

The Background Factors and Trends of the Administrative Reform

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There was no single reason for implementing the administrative reform; instead, it was a multi-faceted complex of developments that took place in various areas of the country. Indeed, it was socio-economic developments that triggered changes in the public sector.

A reluctance to take into account national and global development trends and the ongoing clinging to outdated views in public sector governance led to what was apparently a revolutionary, rather than evolutionary, reorganisation of the public sector in 2017 in order to re-establish a balance in the administrative system of central and local government. The problems in the Estonian system of local government and the reasons for the change run much deeper than merely altering the borders. The administrative reform is part of a state reform.

The earlier practice of voluntary, bottom-up merging of municipalities did not lead to systemic changes in the administrative organisation of the country but merely addressed local issues within a particular merger area. The motto of 'a strong state means strong municipalities', which had been prevalent at the end of the 1980s during the restoration of local government, lost its meaning.

The economic crisis in the year 2000 showed that apart from the problems of local authorities' capacity and autonomy, their deficiencies were also rooted in insufficient cooperation between the central government and the local authorities. The gap between the capacity of the local authorities and that of the central government increasingly restrained the local authorities from performing their inherent functions of organising local life and ensuring the efficient fulfilment of other tasks conferred on them.

Observers both within and outside Estonia have pointed out that state governance in Estonia is carried out in silos, and that the weak institutionalised cooperation between the cities and rural municipalities, local authorities and the state, and the public and private sectors hinders the overall development of the country.

In the second decade of this century, the social debate about the size of the public sector that Estonia as a small country can maintain has grown more and more vocal^{1,2}. It was broadly acknowledged that the fragmentation of public administration and the asymmetrical development of the state threatened the sustainability of statehood.

In 2011, Estonian statesman and legal scholar Jüri Raidla said in his speech at the Pärnu Leadership Conference, 'An observation of the reality of our municipalities inevitably leads to the serious conclusion that most Estonian municipalities are not real but illusory. They are able neither to perform their functions, either objectively or subjectively, nor

¹ Estonian Cooperation Assembly, *Good Governance Programme*, December 2014; http://www.kogu.ee/wp-content/uploads/2013/01/Riigipidamise-kava-tervikekst_final.pdf

² OECD, *Estonia: Towards a Single Government Approach*, 2011, http://www.valitsus.ee/User-Files/valitsus/et/riigikantselei/uldinfo/dokumendiregister/Uuringud/OECD_Public%20Governance%20Review_Estonia_full%20report.pdf.

to provide high-quality public services to the people living in their territories. Therefore, administrative reform is indispensable.³

Against this background, a wide spectrum of social developments has had to be taken into account in preparation for the reform, ranging from socio-economic and regional development trends to issues related to culture and security. Hence, the question is not just about the current situation. It is also necessary to predict the future and identify trends that are key in the long-term development of the municipalities and can be changed through the reform.

Demographic developments

Population ageing and urbanisation affect all societies. Different countries adapt to these developments in different ways.

A situation in which there is a rapid decrease in the population, including the working-age population, creates the need to cater for the subsistence of retired persons, and the need to organise care that takes into account the changing forms of the family and health-related issues. This calls for a long-term national strategy aimed at reorganising society, and this strategy should last longer than the period of elections.

The life expectancy of the Estonian population has grown remarkably. Compared to the beginning of the 1990s, the average life expectancy has increased by more than seven years – in 2016, it was 73.2 years for men and 81.9 years for women. At the same time, discrepancies between various groups of the population – for example, different age groups or socio-demographic groups – have widened, and the main geographical development trend has been the concentration of people in the county of Harjumaa. Due to changes in the relationship between different life events and their temporal sequence, it is more difficult to assess cause-and-effect relationships, as there is no established practice.

³ J. Raidla at Pärnu Leadership Conference 2011; <http://www.delfi.ee/news/paevauudised/arvamus/juri-raidla-estiriigi-pidamist-on-vaja-radikaalselt-muuta.d?id=59748604>.

The distribution of population in municipalities, 1 January 2017

Source: Statistics Estonia

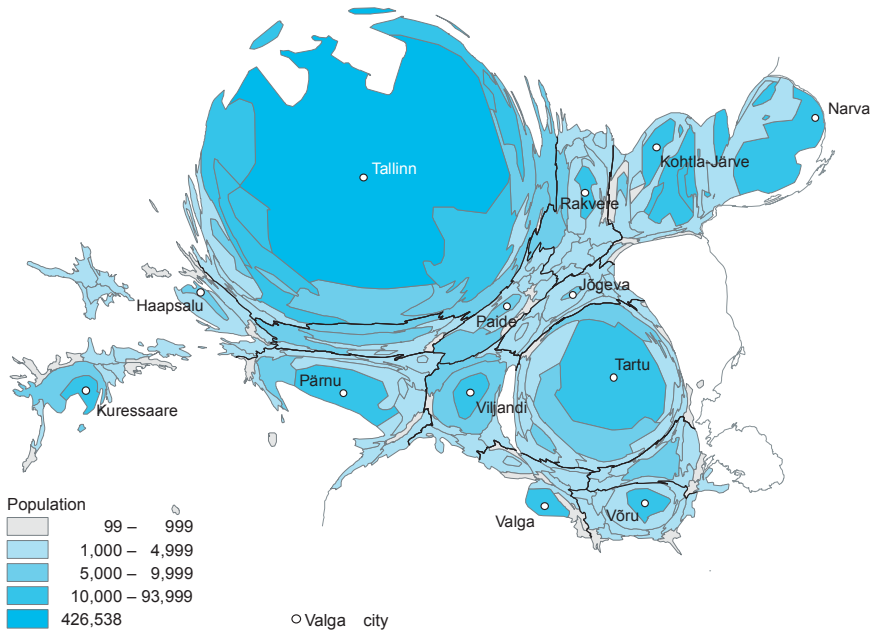


Figure 1.

In Estonia, the earlier trend of giving birth to children at a young age shifted in the 1990s towards having children at an older age. This resulted in a decrease in the number of children and the current situation whereby the number of people reaching working age is considerably lower than the number of those reaching retirement age. Therefore, the decline in the working-age population is unlikely to stop in the near future.

Changes in the population of municipalities Between 1 January 2005 and 1 January 2017

Source: Statistics Estonia

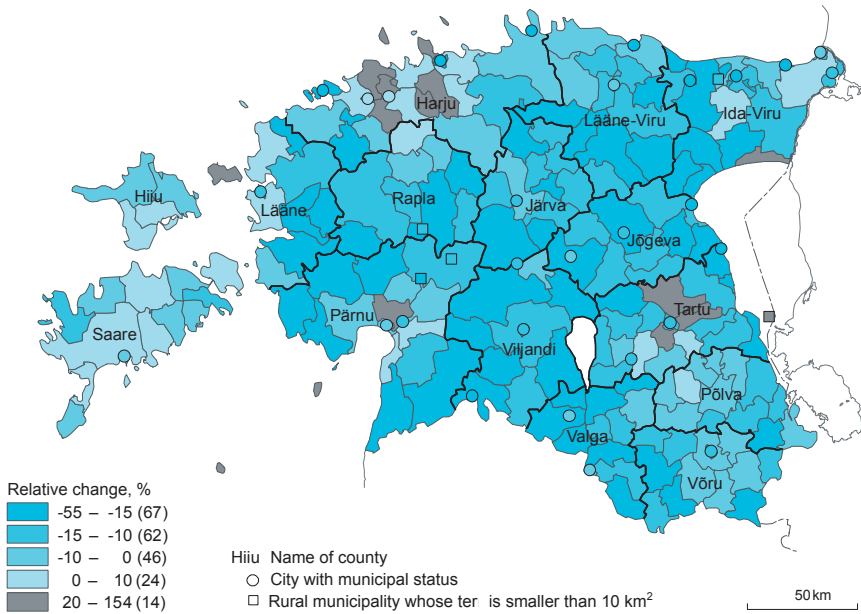


Figure 2.

