

Raagmaa, Garri

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## The Impact of Public Policy and Membership of the EU on Regional Policy in Estonia

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# **The Impact of Public Policy and Membership of the EU on Regional Policy in Estonia**

Garri Raagmaa\*

## **1. Introduction**

The primary aim of the article is to provide an overview of the development and topical issues of the Estonian regional policy along with public policy, because, firstly, the policy results are dependent on administrative practices, and secondly, national investments allocated within sectoral policies have a far larger impact on regional development than the narrowly targeted regional policy. Public policy links politics and administration. In order to implement a policy, choices must be made based on values, which in their turn considerably influence the actual result. Public policy is usually described as a process of making choices from the determination of the situation to evaluation of the policy being implemented. This process has often an irrational character, which is caused by limited information available to decision-makers and limited time. Public policy is institutionalised through legislation and its application (Esta et al 1998).

My approach moves on from the statement of Ludek Sukora and his colleagues (Balchin et al 1999, 163) which says that in Eastern European countries, thus, hypothetically in Estonia as well, the former centralised planning economy replaced by relatively small local governments under the conditions of new legislation, where national plans do not work and consistent regional development policies do not exist, has brought about a situation of uncertainty, application of *ad hoc* methods instead of long-term comprehensive planning, and the use of earlier experience in administrative techniques.

Following the above I present following hypotheses:

- H1) governmental normative documents on regional development change frequently and are often contradictory; institutions responsible for the implementation of regional policy are unstable;
- H2) national plans do not work and sectoral development plans are not compatible;
- H3) There is no continuous regional development policy, which integrates sectoral policies; regional political initiatives depend on activities of different officials or ministers.
- H4) No attempts are being made in municipalities to achieve awareness of conceptual basics of national policies and their objectives, instead, local officials and politicians seek to gain complementary financial means for financing local objects by using *different* lobbying methods.

Below, in theoretical part, we look at the concept of regional policy and it's changes in Europe. The empirical part will give a description of the Estonian regional and administrative polices in time, primarily based on observations (participation in various bodies, events), on the content analysis of documents and the written media, interviews and discussions carried out in 1990-2004.

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\* University of Tartu Pärnu College, Ringi 35, Pärnu 80010, Estonia.  
Tel. +372 44 50520, fax +372 44 50530, GSM +372 56 495 438 e-mail: garri@ut.ee; <http://www.pc.ut.ee>

## 2. Changes in the views on regional policy and analytical framework

According to the definition of regional policy (RP) one of the objectives is to reduce regional differences. As far as regional differences do not disappear within the market economy, many countries have implemented regional policies to a larger or smaller extent. Main causes of regional problems are changes in economic structure: a new industry tends avoid old industrial areas (Hall 1988). Regional policy assists economy restructuring of the region: it has an impact on market regulation by either offering direct (tax) incentives to new companies or creating indirect prerequisites such as infrastructure (educational system, roads, etc). A wider conceptual framework of RP originates from a wider regional planning tradition:

Regional/spatial planning gives geographical expression to the economic, social, cultural and ecological policies of society. It is at the same time a scientific discipline, an administrative technique and a policy developed as an interdisciplinary and comprehensive approach, towards a balanced regional development and the physical organisation of space according to an overall strategy (Torremolinos Charter 1983, 5).

A central objective of European regional planning and policy is a balanced socio-economic development of regions (ibid.). RP influences both sectoral policies and local governments. But planning traditions normally vary from country to country. Regional policy does not necessarily possess a large resource base and could, in the case of successful coordination, channel very important for the business development transport or educational investments into the regions. However, coordination and implementation of sectoral policies for RP purposes tends to be problematic as it complicates decision-making. Complexity in RP implementation is a major obstacle as it presumes very good administrative capacity, cooperation ability as well as motivation (to work harder). In the case of redistributing RP administration will act as a redistributor of finances, but for the effective arrangement of regional development policy (RDP) local willingness and ability of developing the region are required: to initiate and carry out projects, especially in cooperation with the private sector.

