenia' – *Journal of Universal Excellence*, 3, 4, 2014, pp. 36-62; http://www.fos-unm.si/media/pdf/ruo_2014_33_zohar.pdf.

level that is elected is municipality. From 1995 to 2010 there were county governments that were also responsible for regional development. County-level administration was abolished from 1 July 2010, and the only remaining levels were local authorities and state authorities. Counties are currently statistical units without territorial governance. The elders of the elderships are appointed by the heads of local authorities. At the beginning of the 1990s, there were 44 districts, 12 nationally governed cities, 80 cities, 19 settlements of other kinds, and 426 village councils in Lithuania. The Seimas adopted a law on government in 1993 and a law on administrative reform in 1994, both of which entered into force in 2005. After the reform the Lithuanian municipalities were the largest in continental Europe at the time. The post-reform local authorities had a significant revenue base but later on the share of their expenditure in GDP decreased and they have a relatively limited role in investment activities.

Estonia's administrative reform copied the model of Latvia

The 1994 Law on Self-Government, the 1998 Law on Regional Development and laws on spatial planning divided Latvian administrative competence between the following divisions: the state level, 26 districts, 7 nationally governed cities and 536 municipalities. The laws facilitated the mergers of smaller municipalities. The state level, nationally governed cities and municipalities elected their representatives directly, while the districts were managed by representatives of local authorities. The limited institutional capacity of the local authorities of small municipalities meant that there was a need for regional agencies. The Latgale Region Development Agency was established in 1999. Thereafter, the other four historical regions established their own development agencies whose main role is to work on EU projects. Therefore, local governments are interested in participating in the work of the agencies.

Since the 2009 administrative reform, Latvia has had 5 planning regions and 119 municipalities, including 9 nationally governed cities.

As a result of the administrative-territorial reform²¹, 424 rural municipalities and 50 (small) cities were reorganised into 110 merged municipalities and 9 (large) nationally governed cities. The reform included the whole country and the merger criterion was set at 5,000 residents. However, exceptions were made in the political process and 20 units ended up with fewer than 5,000 residents. Offices with a reduced number of staff were kept in rural municipalities, which are usually led by the former mayors who then relay the concerns of local inhabitants. The reform had the following positive effects:

- 1) pooled budgets, increased efficiency of expenditure, better possibilities for local authorities to attract public and private sector investments;
- 2) pooled human resources have increased the capacity of local authorities;
- 3) larger electoral territories have increased local democracy;
- 4) the local authorities formed around regional development centres have an opportunity to enhance cooperation between the cities and the country areas.

However, the following problems still persist after the reform:

- 1) the administrative-territorial structure has remained fragmented;
- 2) cooperation between urban and rural regions is limited in municipalities without urban centres;
- 3) insufficient tax revenue and relatively large administrative costs in small municipalities;
- 4) the local authorities of smaller municipalities still have limited capacity to perform certain tasks, which makes further decentralisation of state functions impossible.

²¹ A. Draudinš, Seminar presentation 'Administrative territorial structure and reforms in Latvia' – *New thinking of territorial governance with special focus on the Baltic States*, Vilnius, 17 November 2017.

The Latvian government is trying to solve these issues by promoting cooperation between local authorities in 29 regions (the former districts with no administrative functions) which are, in essence, functional regions, in order to jointly:

- 1) use various resources;
- 2) prepare development programmes and plans;
- 3) carry out large-scale development projects, including the construction of infrastructure;
- 4) create the conditions for economic development and attracting investment;
- 5) establish the necessary institutions and organisations (hospitals, upper secondary schools, vocational educational institutions, registers, healthcare and social services, tourism development, development funds, IT-structures, police, civil defence, etc.);
- 6) organise cultural and sports events;
- 7) plan and organise public transport (school transport, taxis) and road maintenance.

A similar summary could be made of the results of the administrative-territorial reform in Estonia. One difference is, however, that the problems arising from the abolition of county-level administrations have not been fully realised yet. Neither Latvia nor Estonia can decentralise administration due to the heterogeneity of the municipalities and the fact that cooperation based on urban regions does not work.

Centralisation in Eastern Europe

Two completely different trends emerge across countries. On the one hand, more power is given to communities and lower-level administrative divisions in the west. Finland is even planning to create a regional level with directly elected local authorities. A number of countries have special measures in place to foster cooperation between local authorities on the basis of urban regions. In Eastern Europe, on the other hand,

after the chaotic transition period of the 1990s, public administration has been mostly centralised.²² This is also evident in Table 2, which shows that local and regional expenditures of Eastern European countries make up only a little more than a half the EU average. In these countries, the role of the regional administrative level between the local and state levels has decreased or has been abolished or this level has not even been created.