Since regaining independence, the Estonian population has fallen by nearly a quarter of a million. Although immigration and emigration are currently in balance, the population continues to decline due to the inertia of demographic processes. Fertility is still below replacement level and, according to demographers, the current fertility rate of 1.6 children per woman is approximately 75 per cent of what is necessary to maintain the population. The decrease in the working-age

Population density 1989

Source: Statistics Estonia

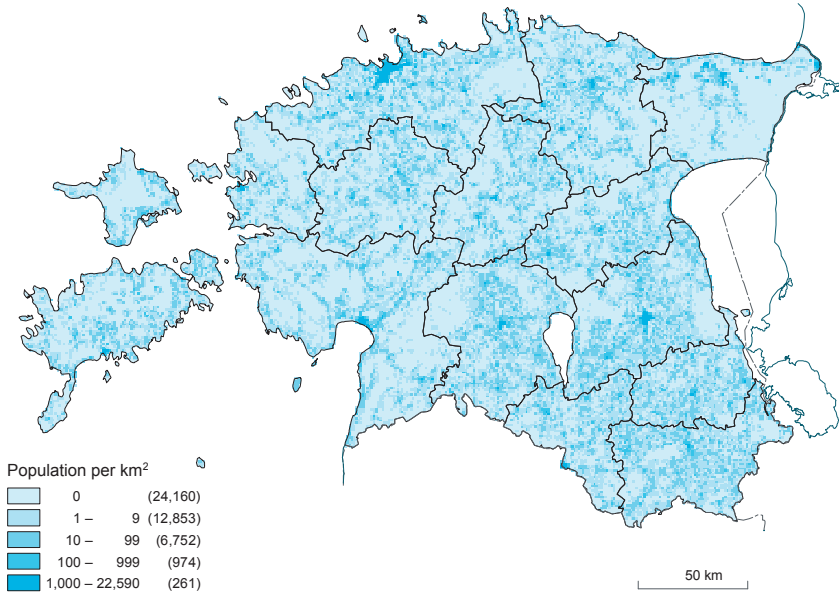


Figure 3. Population density grid map, 1 January 1989

population could not be stopped even by the immigration of a couple of thousand people per year in excess of emigration and a gradual growth in fertility⁴.

The number of residents changes at different speeds in different areas of the country (Figures 1 and 2). Due to the small size of the country and the peculiarities of the development of its settlement system,

⁴ L. Sakkeus, J. McKibben, A. Puur, L. Rahnu, L. Abuladze, 'Rahvastikuproгноos erinevate rändestsenaariumide korral' – T. Tammaru, K. Kallas, R. Eamets (eds.) *Eesti inimarengu aruanne 2016/2017. Eesti rändeajastul*. Tallinn: Estonian Cooperation Assembly, 2017, pp. 57–66.

Population density 2017

Source: Statistics Estonia

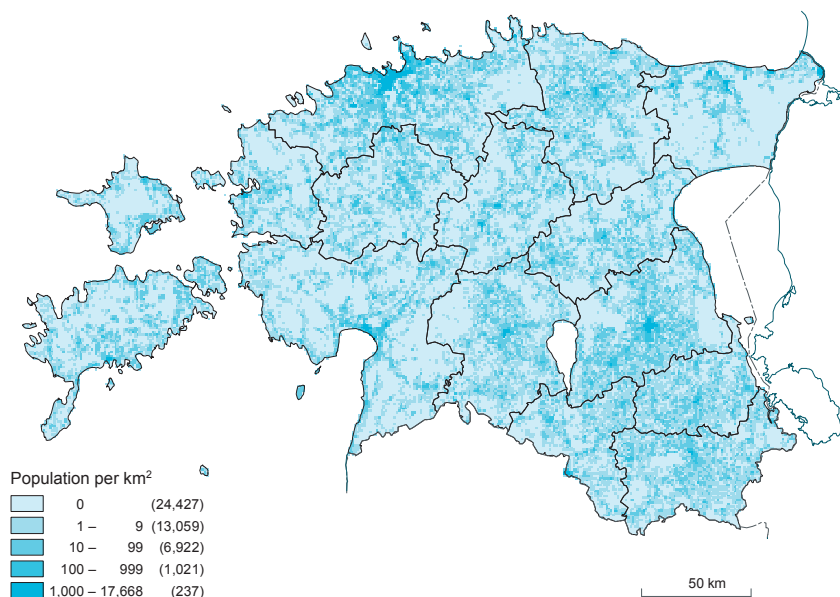


Figure 4. Population density grid map, 1 January 2017

population concentration in Estonia is among the highest in European countries.

It is also important to note the growing asymmetry of population density in Estonia (Figures 3 and 4). There is a variation of up to 1,500 times in population density across municipalities (e.g. 1.6 residents per square kilometre in Tudulinna rural municipality, 2,676.4 in Tallinn and 2 389.6 in Tartu). The average population density per municipality is 30.3 residents per square kilometre.

The population potential is higher in the counties of Harjumaa and Tartumaa, followed by the counties of Raplammaa, Pärnumaa and

The population sizes of municipalities (1 January 2017)

Source: Statistics Estonia

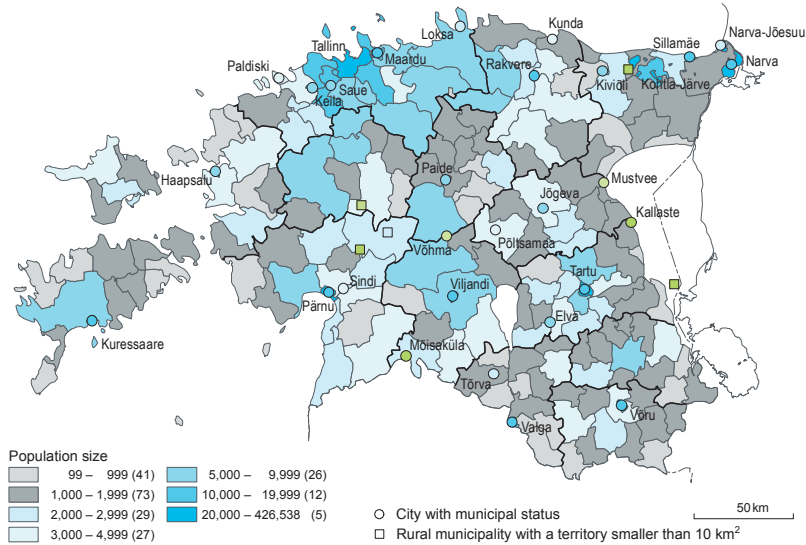


Figure 5.

Changes in the size of municipalities

Municipality	Before merging	After merging as at 1 January 2018
Number	213	79
Number on residents below 5000	169	17
Number on residents between 5001 and 11 000	28	34
Number of residents above 11 000	16	28
Average number of residents	6349	17 152
Median number of residents	1887	7739
Average size of territory in km ²	204	550
Median size of territory in km ²	180	512

Table 1.

The population size of municipalities (1 January 2018)

Source: Statistics Estonia

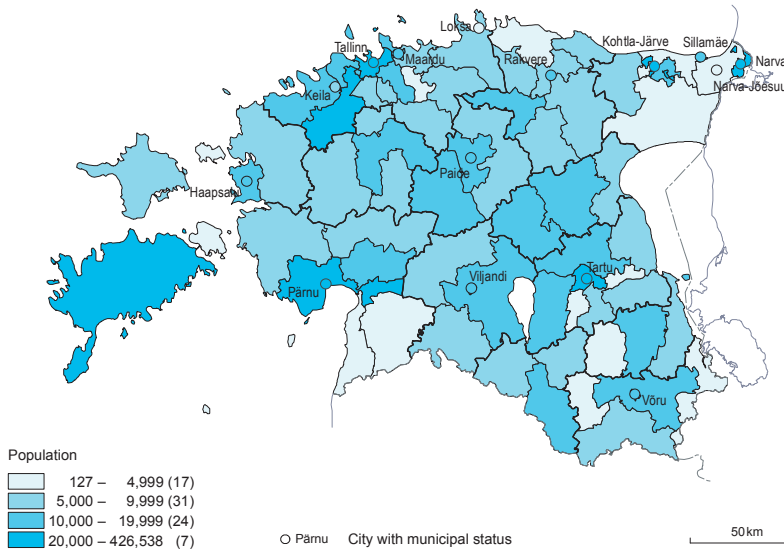


Figure 6.

Lääne-Virumaa. By region, problems are intensifying in the county of Ida-Virumaa and in southeastern Estonia. This concerns economic development, the well-being of residents as well as emigration.

