ESTONIA

Overview

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| Population *(specify date)* and territory | 1 357 739 (1 January 2023), 45,339 km2 |
| Administrative structure *(unitary/federal)* | Unitary |
| Regional or state-level governments *(number)* | 1 |
| Intermediate-level governments *(number)* | 0 |
| Municipal-level governments *(number)* | 79 |
| Share of subnational government in total expenditure/revenues | 24,4% (2021, share of subnational government in total expenditure) |
| Key regional development challenges | • Large regional disparities in socio-economic development, despite the small size of the country (for example in GDP, business performance indicators, demographic trends, incomes in particular). There has been no significant trend towards territorially more balanced development in recent years also.  • More active economic activity and attractive/profitable jobs are concentrating in larger urban regions, and regional differences in economic growth are deepening.  • Demographic changes, especially internal migration of younger people towards largest urban areas are generating regional shrinkage outside major urban areas and is weakening the development prospects of these shrinking regions.  • Local governance, investment and development capacity (e.g in delivery of quality public services) is still uneven across municipalities. Municipalities in larger urban areas with more favourable demographic structure have normally higher and remote, sparsely populated municipalities located further away from cities lower capacity.  • There are still shortcomings in the coordination of the regional impact of sectoral policies in the goals of balanced regional development. |
| Objectives of regional policy | • Diminishing regional development disparities;  • Strengthening cities’ role in development of larger regions through proximity effects/urban-rural interactions and promoting smart shrinkage of regions facing depopulation;  • Strengthening coordination of regional policy objectives across national sectorial policies and levels of governance (as multilevel governance of regional development);  • Promoting financial autonomy of local municipalities and reducing the political dependency from the central government when it comes to the formation of their tax base;  • Transferring some complementary state government responsibilities/functions to local municipalities and increasing decentralisation in public governance, along with ensuring the necessary revenue base;  • Increasing the role of local governments and their responsibilities in the development of the business environment and ensuring appropriate instruments and funds |
| Legal/institutional framework for regional policy | *Ministry of Finance* and the *Minister of Public Administration* is responsible for developing, implementing, coordinating and monitoring regional development, spatial planning and territorial administration policy and developing and counselling local municipalities of Estonia. MoF is also in charge of the issues of territorial administration and setting financial management principles for local authorities. MoF also designs and coordinates the implementation of grant schemes for regional development.  The other ministries also contribute to development of regions and cities by coordinating specific sectorial policies having a stronger territorial relevance:  • Particularly the *Ministry of Rural Affairs*, which is in charge of the coordination of rural, agricultural and fisheries’ development policies;  • *Ministry of Economic Affairs and Communications* is responsible for housing, urban transport, business development, energy, ICT and digital society, innovation and R&D policies having significant importance to development of regions;  • *Ministry of the Environment*, as coordinating environmental, sustainable development, adaptation/mitigation of climate change and green transition policies;  • *Ministry of Social Affairs*, as being responsible for social protection, labour market and lifelong learning policies.  Local municipalities are responsible for spatial and strategic development planning and provision of local public services within their territories. Local municipalities also coordinate strategic development at county level jointly through County Development Organisations. |
| Budget allocated to regional development (i.e., amount) and fiscal equalisation mechanisms between jurisdictions (if any) | Presumably around 70-80 million euros will be allocated to regional development annually during the next 7-years implementation period of the EU funds specifically through the regional development grant schemes (funded from the EU funds as well as from the national budget). This calculation does not include the other sectorial policy grants reaching also to different regions of Estonia.  The fiscal equalisation mechanism forms 107,4 million euros (2023), which represents 3,6% of total local government income. |
| National regional development policy framework | Since 2021 we have no longer had a holistic national regional development strategy being valid for all sectorial ministries. Nevertheless, regional development goals, e.g to ensure a more balanced territorial development and consideration of different territorial needs through sectorial policy strategies is set within the *National Development Strategy “Estonia 2035”*.  There is also a new *Regional Development Action Plan* (RDAP) in place since 2022. The RPAP defines the most eminent socio-economic inequalities of regional development seen as major challenges/root-problems of regional development in Estonia, and creates a framework for monitoring these processes. It also sets more detailed 4-year action plan covering different sectorial policy activities to alleviate these root problems and support more even regional development.  Besides, there is a *regional development program for 4-year period* (being updated annual-basis), which sets up the implementation plan for the ministry responsible for regional policy in Estonia (Ministry of Finance). This document is also a basis for planning 4-years state budget strategy.  At regional level there are 15 ***county****[[1]](#footnote-2)* ***development strategies*** in place, developed jointly by the local municipalities of the county. Although there is a general requirement that the county development strategies and national level policy strategies are consistent and consider each other’s priorities, there are no binding mechanisms to ensure this in practice.  There is no official regional policy council or advisory group or other such institution currently in Estonia at government level coordinating the development and implementation of regional policy across sectorial ministries and levels of governance. |
| Urban policy framework | Estonia does not have an explicit national urban policy or national strategy for urban development. The urban development issues have addressed within a broader national regional policy framework.  E.g. specific *grant schemes for development of 5 largest urban areas* of Estonia are applied being funded from the European Regional Development Fund of 2021-27. These grant schemes aim to support investments in innovative digital solutions and green infrastructure of Estonian largest urban areas and revitalization of the largest urban areas in North-Eastern Estonia.  One soft coordination initiative is a *national network of urban development specialists*. This is an informal multilevel governance and collaboration platform, assembling officials of urban municipalities in charge or strategic development and spatial planning of their cities/towns and the Association of Estonian Cities and Municipalities. And involving also the representatives from central government body responsible for regional and urban development policy, other relevant ministries. |
| Rural policy framework | Rural development policy is being implemented primarily under the national strategy for Rural Development and Fishery 2030.  Rural development is under the primary responsibility of Ministry of Rural Affairs. The ministry coordinates Estonia’s rural development policy, implements the European Union’s Common Agricultural Policy for Estonia and develops/implements the Estonian strategic Rural Development Plans.  Rural development is also an integral part of the national regional policy and its incentives. Ministry of Finance is in charge of designing and implementing territorial development policies which is largely addressed to specificities and challenges of rural areas.  Besides, other ministries have their own sectorial responsibilities related to developments in rural areas (infrastructure, transport, social life and communities, business and labour market development, etc.). Like e.g Ministry of Economy and Infrastructure, Ministry of Education and Science, Ministry of Social Affairs, Ministry of Cultural Affairs, Ministry of the Interior. |