At the end of the 1990s and in the context of accession to the EU, the local forms of governance were increasingly influenced by Europeanisation; that is, harmonisation with the rules of *acquis communautaire*, which has sometimes also been called 'Europeanization'. According to Kungla²³ and Bachtler et al.²⁴, in its pursuit of increased capacity, the European Commission focused on the level of the state, as the administrative capacity at local and regional levels was poor. Therefore, the difference in the capacity of the state and regional/local authorities was increased even further and the important EU principles of partnership and subsidiarity were in fact not applied.

The EU cohesion and regional policies became separate sectoral policies at the state level and new agencies were established for their implementation. Significant funds have been invested through direct EU action for the establishment of new, in fact parallel spatial administrative structures, such as Euro-regions, LEADER and fisheries action groups. This has increased administrative fragmentation and decreased the potential to coordinate different policy areas. The re-centralisation of administration and subjecting it to sectoral legislation was therefore

²² B. Loewen, G. Raagmaa, 'Introduction to the Special Issue: Territoriality and Governance in the Globalizing European Eastern Peripheries' – *Administrative Culture* 2018 (2), pp. 89–101.

²³ T. Kungla, *Patterns of Multi-Level Governance in Europe: The Challenge of the EU's Enlargement*. Tallinn University of Technology, Faculty of Humanities, 2007.

²⁴ J. Bachtler, C. Mendez, H. Oraže, 'From Conditionality to Europeanization in Central and Eastern Europe: Administrative Performance and Capacity in Cohesion Policy' – *European Planning Studies* 22:4, 2014, pp. 735–757, DOI: 10.1080/09654313.2013.772744.

largely a result of pressure from the European Commission. As Estonia wished to use assistance from the Structural Funds to the maximum extent possible, EU rules were adhered to without lengthier discussion.

Another reason for the centralisation was the desire on the part of politicians and senior officials to have more power. After the 1990s, they started to reduce state structures, which in Estonia was called 'creeping administrative reform'. The implementation of the new system of public administration was to contribute to greater flexibility and faster procedures in the public sector. This was achieved to a certain degree.²⁵

The application of the principles of competitiveness in the public sector and intrinsically monopolistic state structures contributed to administrative centralisation and the formation of administrative silos.²⁶ At the end of the 1990s, the national authorities started to centralise the administrative functions of counties. They justified this in terms of the savings in administrative costs and the inability to perform the relevant functions at the local and regional levels:

They did not cope with organisational tasks. At first local authorities and then county governments. We had no choice but to gather the organisational tasks to a government agency. (Interview R10, 2017)

At the same time, no assessments have been made regarding the impact of the increased total social costs that resulted from centralisation, let alone regarding the impact that redundancies in state authorities and enterprises had on the remote regions. Although both the EU and Estonian legislation prescribe the obligation to assess and take into account horizontal, including regional impact²⁷...

²⁵ W. Drechsler, T. Randma-Liiv, 'In Some Central and Eastern European Countries, Some NPM Tools May Sometimes Work' – *Public Management Review* 10, 18, 2016, pp. 1559–1565, 10.1080/14719037.2015.1114137.

²⁶ https://riigikantselei.ee/sites/default/files/content-editors/Failid/oeed_public_governance_review_estonia_full_report.pdf

²⁷ *Läbivad teemad valdkonna arengukavas*. Ministry of Finance, 2014; <https://www.rahandusministeerium.ee/sites/default/files/lcbivad-teemad-valdkonna-arengukavas.pdf>
Mõjude hindamise metoodika. Ministry of Justice and Government Office, 2012; https://www.just.ee/sites/www.just.ee/files/elfinder/article_files/mojude_hindamise_metoodika.pdf

... this is actually not done. Just a few lines are written in official texts to give the impression that the impact has been taken into account, but this is in fact not true. There are no consultations with the authorities who are responsible for relevant areas. (Interview R11, 2018)

The administrative-territorial reform did not address options for decentralisation in any meaningful way. The promises made by politicians in the legislative process of the act on the administrative-territorial reform have materialised only partially. The main problem is, however, that it is not possible to transfer additional functions to local authorities, as they continue to vary greatly in size and capacity.