Before the administrative reform, the population of the urban municipality of Tallinn (426,538 residents) was more than 4,000 times larger than that of the rural municipalities of Piirissaare (99 residents) or Ruhnu (127 residents) and more than 4 times larger than that of Tartu (93,124 residents). There were 169 municipalities with fewer than 5,000 residents, which made up approximately 80 per cent of all municipalities (Figure 5).

After the regular local elections in October 2017, when new municipalities were formed, the number of their residents changed remarkably (Figure 6).

Projected population changes by county, 2012–2040

Source: Statistics Estonia

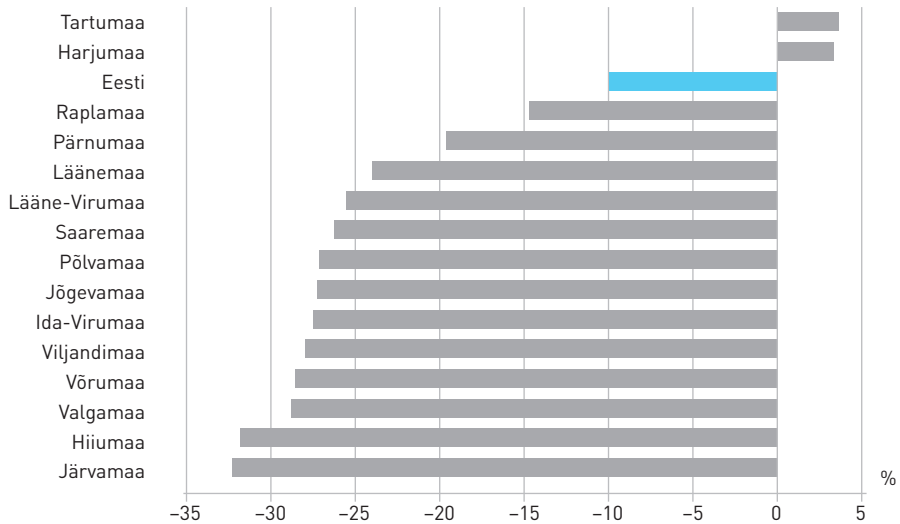


Figure 7.

Since the announcement of the results of the local elections in October 2017, there are 79 municipalities in Estonia: 15 cities and 64 rural municipalities. The changes in the number of residents and in the size of the territories of the municipalities after mergers are shown. Population projections by Statistics Estonia show that the trend of declining population will continue, occurring at different speeds in different parts of the country⁵. The population is projected to grow only in

⁵ *Eesti rahvastikuprognosis 2040: neli positiivset stsenaariumi*. Statistics Estonia, 2014; <https://statistikaamet.wordpress.com/2015/10/06/eesti-rahvastikuprognosis-2040-neli-positiivset-stsenaariumi/>.

the counties of Tartumaa and Harjumaa, and to decline in the rest of the counties (Figure 7).

Municipalities continue to compete for residents. One of the reasons for this is the fact that the largest source of revenue in a municipal budget is individual income tax, which in turn depends on the number of registered residents.

There are large differences in the opportunities for personal fulfilment, the availability of education, the size of income, the level of public sector services and local development prospects. These are the drivers behind the population's increased mobility and these continue to motivate people that are more active and have better education to move to municipalities that are more competitive. However, skilled workers not only move from rural areas to cities, but they also move abroad. The intensity and direction of migration reflect the municipalities' competitiveness in satisfying the vital needs of their residents.

According to the 2012 projections for the development trends of the population, municipalities located further away from county centres, those located in peripheral areas and those with the risk of peripheralisation will lose more residents than the Estonian average.⁶ According to the most extreme scenarios, by 2030, the population will have fallen by up to 38 per cent and the proportion of elderly people will have increased to 28 per cent in some pre-reform municipalities.

Considerable efforts are needed to adjust to the population changes and respond to the consequences of unwelcome demographic trends with effective policies. A population that is falling, ageing and concentrating into cities negatively affects the economic development and tax base of municipalities in rural areas in particular. There will be a growing need for social and health services for the elderly, which in turn will increase labour demand and leave fewer resources in the municipal

⁶ *Rahvastiku võimalikud arengutrendid 2012–2030*. Geomedia OÜ, 2012; http://www.siseministeerium.ee/public/KOVindeks_2011_rahvastiku_aruannne.pdf.

budget for investment in other sectors. In order to improve standards of living, greater efforts will need to be made to boost productivity. For people to have longer working lives, investments will have to be made in increasing healthy life years and life-long learning. Obviously, it is necessary to consistently promote child- and family-friendliness in order to ensure natural population growth. The freedom to live anywhere in Estonia is a prerequisite of national prosperity, rather than a threat to it. Local initiatives and creativity are a strong foundation for the development of the entire country.

In the years ahead, choices will have to be made regarding how to satisfy the needs of workers in order to ensure economic growth. If the decision is taken to support immigration from abroad, local authorities will also have to make additional investments in finding solutions to cultural and socio-economic problems, including cultural integration and language learning, ensuring social protection,⁷ as well as providing attractive opportunities for work, studies and personal fulfilment, and high-quality public services. A separate issue is how to move from the quantity of immigrants to the quality of immigrants, i.e. how to make Estonia an attractive destination for talented people. An even more complex issue is how to attract them to municipalities outside the urban areas of Tallinn and Tartu.

Urban-rural relations and peripheralisation

In the Estonian human assets report,⁸ a distinction is made between rural municipalities that are already suffering from peripheralisation, those that are at risk of peripheralisation and those whose centre is well connected with cities but where certain parts (territorial communities) are very sparsely populated and poorly accessible.

⁷ M. Ainsaar, 'Change in the European Labour Force and Its Impact on Migration' – *Kroon & Economy* No 4/2006 & No 1/2007, pp. 25–34.

⁸ *Eesti inimvara raport (IVAR): võtmeprobleemid ja lahendused*, 2010; http://www.kogu.ee/public/Eesti_Inimvara_Raport_IVAR.pdf

The signs of peripheralisation are thought to include a population's decline by at least half over the past 50 years, or by at least 1 per cent annually on average from the year 2000 onwards. According to this definition, 48 rural municipalities, with a total population of 50,000, were in the process of peripheralisation. There were 58 rural municipalities with a total population of 90,000 that were at risk of peripheralisation. Their population density was below 8 residents per square kilometre and/or their distance from a larger centre was more than 50 kilometres.

Rural municipalities that are not affected by peripheralisation are primarily county capitals and their neighbouring municipalities. This category includes a majority of the municipalities in Harjumaa county and more than a half of municipalities in Tartumaa and Pärnumaa counties. In these areas, it is easier to bring work and home closer together, there is a wider choice of jobs and housing, and companies have access to a more numerous and diversified workforce. Larger and more cohesive functional areas within which people commute daily between work and home help to reduce the number of peripheral areas and those at risk of peripheralisation. In order to ensure the development of such areas in the context of population decline, it will be essential to advance transport organisation that will improve people's mobility.

One of the goals set in Estonia's regional development strategy⁹ is that each functional area should provide good jobs, high-quality services and a pleasant living environment that enables diverse activities. As most new positions are created in areas that have various types of companies providing modern services and a highly educated workforce, it is important to be able to make the best use of the particular preconditions for the development of each area in order to balance out the differences in regional development.