| Major regional policy tools (e.g., funds, plans, policy initiatives, institutional agreements, etc.) | • Regional development grant schemes (funded from the EU funds as well as from the national budget);  • Fiscal equalisation mechanism to local governments;  • National Regional Development Action Plan;  • National Development Plans for North-Eastern and South-Eastern regions of Estonia until 2030;  • A mechanism and guideline document for impact assessment of legislative acts and national policy strategies, which e.g requires assessment of impacts on regional development and rural areas and provides a respective check-out questionnaire. |
| Policy co-ordination tools at national level | • National *Regional Development Action Plan (RDAP)* aimed at facilitating the cross-sectorial coordination of policy incentives in regional policy and balanced territorial development goals. The RDAP consolidates the most important activities of the central government in order to alleviate the problems of regional development and ensure territorially more balanced development.  • National *Development Plans for North-Eastern and South-Eastern regions* of Estonia until 2030;  • According to the Government of the Republic Act planning and *general co-ordination of regional development* lies under the responsibility of the Ministry of Finance.  • Mechanism and guideline document for impact assessment of legislative acts and national policy strategies, which e.g requires *assessment of impacts on regional development and rural areas*.  • The national Government has given a task to the sectorial ministries *to take into account the regional development challenges and impacts in designing foreign aid support measures* funded from the EU funds of 2021-2027 and plan concrete solutions to strengthen their compliance with the balanced territorial development target. A special *guideline* has also been prepared for this process with providing potential solutions how to promote this compliance in practice. |
| Multi-level governance mechanisms between national and subnational levels (e.g., institutional agreements, Committees, etc.) | • Annual *National Budget negotiation format* between national Government and National Association of Cities and Municipalities.  • A national *network of County Development Organisations* (as soft coordination mechanism), which represent local municipalities of each certain county and performs also as a multilevel collaboration and policy discussions with ministries. The network convenes regularly mainly to exchange important information, best practices, initiate consultations on different territorial development related issues between counties (horizontally) and with the ministries (vertically).  • Similar *national network of urban development specialists* also exists assembling officials of urban municipalities in charge or strategic development and spatial planning of their cities/towns and the Association of Estonian Cities and Municipalities. And involving also the representatives from central government body responsible for regional and urban development policy, other relevant ministries.  • The *principles of how national level sectoral development strategies, county development strategies and local government development plans have to consider and support each other's priorities and strive towards stronger coherence* are specified in new draft of Local Governments Act, the strategic planning guidelines issued by the State Government Office and guidelines for preparation of county development strategies.  • Recently established (in 2022) *steering group at national level for coordinating the capacity building of local government employees* for planning, implementing and monitoring the specific Action-Plan for local governments capacity building. |
| Policy co-ordination tools at regional level | • *County development strategies* act as multilevel governance instruments also. In principle these strategies should give an input to national level sectorial development strategies/action plans and the state budget strategy. Nevertheless, in practice this coordination mechanism has remained weak and has had some influence as a soft multi-level cooperation instrument.  • *National cross-sectorial action plans for North-East and South-East regions of Estonia* until 2030 to accelerate the development of these two socio-economically less advanced regions. Both documents bring together incentives of different ministries/sectoral policies for development of these regions and include only activities initiated by the central government.  • As a new initiative, the Ministry of Finance is *initiating* *regional development agreements/’deals’* in parallel with *setting up regional councils* mandated for coordination of their further elaboration and implementation. Currently we have started with the pilot areas of Central- and South-Estonia. The regional agreements will be anticipated to become agreements between central and local governments and other regional stakeholders on the objectives, key economic sectors and activities and financing for increasing regional economic competitiveness in region larger than a county. |
| Evaluation and monitoring tools | Territorial development trends are being regularly observed within the *monitoring framework of the national Regional Development Action Plan*. There are around 15-20 indicators to monitor regional disparities in major regional policy challenges/root problems. These indicators have been set in accordance with the strategic objectives of the „Estonia 2035“ strategy and their monitoring indicators at national level. Thereby monitoring the implementation of the Regional Development Action Plan simultaneously enables to assess also how the goals of the national development strategy are reached in territorial dimension.  *Monitoring dashboard minuomavalitsus.ee* (<https://minuomavalitsus.fin.ee/en>). The aim is observe the quality and satisfaction with local governments’ services all over Estonia. The dashboard analyses and visualises hundreds of criteria of the state of local governments’ services. It enables to get an overview of the state of services and development possibilities in each local government, compare local governments’ service levels which contributes to sharing experiences, raise public awareness of the organisation of local services and increase citizens’ informed involvement in discussing local development priorities and needs.  Other *need-based assessments* having territorial relevance, like e.g interim and ex-post assessments of the impacts of EU structural funds, the achievement of EU Cohesion Policy goals, or certain governance area or case-specific monitoring exercises (state audit reports, etc). |
| Future orientations of regional policy | • Strengthening coordination of regional policy objectives and impacts to regional development across national sectorial policies - like e.g by developing/implementing new cross-sectorial Regional Development Action Plan; guidelines for sectorial ministries to strengthen the positive impacts of new financial support measures to balanced territorial development; facilitating territorial impacts assessment of sectorial policy strategies and regulations).  • Facilitating multilevel governance and sectorial coordination at regional level larger than counties - by piloting regional development agreements/’deals’ and setting up regional councils mandated for coordination of their further elaboration and implementation.  • Promoting financial capacity and autonomy of local municipalities and reducing the political and fiscal dependency from the central government.  • Increasing the role of local governments and their responsibilities in the development of the business environment.  • A shift towards more flexible and efficient allocation of regional development grant schemes, also by decreasing their fragmentation. A number of smaller and thematically more narrow grant schemes are being combined and applied more flexibly according to priorities of counties’ and other territorial strategies. |