Estonia 2030+ and the future of county-level administration

The economic, regional and spatial policy in Estonia should be based on the national spatial plan *Estonia 2030+*, which explains that the value of achieving balanced spatial development is primarily seen in terms of the more efficient use of resources and the need to keep commuting within tolerable limits.

This means that it will not be possible in the future to expand local activity spaces indefinitely. The maximum time that is acceptable for people to travel to work in 69% of cases is below 45 minutes. (Estonia 2030+, p. 22)

The national spatial plan aims to balance the settlement system across the entire country primarily through a network of county centres as functional urban regions (Figure 6):

To secure the continued existence of small cities and rural areas under these circumstances, they should be integrated more effectively with county centres and other larger cities within the local activity spaces. (Eesti 2030+, p. 17)

As a result of the abolition of county governments and the administrative-territorial reform, the functional urban regions (except on the island of Saaremaa) remained without an administrative level. This void is expected to be filled by associations of local authorities but not all of them have reached agreement regarding cooperation. The small amount of resources that are redistributed from county governments does not encourage local authorities to engage in joint activities or county cities to develop the necessary services for a wider region. If county cities stay out, then the wider area in conjunction with its local centres will generally also become less attractive. The structure that emerged as a result of the administrative-territorial reform has sometimes made the formation of county associations useless. A case in point is the island of Saaremaa where the county and the rural municipality are essentially the same, or the island of Hiiumaa where the local government system that was created has two levels, or several other counties that have only three municipalities.

Regional structures of the state have to be incorporated somewhere and somehow in the system. It is clear that the state cannot allow local authorities to supervise themselves. State officials should not all work in Tallinn. The presence of state officials is important for both the development and the implementation of policies. If the rules of communal life are to be based on reality, it is necessary to be familiar with local circumstances and interest groups: local problems will have to be defined and taken to the legislature, the new arrangements will have to be explained to the people who also need feedback. This tends to happen less and less frequently. Instead, there are vertical silo-like authorities and one hand of the state does not know what the other is doing.

For example, in several places there are conflicts between environmental protection and heritage conservation officials who interpret the law however it suits them and thus complicate the life of the local inhabitants. Someone will have to resolve such disagreements, bearing in mind the big picture.

Functional areas in Estonia in 2030

Source: *Estonia 2030+*

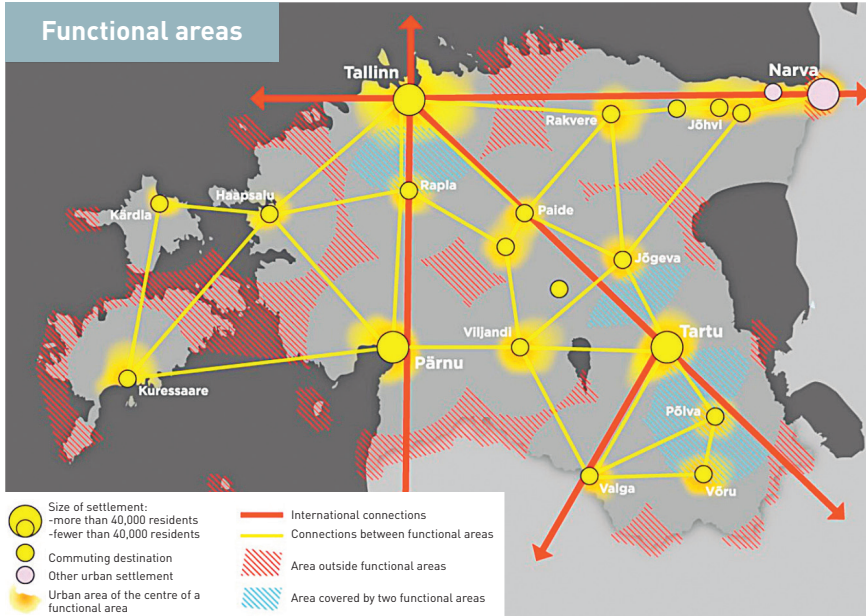


Figure 6. The functional areas whose centres are in the current county cities will grow somewhat in the future. This will be driven by increasing mobility and the processes of the redistribution of jobs, educational institutions and services.

It is a good idea to concentrate the scattered offices of the state administration into state service centres. The establishment of state service centres will presumably be done simultaneously with the removal of the relevant authorities. Opponents of this idea have already described the latter in the media as subversion. There would be less opposition if one took into account the national spatial plan and if the chosen growth centres would be developed on the basis of a 20-year plan. In the context of the current extensive changes it would be possible to develop a

network of centres that would correspond to the actual mobility of the population (Figure 1).