⁹ *Eesti regionaalarengu strateegia 2014–2020*. Ministry of the Interior, 2014; https://www.siseministerium.ee/sites/default/files/dokumendid/eesti_regionaalarengu_strateegia_2014-2020.pdf

GDP per capita compared to the Estonian average

Source: Statistics Estonia

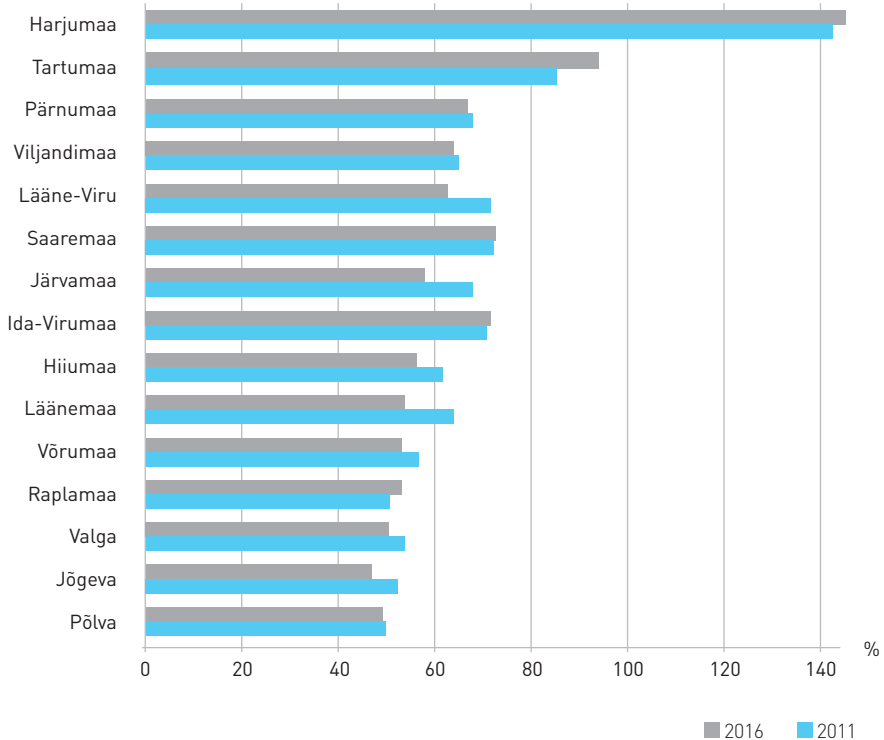


Figure 8.

Whether a new municipality achieves full functionality depends on the cohesion of the centre and its hinterland, as the settlement system and the daily mobility of the people cannot be ignored. In addition, the concepts of the urban and the rural will need to be redefined: they should be understood as describing settlement units rather than administrative divisions, distinguishing between urban, semi-urban and rural areas.

The urbanisation and regional development trends in Estonia are similar to those of its neighbouring countries. However, owing to its geography, Estonia is situated far from core European regions, and Tallinn is the only city classified as a medium-sized European city. Although the peripheral position of the country sets limits on its economic development, Estonia has moved closer to the more developed countries in the European Union¹⁰. According to Eurostat, the Estonian GDP per capita (adjusted for purchasing power) was 73 per cent of the EU average in 2015.

The analysis *How's Life in Your Region?*¹¹, which measures people's material prosperity (income, jobs and housing) and the resulting quality of life (health, education, environment, safety, access to services and civic engagement), shows that the level of development is higher in northern Estonia, which ranks among the top 20 per cent of OECD regions for access to services, education and environment. At the same time, the largest regional disparities in Estonia are visible in jobs, access to services and civic engagement. The driver of the socio-economic development in Estonia is the capital region, which has managed to increase cohesion with other European regions, and in particular with Helsinki, the capital of Finland. GDP per capita in the county of Harjumaa is more than three times higher than in several other counties (Figure 8).

Harjumaa, including 53 per cent in Tallinn. Harjumaa and Tallinn's large share of Estonia's total economy is also highlighted by the fact that the GDP per capita generated in these regions amounts to 145 per cent and 165 per cent, respectively, of the Estonian average.

Although the proportion of the GDP generated in capitals is large in many European countries, the concentration of economic activity in

¹⁰ *Regions at a Glance 2011*. OECD, 2011. *The Objectives of Economic and Social Cohesion in the Economic Policies of Member States*. EPRC, 2010.

¹¹ *How's Life in Your Region? Measuring Regional and Local Well-being for Policy Making*. OECD, 2014; http://www.oecd-ilibrary.org/urban-rural-and-regional-development/how-s-life-in-your-region_9789264217416-en

Relative poverty rate 2011

Source: Statistics Estonia

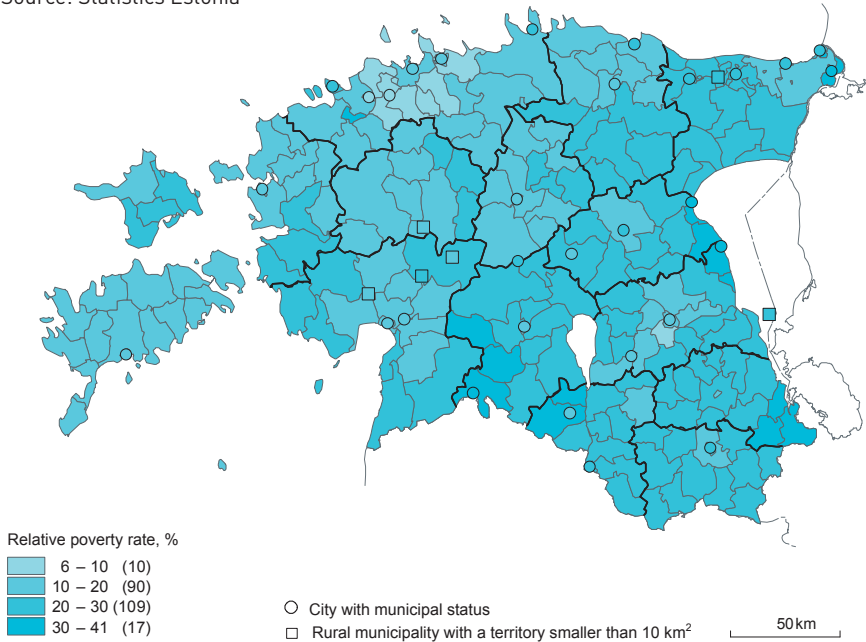


Figure 9.

Tallinn is one of the highest, being of the same magnitude as in Riga, but lower than in Malta, Cyprus and Luxembourg.

The lowest GDP per capita is generated in the counties of Põlvamaa, Jõgevamaa and Valgamaa. The disparities between counties are very large and have widened over the years. As regards the growth rate of GDP per capita, it has been higher in the city of Tartu, which in turn has contributed to the fast growth rate of GDP per capita in the county of Tartumaa.

The fast development of cities and the growth of urban areas have led to the need for new solutions in the management of municipalities.

As regards Tallinn, discussions have re-emerged regarding the need for the decentralisation of power and for a special act on the capital city to be drafted. This could be aimed at strengthening the position of the capital and in particular its international competitiveness, as well as reducing the differences in economic and administrative capacities of municipalities¹². Some politicians have proposed that the eight city districts in Tallinn, which currently have restricted local government, could be separate municipalities. This would raise the question of fair division of decision-making powers in the cooperation structures of the Tallinn capital region.

Jobs and commuting

Although the counties' contributions to Estonia's aggregate GDP are evened out to a certain degree by extensive commuting between the place of work and home and by discrepancies between the actual location and the registered seat of a number of companies, such bias calls for solutions to be found for the territorial rebalancing of economic development and the quality of the living environment. This need is clearly reflected in the polarisation of the country along the north-south axis based on the relative poverty rate (Figure 9), which also shows disparities stemming from the level of available jobs and income.

In several countries, employment is characterised by a growing share of the service economy, supported by technology- and knowledge-intensive companies in the industrial and manufacturing sector. For the future economic development of the regions, the productivity of the activities that underlie development is key. In 2016, 70 per cent of Estonia's total added value was created in the services sector. The service sector made up the largest share in the counties of Harjumaa (78 per

¹² S. Mäeltsemees, 'Hauptstadt und Hauptstadtregion im System der Lokalen Gebietskörperschaften' – *Riigi regionaalpoliitika probleemid*. Vol. 25(2017), pp. 1–14; <http://ojs.utlib.ee/index.php/TPEP/article/view/13727/8774>

cent) and Tartumaa (70 per cent), primarily on account of Tallinn and Tartu.¹³ It would be problematic to move companies that create high added value outside of these centres, as the critical mass of people, institutions and competence is missing.

Changes in the economic structure and the loss of the advantage of cheap labour affect employment and the possibilities of making use of region-specific advantages, which makes the elimination of regional disparities unrealistic. On the contrary, declining numbers of consumers and an increased proportion of elderly residents in most counties will result in a decline in the consumption of goods and services (except services related to ageing, e.g. medical and social services). Therefore, it is likely that the share of the added value created in the counties of Harjumaa and Tartumaa will continue to grow within the Estonian economy. In the remaining counties, the main issue will be the need for increasing productivity, so that the wage difference with these two counties would not increase critically.