Recent policy developments

The number of national-level strategic policy documents was reduced and there is no regional policy strategy in place since 2021. Instead, *a Regional Development Action Plan* (RDAP) was prepared and identifies the most eminent regional socio-economic inequalities which are considered major challenges/ of regional development in Estonia and sets a 4-year action plan covering different sectoral policy activities to address these challenges and support more balanced regional development in the country. Furthermore, the goals of regional balance in the country's strategic development goals are set in the strategy"Estonia 2035"(approved in 2021), which is also further addressed by the country's sectoral development plans.

Estonia recently started preparing *a* new national spatialplan, which is scheduled to be finalised by 2026, replacing the current national spatial plan “Estonia 2030”.

Newregional development support measures have been prepared for the EU Cohesion Policy funds in 2021-27 (around 220 million of euros in total). These measures aim to support balanced territorial development and competitiveness in regions and cities. New specific support measures have also been launched in recent years for regions with the biggest development challenges under the Ida-Virumaa and South-East Estonia programs.

A special territorial transition plan for North-Eastern Estonia was endorsed by the European Commission in 2022 and plans for various grant schemes and other support activities to promote the economic and labour market restructuring (around 80% of funding) and social and living environment transition processes (around 20% of funding) in this area. The plan will be funded by the EU Just Transition Fund (340 million euros), i.e., around 2500 euros per inhabitant. North-Eastern Estonia is an area of oil-shale energy production and other carbon-intensive industries that has contributed to the largest share of Estonian carbon emissions and is thereby also most remarkably influenced by decarbonisation processes and transition towards green and carbon-neutral economy and energy production.

The national Government has assigned sectorial ministries to take the regional development challenges and impacts into account when designing foreign aid support measures funded by the EU funds of 2021-2027 and to plan concrete solutions to strengthen their compliance with the balanced territorial development target and a special guideline was prepared to support this process.

To strengthen the fiscal capacity of local governments, the income tax allocated to local governments was increased by 0.3% (about 34 million euros more in each financial year in 2021 prices) and the equalisation fund added another 25 million euros. In total, the revenue of local governments from the income tax and equalisation fund increased by 4.2% in 2021.

The national government supported local governments in times of crises. During the COVID-19 crisis (2020-21), local governments received 176 million euros of additional dedicated support. In 2022, 2.5 million euros were allocated to local governments for providing emergency assistance to the Ukrainian war refugees and about 80 million for the provision of services.

In 2022, Estonia launched regional development agreements/’deals’for the pilot areas of Central- and South-Easter Estoniain parallel with setting up regional councils mandated to coordinate their elaboration and implementation. The regional agreements are anticipated to become agreements between central and local governments and other regional stakeholders on the objectives, key economic sectors and activities and financing for increasing regional economic competitiveness in regions larger than a county.

1. In Estonia there is one tier of local governance system. Counties are not municipal administrative units as such, but territories where local governments jointly plan and implement development activities of broader regional importance and manage some public services (public transport for instance). [↑](#footnote-ref-2)