Until 1970s Western RP was based on *Standort*-theories (Weber, Christaller, Lösch) and theoretical geography (Isard, Bunge, Smith) developed later on. By using these positivist-rational theories RP mostly subsidised relocation of (industrial) production (into rural areas). The “bottom-up” approach by Stöhr and Taylor (1981) paid attention to factors of the region’s internal development. It was noticed that the earlier modernisation did not necessarily ensure development in any environment and, in the worst case, could even be detrimental. Results of the standardised policy were scanty in many regions as they were dependent on support schemes upon discontinuation of which problems were even more prominent. A phenomenon of early 1980s was internal factors based industrial growth in Emilia Romagna, Baden-Württemberg and other regions further away from cities. The concepts of industrial districts (Becattini, 1978, Scott, 1984), flexible specialisation (Piore and Sabel, 1984, Sabel, 1989, Stroper, 1989) and post-Fordism (Hall, 1988; Harvey, 1990, Amin, 1994) were developed. The focus lay on change of the production structures (Pralahad and Hamel, 1990), business and entrepreneurship (incl. especially SMEs) (Camagni and Capellin, 1981, Hisrich, 1992), and research of the regional institutional framework and new spatial labour division (see Sabel, 1982, Sweeney, 1990; North, 1989, Sengenberger & Pyke, 1992).

Cooke (1989) introduced a proactive locality development concept arguing that local mobilisation and proactiveness are important factors in the development of any region. Publication of Michael Porter’s “The Competitive Advantage of Nations” (1990) gave an impetus to the formation of locality-centred paradigm of regional development where the model included traditional demand, sources of raw materials, transport and labour costs along with the structure and strategies of business, social networks and specific local cultural features. The role of microeconomic factors considerably

increased in such models. Paul Krugman (1991, 1993) studied local production clusters and international trade and raised the importance of locality-specific historic background to the economic development of a particular region, structure and success of business. Putnam et al (1993) explained successful development of North Italian provinces by their 1000-year heritage during which structures of a civil society had formed and social and cultural capital had grown. The social capital approach is linked to research into business milieu and regional innovativeness (Avdalot and Keeble; Maillat, 1991) and preparation of respective regional political programmes. A number of programmes of the European Commission, such as LEADER, ACCESS, INTERREG, EQUAL and others focused on the creation of networks and increase in social capital through cooperation of people, organisations and government structures.

### *TABEL 1*

On the basis on Walter Stöhr's (1989) table (Table 1), which he published in 1989 we may distinguish old and new paradigms of regional development. Sustainable economic development of a region may not be based on the receipt of allowances from the central budget, but, first and foremost, on mobilisation of local resources. Overall balance and equality cease to be an aim while different people like living in different types of environment. Investments in one large enterprise do not necessarily yield long-term success, the success rather lies in supporting service and consultancy businesses which guarantees the concentration of local resources and flexibility which enable participation in large scale development projects; specialisation of producers, their ability to find niches and mutual networking are needed to achieve economies of scale. In Estonia RP is defined as a national policy supplementing and co-ordinating sectoral policies and balancing negative outcomes arising from market forces' impact (Eesti regionaalse ... 1999). Regional policy in Estonia does not mean equalising regions, but providing of support to new businesses and the creation of new jobs concerning the existing prerequisites of the region. So it seems to fitting with the new paradigm.

### **3. Regional policy during the Soviet period and regional problems of the transition**

The Soviet Union used district or rayon planning (*rayonnaya planirovanie* in Russian, *rajooniplaneerimine* in Estonian) similar to regional planning practiced in Western countries. For instance, the central place theory was used in planning both industry and services. The key concept of rayon planning was the socio-economic spatial system and one of its subtypes – socio-economic production complex (Nõmmik and Mereste 1984, 200-211, 219-226), whose ideas originated to a great extent from Perroux' (1955) theory of growth poles, Lösch's and other theories. Walter Christaller's and Edgar Kant's central place theory was well known and applied when planning services (Nõmmik and Mereste 1984, 207).