There are 37 functional areas, or centre-hinterland systems, in Estonia. The population of the two largest functional areas – Tallinn and Tartu – makes up 56 per cent of the total population of Estonia (Figure 10). According to the results of the 2011 population and housing census, there are 561,138 employed persons in Estonia, of whom 532,420 have a job in Estonia. Of the latter, more than one-third commute to a place of work outside their home rural municipality or city. The number of those working abroad is also significant: approximately 25,000 people, or 4.4 per cent of all employed individuals, work outside Estonia.¹⁴

The concentration of jobs in cities, increased mobility related to people's daily work and spare time, and longer commuting distances have had an effect on the development of the entire settlement system.

¹³ 'Teenindussektori osatähtsus on kasvanud kõigis maakondades'; www.stat.ee/pressiteade-2017-134

¹⁴ *Toimepiirkondade määramine*. Statistics Estonia, 2014.

Functional areas with at least 5,000 residents

Source: Statistics Estonia
 Commuting in functional areas with
 at least 5,000 residents
 Population and Housing Census 2011
 1, 1,300,000

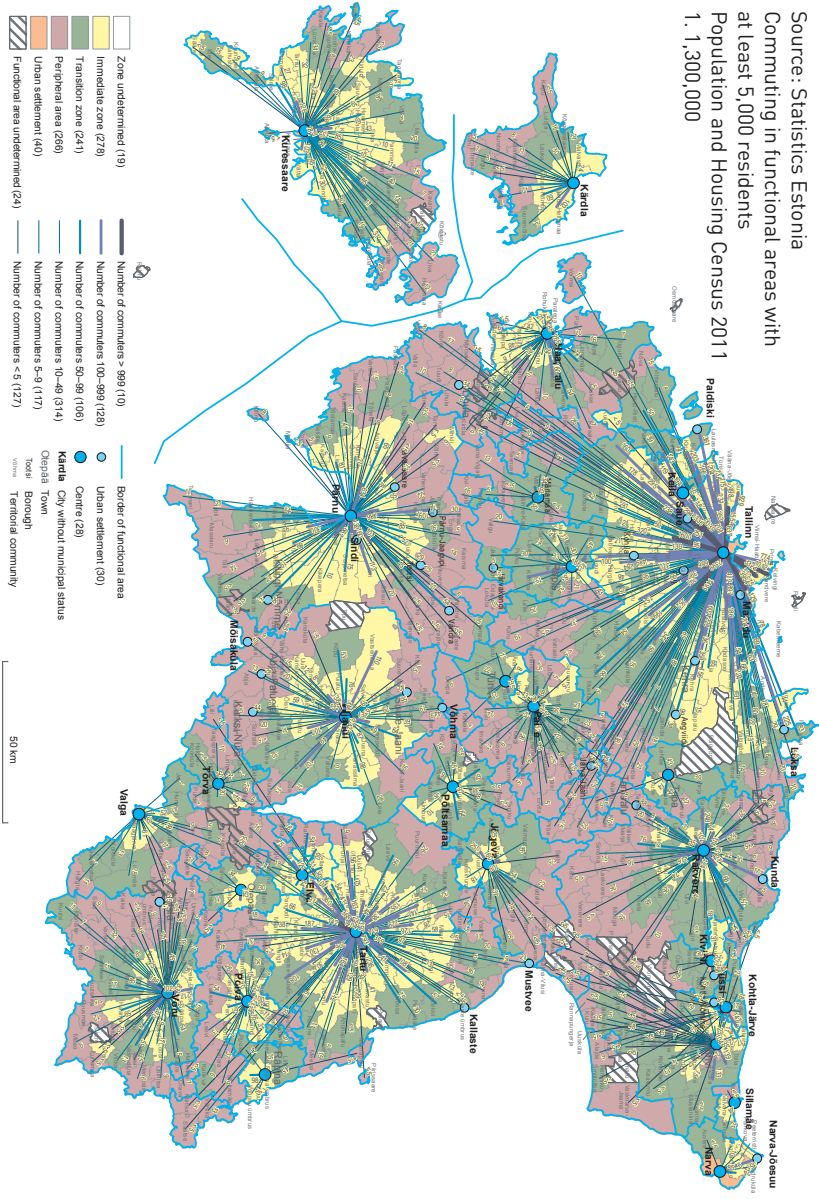


Figure 10.

While in 1982 there were 68,000 people commuting to work, and 115,000 in 2001¹⁵, by 2010 there were already 380,000 people¹⁶ working outside of their home municipality. Most commuters do not travel more than 10–25 kilometres, which means that they travel between an urban centre and its hinterland. A survey ordered by the Ministry of Social Affairs showed that the maximum distance between the place of work and home that people are willing to travel on a daily basis was in the opinion of the largest group of the respondents (37 per cent) between 20 and 49.9 kilometres.¹⁷

The data point to a significant widening of the spheres of influence of Tallinn and Tartu, which has led to a situation where the spheres of influence for several smaller centres have essentially ceased to exist. One of the reasons for this is that outside of urban centres, income levels are lower. In 2010, the difference between the value of jobs provided by employers in regional centres and their hinterland was approximately 25 per cent.¹⁸ Such a discrepancy is an important motivator for many people to look for work outside their home municipality.

When helping different regions to adjust to the changes in the structure of the economy and increase their competitiveness, it is necessary to look at the representation of public sector jobs as well. Changing the distribution of public sector jobs and relocating state authorities out of the capital is one of the strategies used by the government in order to boost local economies.

¹⁵ T. Tammaru, *Eesti linnade mõjualad ja pendelränne*, 2001.

¹⁶ R. Ahas, S. Silm, K. Leetmaa, T. Tammaru, E. Saluveer, O. Järv, A. Aasa, M. Tiru, *Regionaalne pendelränneuuring. Lõpparuanne*. A study ordered by the Ministry of the Interior and carried out by the Chair of Human Geography and Regional Planning, University of Tartu, 2010; http://www.siseministeerium.ee/public/Regionalne_pendelrndeuuring_11.06.2010.pdf

¹⁷ Ministry of Social Affairs, *Tööjõu siseriikliku mobiilsuse uuring. Lõppraport*. Centre for Applied Social Sciences, University of Tartu, 2011; http://www.sm.ee/fileadmin/meedia/Dokumendid/ASO/Pendelr%C3%A4nde_l%C3%B5ppraport__11_11_2011.pdf

¹⁸ *Rahvastikuareng ning töökohtade arvu ja väärtuse muutumine KOV-võimekuse indeksi andmebaasi andmete alusel*. Geomedia, 2011.

This would be more effective if the relocation of state authorities was organised using a cluster-based approach, i.e. by grouping authorities whose activities are connected, and matching them with local needs and preconditions for development. To that end, it would be reasonable to concentrate resources in carefully selected locations, for example in the county of Ida-Virumaa and in Tartu.

The *Estonia 2030+* national spatial plan paints a picture of future Estonia as a country with a cohesive spatial structure and diverse living environment, and as a low-density urbanised space that is well linked to the external world. However, it is not clear how this desired regional pattern is supported by demographic, educational, enterprise, public transportation, environmental and other sectoral policies at the state level.

Moreover, the authorities that are moved out of Tallinn will also have to be viable in the long term and create value added in the living environment outside of the capital. This could also be an incentive for the private sector to create new jobs in county centres. The state could support this by developing municipal housing that would help to alleviate the restrictions on labour mobility and enrich the quality of the living environment in less developed regions.

The concentration of people and organisations, and hence also of knowledge, skills and services in large centres has resulted in the decreased importance of small towns and rural settlements. The large-scale outflow of young people, accompanied by a modest demand for housing and the building of new shopping centres on the outskirts of small towns, weakens urban centres and contributes to urban sprawl.¹⁹

²⁰ This in turn results in an increased volume of transport, growing energy consumption and environmental pollution. Derelict buildings

¹⁹ T. Tammaru, K. Leetmaa, S. Silm, R. Ahas, 'Temporal and Spatial Dynamics of the New Residential Areas around Tallinn' – *European Planning Studies* 17(3), 2009, pp. 423–439.

²⁰ A. Roose, A. Kull, M. Gauk, T. Tali, 'Land use policy shocks in the post-communist urban fringe: a case study of Estonia' – *Land Use Policy* 30(1), 2013, pp. 76–83.

and the associated abandoned urban spaces only exacerbate the outflow of young people. As a result, only larger cities are able to develop living environments that follow the trends of globalisation.²¹

A rapid decline of small cities weakens the cohesiveness of the Estonian settlement system and does not allow the development of a living space that combines urban and rural living environments. Municipalities that are away from centres lack sufficient resources for providing their residents with high-quality and diverse opportunities for personal fulfilment throughout their life-cycle.