The majority of the Estonian counties are functional areas of historical urban centres, such as Kuressaare and Viljandi. The territories of the corresponding ancient counties of Saare and Sakala, the later counties (*kreis*) of Arensburg and Fellin of tsarist Russia, and the more recent Soviet districts of Kingissepp and Viljandi were all roughly of the same size. The new Soviet districts of Jõgeva, Põlva and Rapla, on the other hand, did not become functional areas even after 50 years, nor are they the centres of their administrative territory today. Märjamaa, Räpina, and Põltsamaa, the capital of the former Kingdom of Livonia (Liivimaa), have always minded their own business and not acknowledged the power of what they call 'railway villages'.

On the other hand, the old county of Võrumaa (Vana-Võromaa) also still exists and would certainly help to find consensus in the region and make it more attractive. Perhaps even the Lääne-Saare bishopric with its former seat in Lihula could provide a historical identity around which the people of western Estonia and the islands could weave their common activities. The history of the county (*kreis*) of Valga is also long and reputable but it is unlikely that there will be a common county with Latvia in the near future. The pieces borrowed from neighbours in 1921 are not fully integrated with Valga even a hundred years later: the inhabitants of Tõrva feel drawn to Viljandi and those of Otepää to Tartu. The people of Jõgeva and Mustvee have always travelled to Tartu.

Põltsamaa has a common history with Viljandi but there are more connections and business with Tartu and Paide. Järvamaa remains quite small. County boundaries within rural municipalities could be adjusted in a number of places (as was done in Puka). However, one should be careful about new mergers and separations of counties. In two generations, the residents of the new counties have developed a fairly strong sense of identity. It would not work to restore an exact map of a certain point in history, as space is like a living organism that is constantly changing.

How is it possible to increase the capacity of localities for development?

The administrative-territorial reform prepared the ground and created better conditions for providing the services required by law in a more efficient manner. However, 5,000 residents are not enough for running an upper secondary school or a swimming pool, let alone a vocational school or an institution of professional higher education, or for organising public transport and promoting enterprise. Small cities and rural settlements depend on the capacity of a (county) city at a higher level in the hierarchy to create jobs and provide services. The local authorities of a municipality with fewer than 10,000 working-age residents do not generally have sufficient capacity to develop enterprise. This is why in the administrative reforms in Denmark and Finland the minimum number of residents was set at 20,000. Estonia, Latvia and Slovenia, on the other hand, focused mainly on administrative efficiency when setting the threshold at 5,000 residents.

A solution would be to create a new county level: whether as a state planning region or an association of local authorities is largely a matter of taste. There is a need for a strong institution that has a guaranteed budget and capacity, and that is able to hire qualified personnel, negotiate with investors and raise financial support. The current situation where counties are merely districts on a map and where there are some state officials working on issues of regional administration on behalf of the county, and associations of local authorities sometimes function and sometimes not, is not a sustainable solution.

The decisive factor in defining the boundaries of a 21st century county could be the strength of its urban centre, the size and functionality of its actual hinterland from which people and companies already commute to school and work in the urban centre (see Figure 1). Any adjustment to the boundaries must take into account the perceived sense of belonging and history.

The main input to the formation of a new structure should come from the residents of the new municipalities (and not only from municipal leaders), who have to accept the urban centre. Unlike in the case of the municipal mergers where the key role was played by personal interests and friendships or even political machinations, the reorganisation of counties should rather be based on functionality and size that takes into account the future needs of the area to be administered; for example, using a threshold of 50,000 residents. It is also extremely important to increase the local capacity to develop enterprise, without which the creation of new jobs remains arbitrary. The granting of significantly larger and strategically planned investment support can be made dependent on regional development cooperation, which can be made compulsory.

Conclusion Settlement changes very slowly. So do people's sense of belonging and social relationships. Although people move around, a spirit of place cannot be created overnight. This takes several generations. It can be clearly seen in Estonia, and also proven statistically, that villages with remarkable cultural heritage and manor houses, towns with charming wooden architecture and church spires that are visible from far away across the fields, and cities with rich history dominated by an ancient fortress hold their people. Likewise, the people who live there hold their villages, towns and cities and are proud of them. The farm villages and mining settlements that were built in a hurry have fallen apart house by house in just a few decades.

The maps of the urban centres and their hinterlands which illustrate this article were almost the same 80 years ago. Most of the old county cities are still where they used to be 500 years ago. They will probably stay there for many years to come.