The Soviet regional policy meant re-distribution of budgetary funds among regions. The basis of re-distribution did not lie in regional differences but followed foreign and resource policies of the central government. For instance close to 25% of all funds were allocated for the Moscow region that is to further increase of regional differences! Underdeveloped regions of the European part of Russia got less than 2% (Dmitrieva, 1995, 229). The Soviet Union invested mainly in regions of low productivity but rich in natural resources, such as Siberia and Far East. Sectoral character of investments hindered formation of regional multipliers and created "artificial" problematic areas where crisis was not caused by market changes or technological advances but disturbances in investment cycles due to constant re-distribution (Ristkok, 1998). Lack of local motivation and

extreme centralisation paralysed management local, regional as well as central levels at the end of the Soviet period.

Re-distribution of resources took place in Estonia as well, where it equalised regional development. On the one hand, post-war Estonia obtained a dense network of roads and power transmission grids, dozens of new factories were established in small towns in order to use natural (timber, peat, produce from livestock farming) and human resources (textile and garment industry). It gave rise to a balanced regional development. On the other hand, Tallinn was developed into a disproportional size in terms of Estonia, and energy production complex was established in the north-east of Estonia for the north-western part of the Soviet Union which gave more weighting for North Estonia. Later on, from the early 1970s Estonia along with the other two Baltic republics were specialised in livestock farming, rural population was concentrated in collective farm centres, but due to which Estonian regional development was fairly balanced in the early 1990s: in 1980s the number of rural people grew while urban residents moved to the country, and a lot of production facilities, housing, technical and social infrastructure were set up. Suburban<sup>1</sup> areas in North and West Estonia grew especially rapidly; regions further away from the county (rayon) centres were losing population.

As for regional differences, the situation was quite a good in early 1990s: a dense network of service centres connected by roads and frequent public transport. The rural population had grown in 1980s and centre-periphery differences had diminished (Marksoo 1992). However, during the transition period in 1990s, the share of spatially dispersed primary and secondary industries in the economic structure declined rapidly and has caused an increase in centre-periphery differences.

Keeping sustainability in mind, the Soviet development model and public policy had serious problems. Firstly, people's needs were subjected to production's interests: settlements which were created by farms and industries were badly planned: blocks of flats dominated, they were ugly and unsuitable for homes in the rural settings. Secondly, mono-functionality of some mining/production settlements and farming companies became a problem when the only employer was closed down. Thirdly, collective farms which had become wealthy in 1970-1980s developed the over dimensioned service sphere in their centres<sup>2</sup>. Estonia and a number of other socialist countries had another peculiar feature, namely, collective farms and state farms which took care of production buildings, social infrastructure and most of housing. 2400 collective farms were established compulsorily by 1950, by 1988 there was 317<sup>3</sup> (ENE, 1987, 328) after numerous mergers and divisions which meant an often changing status of the settlements: mostly losing the status of the farm centre. Social infrastructure of regional centres and even county centres stagnated<sup>4</sup>. While collective farm centres were growing, a larger part of the rural population was concentrated there, dispersedly located villages died out and historic small towns stagnated. Besides, the administrative and settlement system of the Soviet period underwent a number of

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<sup>1</sup> It was not a suburbanization in Western sense, but growth created by collective/state farms and industrial enterprises, who built apartments for their workers.

<sup>2</sup> For instance collective farms "Estonia" and "Aravete" built swimming pools in settlements of Oisu (425 inhabitants) and Aravete (970 inhabitants) which are now closed as the rural municipalities cannot pay for their maintenance.

<sup>3</sup> The smallest number was in 1984 at 295: 141 collective farms and 153 state farms but some farms merged earlier became re-independent (ENE 1987, 328).

<sup>4</sup> For instance, Rakvere, a town of 20,000 residents did not have a swimming pool, large gymnasium or a concert hall y the end of 1980s. The nearby settlements of 1000 to 2500 residents, which were in the agro-industrial committee system, Haljala, Vinni, Tamsalu and Kadrina within 15 km, had a total of 3 pools, 2 large cultural centres and a number of sports complexes.

changes: rural municipalities (vald) and counties were replaced by small village soviets and 39 rayons in 1950s<sup>5</sup>. It was followed by an introduction of three provinces (oblast) in 1952-1953. Thereafter village soviets and rayons gradually merged again so that by late 1970s the administrative system had achieved its pre-war proportions again.