Shrinking areas tend to have an ageing population and there is a noticeable difference in men's and women's life expectancy. As a result, households have problems covering housing costs, and there is a greater need for social and transport services for the elderly. The proportion of working-age population is on the decline and so is the tax revenue in the municipal budget. This in turn may decrease the availability of necessary services and increase inequality by making access to high-quality aid more difficult for poorer people, for example. Hence, in these areas, instead of investing in economic growth, it is necessary to find smart solutions to the consequences of the changed number of consumers and economic structure. In order to develop such solutions, local authorities must have the courage to use their internal resources in innovative ways. They must also have the capacity to use financing available from the structural funds of the European Union and the private sector, which can be invested in the development of e-services among other things.

²¹ M. Ruth, R. S Franklin, 'Livability for all? Conceptual limits and practical implications' – *Applied Geography* 49, 2014, pp. 18–23.

Regions with good access to regional services

Source: Source for Applied Social Sciences

Level 4 service centres and service areas

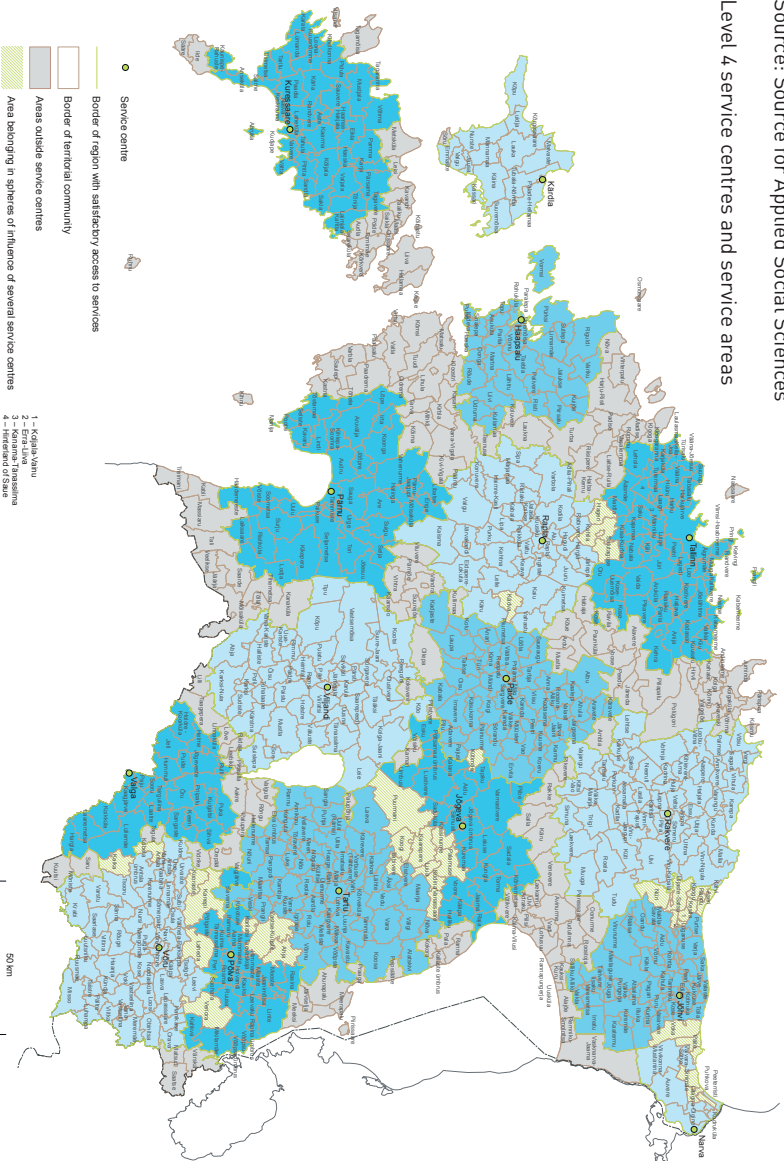


Figure 11.

The capacity of local authorities and the provision of services

The OECD report on the analysis of the efficiency of the Estonian government sector²² pointed out that the level of public services across the ministries and local authorities was very uneven, and that often there were no minimum standards set for the services.

The need to build the capacity and scale of local authorities was highlighted, as was the need to guide mergers in those municipalities where cooperation and voluntary mergers did not yield results. The importance of equal treatment of residents irrespective of their place of residence in the country was emphasised.²³

Over the last decade, several methods have been used in measuring and comparing the capacity of cities and rural municipalities. For example, the following indices have been created to assess their level of development: a viability index^{24, 25, 26}, a development index²⁷ and a territorial development index²⁸. The local government capacity index^{29, 30}, which

²² OECD *Public Governance Reviews: Estonia. Towards a single government approach*. OECD, 2011; http://www.valitsus.ee/UserFiles/valitsus/et/riigikantselei/uldinfo/dokumendiregister/Uuringud/OECD_Public%20Governance%20Review_Estonia_full%20report.pdf

²³ *Government at a Glance 2013: Country Fact Sheet. Estonia*. OECD, 2013; www.oecd.org/gov/GAAG2013_CFS_EST.pdf TNS Opinion & Social / European Commission. *Standard Eurobarometer 82. Avalik arvamus Euroopa Liidus. Rahvuslik aruanne: Eesti*. Sügis 2014; http://ec.europa.eu/public_opinion/archives/eb/eb82/eb82_ee_ee_nat.pdf

²⁴ K. Sõstra, 'Elujõulisuse indeks ja kohalike omavalitsuste elujõulisus' – *Linnad ja vallad arvudes*. Statistics Estonia, 2004; <https://www.stat.ee/public/pp/analused/2004/elujouulisus.pdf>

²⁵ K. Lehto, 'Elujõulisuse indeks – muutused ajas' – *Linnad ja vallad arvudes*. Statistics Estonia, 2005; <https://www.stat.ee/public/pp/analused/2005/elujouulisus.pdf>

²⁶ M. Kivilaid, M. Servinski, *Elujõulisuse indeks. Eesti piirkondlik areng*. Statistics Estonia, 2013; https://www.stat.ee/valjaanne-2013_eeesti-piirkondlik-areng-2013

²⁷ M. Kivilaid, 'Arenguindeks' – *Vallad ja linnad arvudes*. Statistics Estonia, 2005; <https://www.stat.ee/public/pp/analused/2005/arenguindeks.pdf>

²⁸ K. Sõstra, 'Omavalitsusüksuse territoriaalarengu indeks' – *Linnad ja vallad arvudes*. Statistikaamet, 2009; <https://www.stat.ee/public/pp/analused/2009/04.pdf>

²⁹ V. Sepp, R. Noorkõiv, K. Loodla, 'Eesti kohaliku omavalitsuse üksuste võimekuse indeks. Metoodika ja tulemused, 2005–2008' – *Linnad ja vallad arvudes*, pp. 10–42. Statistikaamet, 2009; <https://www.stat.ee/public/pp/analused/2009/03.pdf>

³⁰ R. Noorkõiv, K. Ristmäe, 'Kohaliku omavalitsuse üksuste võimekuse indeks 2013' – *Eesti kohalik omavalitsus ja liidud – taastamine ning areng 1989–2017*, pp. 310–341.

Personal income tax in euros (2014–2016)

Source: Ministry of Finance

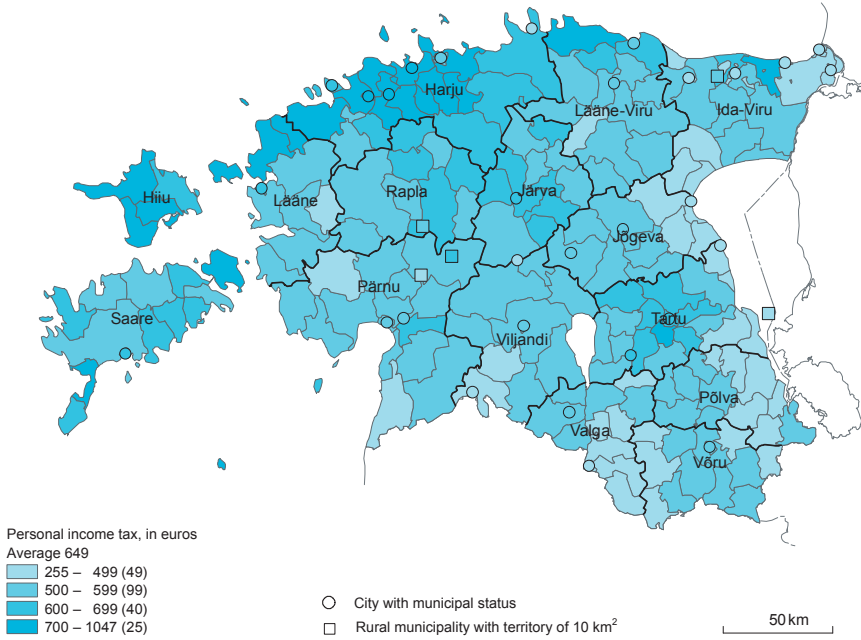


Figure 12.

is prepared annually at the request of the Ministry of the Interior and is based on the data on cities and rural municipalities in various national registries, received widespread public attention. Since 2011, the Ministry of Finance’s Local Government Financial Management Department has prepared an index of regional potential³¹ that sets out the background to the functioning of local authorities and explains their responsibilities and development potential. Information about the financial status of

³¹ *Piirkondliku potentsiaali indeks 2015*. Department of Local Government Financial Management, Ministry of Finance, 2015, <http://www.fin.ee/public/Piirkondliku-potentsiaali-indeks-2015.pdf>

municipalities and its sustainability can be found in the financial capacity overview prepared by the Ministry of Finance.³²

The development of services was analysed by the Centre for Applied Social Sciences, University of Tartu,³³ which made a proposal to categorise services into different levels. One of the indicators for the assessment of the sustainability of a service on a particular level was the number of people to whom it was easily accessible. Naturally, the importance of a particular service in a person's daily life was related to the necessary and reasonable frequency of its use. The analysis focused on the socio-economic nature of services and their quality requirements, the legislation established and official decisions implemented, as well as the accessibility needs of the target groups. As a result, five groups of services were identified and the criterion of good accessibility was defined based on their nature: services provided close to home (maximum distance 3 km), local simple services (maximum distance by public transport 11 km), local basic services (maximum distance by public transport 15 km), local quality services (maximum distance by public transport 27 km) and regional services (maximum distance by public transport 40 km).

Assuming that services are guaranteed to everyone, Figure 11 highlights the accessibility of services at the regional level, which coincides to a significant extent with accessibility at the level of service centres in functional areas and the level of county centres.

Larger areas not covered by services fall primarily within the counties of Pärnumaa and Läänemaa, eastern and western Harjumaa, southern Ida-Virumaa and western Saaremaa.

³² <https://www.rahandusministeerium.ee/et/kohalikud-omavalitsused-haldusreform-maavalitsused/finantsulevaated>

³³ *Uuring era- ja avalike teenuste ruumilise paiknemise ja kättesaadavuse tagamisest ja teenuste käsitlemisest maakonnaplaneeringutes*. Centre for Applied Social Sciences, University of Tartu, 2015.

There is a general tendency towards the difficulty of accessing higher-level services in peripheral areas of the counties, and therefore residents are more dependent on smaller local settlements with regard to these services (and jobs). It must be borne in mind, however, that current service level standards will not necessarily guarantee the provision of services in an economically and socially effective manner in the future.

It should also be taken into account that over the years, several services have changed significantly both in terms of their content (quality requirements, affordability) and geographical distribution, and these changes will continue in the future. For example, the system of long-term care is being changed from an institutional system to a home-based system, so that people needing such care could live at home as long as possible or access necessary services in home-like community-based social welfare institutions.³⁴ The main driver behind this trend is the rapidly increasing number of the elderly, a growing need for care services and increasing costs of care both for the state and for those needing them and their families.

Deinstitutionalisation requires fundamental changes in the entire social and healthcare system and is a challenge to service providers and consumers alike. Providing innovative services in a more people-centred manner usually requires more resources, which has an effect on both public financing and people's own contribution towards the consumption of such services.

³⁴ *Pikaajalise hoolduse deinstitutionaliseerimise mõju hindamise raamistik. Analüüsi aruanne.* Praxis, 2017; http://www.praxis.ee/wp-content/uploads/2017/10/DI_anal%C3%BC%C3%BCs_Praxis-2017_FINAL.pdf

Obligations of local authorities and their financial capacity to fulfil them

Regarding the responsibilities and revenue base of Estonia's local authorities, there are several aspects that deserve closer examination. First, there are significant differences in the levels of employment and income across municipalities. Second, there are also differences in the composition of the population.

As a result, the size of income tax revenue per capita differs by a factor of 1.5–2 in different municipalities, without taking into account the extremes (Figure 12).

Municipalities with lower tax revenues have older populations and a more sparsely populated territory, which translates into higher costs per capita for the local authorities in the provision of services. Considering all the above circumstances, uniform provision of services by local authorities with different tax bases is not possible without state support.

As each ministry is required to ensure the provision of services in its area of responsibility, it is inevitable that, as differences between municipalities grow, more earmarked allocations from the state budget will be needed. This in turn means that the financial autonomy of local authorities will decrease, as their revenue base will be increasingly dependent on decisions made by the central government. Given the resources available to the state, it is unlikely that the state will be able to guarantee significantly higher financing for municipalities in the near future without reallocating certain functions between the central government and local authorities.

The weak coordination of different policy lines of the central government both at the state³⁵ and regional level³⁶ has led to the situation where

³⁵ K. Taro, 'Efektiivse riigihalduse otsinguil: riigipidamise kava. Valitsuskeskus poliitika-protsessi koordineerijana' – R. Vetik (ed.), *Eesti inimarengu aruanne 2014/2015*. Lõksudest välja. Tallinn: Estonian Cooperation Assembly, 2015.

³⁶ V. Sepp, R. Noorkõiv, 'Regioonide sotsiaal-majanduslik areng, riiklik poliitika ja haldus-reformi proovikivid' – M. Lauristin (ed.), *Eesti inimarengu aruanne 2009*. Tallinn: Estonian Cooperation Assembly, 2010, pp. 68–72.

the state works on the development of different areas without coordinating the corresponding activities in the relevant sub-areas. At the same time, local authorities and their associations at the county level have very limited capacity to participate in regional policymaking due to the scarcity of investments and fragmented cooperation. Local authorities cannot contribute much to the investment support measures developed by ministries, as their cooperation with state authorities is weak.

In order to reduce local authorities' dependence on the central government, it is necessary to decentralise responsibilities while simultaneously increasing the efficiency of administration and the autonomy of the revenue base of local authorities. This also includes increasing the responsibility for the performance of local authorities. It is difficult to speak about the financial autonomy of local authorities in a situation where the proportion of local taxes in their revenue base is around 1 per cent (by comparison: in Denmark it is approximately 50 per cent).

Director of the Bureau of the Association of Estonian Cities and Rural Municipalities Jüri Võigemast has said that the municipal revenue base and the central government's budgetary revenue moved consistently at an equal pace in relatively reasonable proportions until 2000, the year of the first economic crisis since Estonia regained independence.³⁷ After the crisis, preference was given to the areas funded from the state budget rather than to local activities.

In Estonia, the share of municipalities in the total public expenditure is approximately 25 per cent, compared to 64 per cent in Denmark, 47 per cent in Sweden, 41 per cent in Finland and 34 per cent in Norway.³⁸ In Estonia, approximately one-third of the municipal revenue comes as support from the central government and, unlike in Northern European countries, its use is strictly regulated.³⁹

³⁷ J. Võigemast, 'Murdepunktide lugu' – *Eesti kohalik omavalitsus ja liidud – taastamine ning areng 1989–2017*, 2017, pp. 220–224.

³⁸ *Subnational Governments in OECD countries: Key Data 2015 edition*. OECD.

³⁹ In 2017, such support included, for example, support for hobby education and for salaries of pre-school teachers (<https://www.riigiteataja.ee/akt/105072017017>).

It can be expected that after 2020 there will be radical changes in the volume of the EU support given to Estonia. While over the last ten years, on average approximately one half of the government investment and slightly more than one-tenth of the total expenditure of the state budget have been financed with the support of the European Union, in the budget period beginning in 2021 the financial support will decrease by up to 40 per cent, or approximately 1.5 billion euros, compared to the current budget period according to an initial estimate of the Ministry of Finance.⁴⁰

The decreasing support shows, on the one hand, that Estonia has reached a certain level of wealth and will have to rely more and more on its own resources, but on the other hand, reduction in external financing also means a contraction in investment. Consequently, the appropriateness of planned investments should be assessed more critically than before in order to ensure their efficiency and achieve the self-sufficiency of the country.