The three above factors caused a drastic change when Soviet system came to an end. After the eastern market had disappeared, rural employment fell by almost 80% (from 180,000 to 30,000) (Eamets et al 1999) during the transition period which meant high unemployment in rural areas, dropping out from the workforce, low wages, migration to towns, and for local governments – shrinking tax revenues. (Large) industry also shrank considerably giving a rise to a typical industrial problematic area in the north-east of Estonia and in a number of crisis settlements where the primary employer – a peat plant, a mechanical plant or a meat processing factory was closed down. Even though economic policy of the 1980s had levelled regional differences, an economic structure characterised by the dominant primary and supplying sector, low productivity and respectively low-skilled labour was created which came to a deep crisis in 1990s due to changes in the external environment.

Apart from structural shifts of the transition period another characteristic feature is the growth in differences of centre-periphery and east-west directions, specific to Estonia along with the other Eastern European countries (Raagmaa 1996). Large poly-functional centres (capital cities) and regions with a better location in a new geo-economic situation have gained new business services, manufacturing industries. The share of cumulative foreign direct investments of capital city Tallinn and the surrounding Harju County was 88% in 2003. The end of the 1990s could distinguish three types of problematic areas in Estonia with their respective problems:

- 1) **A high growth in the capital city region:** (1) a rise in (real estate) prices because of high investments and in-migration; (2) high crime rate because of social problems (the homeless, drug abuse, etc); (3) traffic congestions and overload of other infrastructure, eg. lack of water and electric power supply in some areas; (4) an increase in traffic as well as in industrial pollution; (5) deteriorating quality of life and health due to growing stress levels; (6) pressure by real estate developers on the public sector and inability of municipal officials to manage planning and construction activities.
- 2) **Declining industrial areas and settlements :** (1) high unemployment; (2) underemployment of skilled labour and emigration; (3) underused buildings, power capacities and other resources; (4) usually high levels of residual environmental pollution; (5) high crime because of social problems; (6) low levels of innovation, political activity, and entrepreneurship; (7) corporate games of (former) company managers in the local political scene; (8) low professionalism of officials keeping their positions, .
- 3) **Underdeveloped remote rural areas :** (1) poor income base (poverty and subsistence economy); (2) high unemployment; (3) out-migration and a unfavourable age and educational structure; (4) low levels of skills, innovation , social and entrepreneurial activity; (5) a further decrease in agricultural and local service employment, lack of local alternative employment; (6) sparse or even missing public transport; (7) roads, communications and public services in a bad state; (8) low administrative capacity and undemocratic management of some local governments.

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<sup>5</sup> Estonia had carried out an administrative-territorial reform in 1938-1939, based on central place theory. Several European countries did it in 1960s and 1970s.

## **4. Institutionalization of regional policy and administrative changes – a chronological overview**

This chapter presents the short historic development of Estonian regional policy and, in parallel, describes how or to which extent a public policy has favoured or hindered it. The primary sources of facts are an unpublished master's thesis of Priidu Ristkok (1998) and the book "*Local Government in Estonia*", edited by Madis Kaldmäe (1999). Figures of regional policy come from the Ministry of Interior Affairs. These sources are further not referred to in order to avoid repetition.

### ***4.1. IME period: formation of local governments and the first RP – up to 1991 (incl.)***

For the first time principles of independent regional policy in Estonia were formulated in 1988 in the "Concept of self-sustaining Estonia" (*Isemajandav Eesti – IME*<sup>6</sup>). Regional policy was first publicised in the late 1980s in the IME Programme (self-sustaining Estonia) (IME 1988). In March 1989 a territorial planning department of the former Planning Committee was restructured into the Regional Development Department in the Ministry of Economic Affairs, which began working out regional policy. In 1990 the first regional policy document was prepared where RP was defined as activity of the state targeted to achieve a balanced development of all the regions of the country. A comparative analysis of indicators on the municipal level dividing Estonia into four zones was compiled in 1990.. On 14 March 1991, the Government (Prime Minister Mr. Edgar Savisaar) adopted the first legal act on regional policy, the directive of the Government No 54 "On regional-political division of the territory of the Republic and regional tax incentives and the procedure for giving thereof" which established corporate tax incentives for enterprises located in less developed zones (municipalities). However, it was a blurry period in terms of legislation and the economic situation (hyperinflation). Companies did not calculate the tax appropriately anyhow, and thus the directive did not have a considerable influence either.