Public officials and their competencies

In 2016, there were 116,734 public servants in the Estonian public sector, of whom 61,857, or approximately 53 per cent, worked for cities and rural municipalities. 36.5 per cent of all public servants in municipal administrative agencies worked in the four largest city governments (Tallinn, Tartu, Narva and Pärnu). The remaining 209 local authorities employed 3,577 public servants, meaning that the average number of public servants in a local government was 17. Approximately one half of the staff of the local authorities was older than 50 years.

Unlike in state administrative agencies in general, local government administrative agencies are characterised by a small share of men, who account for only approximately one-fourth of the staff. The proportion of public servants with higher education is 77 per cent.⁴¹

⁴⁰ Ülevaade riigi vara kasutamisest ja säilimisest 2016.–2017. aastal. Riigikontrolöri kokkuvõtte riigi majanduse ja rahanduse väljavaadetest ning riigi varaga seotud probleemidest;

⁴¹ Avaliku teenistuse 2016. aasta aruanne.

As Estonia's current legislation requires that all local authorities, regardless of the size of the municipality, perform the same functions; the typical concerns of the authorities of small municipalities are managing with a small number of staff, carrying out a large number of tasks that are performed selectively, and dealing with consequences rather than doing proactive work. There are not enough specialists with the necessary qualifications for the authorities of each municipality and the workload is insufficient for specialisation.⁴²

At the same time, there has been an increase in bureaucracy, as a result of which public servants have more work with documents and less contact with citizens. Estonia's local authorities are characterised by a clan-type organisational culture where good mutual relations and a lack of competition are valued.⁴³

The requirements for knowledge and skills of public servants of cities and rural municipalities change constantly. Until now, only the authorities of larger municipalities have been able to address staff issues in a systematic way.

An assessment of the training needs of local government employees⁴⁴ showed that among main competencies, the greatest training needs occurred with regard to the representation of public authority (primarily in terms of influencing political processes and intervening in political decisions where necessary, knowledge of the fundamental principles and development trends of the EU, and relations and cooperation with local politicians), the organisation of services (primarily in terms of service development and cooperation with service providers) and communication (primarily in terms of

⁴² Explanatory memorandum to the draft Administrative Reform Act.

⁴³ P. Vinkel, 'Organizational culture of Estonian local government in the light of a multi-dimensional approach to administrative culture'. Master's thesis. Tallinn: Tallinn University of Technology Press, 2008.

⁴⁴ R. Noorkõiv, M. Nõmm, 'Kohalike omavalitsuste teenistujate kompetentsipõhine koolitusvajaduse hindamine' – *Eesti piirkondlik areng*. Statistics Estonia, 2016; https://www.stat.ee/valjaanne-2016_eesti-piirkondlik-areng-2016

lobby work, public speaking, foreign language skills and virtual tools in local government work).

An IT-related analysis of local authorities⁴⁵ shows that in municipalities with fewer than 5,000 residents, the use of IT solutions depends to a large extent on the attitude, knowledge and initiative of the employees of a particular local government and that such local governments employ an average of 0.17 IT specialists. In most cases the IT area is run by a single leader. If something happens to this specialist, the local government will lose its capacity for IT management and administration.

Only a few former local authorities had online forms for applying for e-services: the authorities of 92 out of 213 pre-reform municipalities had an online form in the public e-services portal, eesti.ee. The e-services of most local authorities have thus been quite rudimentary.

Democracy and the development of civil society

Estonian municipal councils and their executive management are considered to be well-structured, and they participate actively in civil society.⁴⁶ At the same time, the local level is strongly dominated by an elite, i.e. a small group of people that serve as municipal leaders and stay in leading positions for many years: only around one quarter of the local political elite changed between 2002 and 2013.⁴⁷

⁴⁵ *Kohalike omavalitsuste IT-juhtimise, e-teenuste analüüs ja arendusettepanekud*. AS PricewaterhouseCoopers Advisors, 2015; http://kov.riik.ee/wp-content/uploads/2016/01/Kohalike-omavalitsuste-IT-juhtimise-ja-e-teenuste-anal%C3%BC%C3%BCs-ja-arendusettepanekud_final.pdf

⁴⁶ G. Sootla, K. Küngas, 'Effects of Institutionalisation of Local Policymaking. The Study of Central Eastern European Experience' – J. Franzke, M. Boogers, L. Schaap (eds.), *Tension Between Local Governance and Local Democracy*. Reed Elsevier (Business). The Hague, 2007.

⁴⁷ H. Roosimägi, 'Poliitilise eliidi ringlus ja profiil Eesti kohalikul tasandil aastatel 2002-2013'. Bachelor's thesis., Institute of Political Science and Governance, Tallinn University, Tallinn, 2014.

Various analyses^{48, 49} have shown that larger municipalities have predominantly pluralistic and smaller municipalities an elite-centred (more clan-like) patterns of power. However, a stable elite may also indicate that people trust their representatives in municipal councils, they are satisfied with their decisions and no political change is expected at the local level. Still, it has been noted that there is a significant positive correlation between local authorities' capacity and political pluralism. In particular, there is more political diversity in municipalities with more than 3,500 residents.

There are more political forces in larger municipalities and political parties must form coalitions with other parties or electoral coalitions in order to take power.

Hence, the argument that small municipalities are better carriers of local democracy than large ones, and that the merging of municipalities threatens local democracy and the ability of the citizens to control the local authorities and the local elite, does not stand up to scrutiny.

Although thus far, the local government management model has been based on centralisation due to the small size of municipalities, this is likely to change after the administrative reform. The larger territories of the new municipalities, the role of centres in the settlement system, and the need to ensure local democracy will create the need to use different territorial management models.

In order to avoid the loss of grassroots initiatives and democracy, each municipality will have to find ways of organising local life that are best suited to the local circumstances and that respect the historical

⁴⁸ G. Sootla, K. Kattai, A. Viks, 'Size of municipalities and democracy: an institutional approach' – 23rd NISPAcee Annual Conference. 21–23 May 2015. Tbilisi, Georgia.

⁴⁹ P. Soosaar, 'Kohalike omavalitsuste võimustrite muutumine 2002–2013'. Master's thesis. Institute of Political Science and Governance, Tallinn University, Tallinn, 2014.

experience and place identity of local communities.⁵⁰ Heads of local governments must respect them and support the cohesive structures within the civil society, such as village elders or community assemblies, in dialogue with the local communities. Indeed, the essential prerequisites for the development of peripheral rural regions are strong local communities, a sense of responsibility and social inclusion of residents. The population can be maintained by raising people with an entrepreneurial mindset that are willing to contribute to their communities.

In a number of rural regions in Estonia, voluntary citizens' initiatives have become a very important source of support for the state, in areas such as ensuring security and rescue service capacities.

Conclusion

Important steps have been taken in the implementation of the administrative reform. Its roadmap is the goal of what needs to be achieved with the planned changes and which of the current development trends need to be changed. The content, methods and timeline of the reform must be agreed on centrally, taking into account the unique administrative culture of the country, the tasks that need to be solved and the visions for the future.

One can learn from the practices of other countries and the previous voluntary mergers in Estonia but concrete solutions should not be copied directly, especially because the environment determining the system of local government is constantly changing. In order to cope with the changes, it is appropriate to carry out pilot projects in parallel to the main reform, so as to identify solutions that are worth developing further, to improve quality of life and raise confidence in the future prospects of the country.

⁵⁰ M. Lõhmus, G. Sootla, K. Kattai, R. Noorkõiv, *Soovituslikud juhised detsentraliseeritud valitsemis- ja juhtimiskorralduse mudeli ülesehitamiseks kohaliku omavalitsuse üksuses*. Ministry of Finance, 2016; http://haldusreform.fin.ee/static/sites/3/2016/07/detsentraliseeritud_juhtimismudelid_loplik_21.07.2016.pdf

It is important to design a monitoring system for the development of municipalities, a knowledge bank of the best practices, but also including solutions that do not work. Future reorganisation should continue to be based on knowledge, courage, willingness to make changes and an ability to learn from experience and apply the knowledge obtained, so that the Estonian state could function sustainably.