The administrative reform was going on at the same time. In 1990 self-governmental counties were formed from 15 rayons (rajoon) within the same borders. 255 self-governmental municipalities of the primary level were established in 1988-1993: 193 rural municipalities (vald) from the village soviets within the same borders, 35 towns and 27 boroughs (alev). This reform boosted local people's motivation and gave opportunities to have a say in local politics and developments. The budgetary system also supported investments of local governments: for instance personal income tax and corporate tax were received in local budgets.

### ***4.2. Neoliberal period: the beginning of the "officials' regional policy" of 1992-1994***

The Government of Mr Mart Laar came to power in 1992, but paid no attention to the regional policy at first. The 1992-1994 period has been called neoliberal (Ristkok and Jauhiainen 1999, cf. Jauhiainen 2000) as politicians showed no initiative. It can be explained need to be guaranteed a macro-economic stability of the country. However, we could also call it the period of the officials' regional policy. In spring 1992, the Department of Local Governments and Regional Development of the State Chancellery launched cooperation with Swedish National Board for Industrial and Technical Development (NUTEK): training of consultants and managers was organised, Business Centre of South-East Estonia was established, later on also in Viru and Viljandi counties. In the same year the above department was subordinated to the Ministry of Interior and was re-established as an independent Board of Local Governments and Regional Development. 1994. In 1994 allowances for regional political purposes amounting to 1,4 million euros were allocated

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<sup>6</sup> "Ime" means "miracle" in Estonian.

from the state budget to business centres, business allowances through county governments, national development projects (islands, border areas) and establishing of a new settlements policy (*asundustegevus*) (Table 4). The latter was initiated by the officials of the Ministry of Agriculture and evidently motivated by a nostalgic pre-war settlement policy and its re-application. These activities: reorganisation of institutions, planning of measures, foreign cooperation and making respective proposals to the prime minister were made due to the initiative of officials, specialists in respective fields.

#### ***4.3. New planning system and beginning of purposeful regional policy: end of 1994-1996***

In 1994 a one-tier municipal system was introduced which reduced cities into “common municipalities” and counties became offices of county governors subjected to the government. One of the tasks of county governors was to facilitate a balanced regional development. In the first years administrative changes brought about reducing the bureaucratic structures in the counties and alleviation of contradictions with local governments which had become stronger. Departments of regional development established by the county governments started systematic planning of development work. Regional investment programme was implemented, allocations from which were decided by the county governor with bodies of local governments. Based on the needs of local governments those investments were primarily made in repairs of objects of social infrastructure (schools).

In 1994 the government (Prime Minister Mr Andres Tarand) adopted the concept of regional policy and created a position of a minister without portfolio (the first Minister of Regional Affairs was Mr Eiki Nestor) whose task, among others, was coordination of national activities in regional policy. In March 1995 the Council of Regional Policy was established which co-ordinated sectoral policies. The Planning and Building Act was adopted in 1995. A national planning scheme “Eesti 2010” was started. Nearly three million euros were spent on grants and a business support system in the regional policy framework in 1995.

Mr Ants Leemets, the Minister of Regional Affairs of Mr Tiit Vähi government launched grant schemes for: (1) peripheral areas; (2) islands; (3) border areas; (4) local initiative; (5) mono-functional settlements, and (6) Ida-Viru County, in 1995. After a government crisis in the autumn of 1995 Tiit Kubri, the former Nõo rural municipality mayor became a new minister of regional affairs. The Board of Local Governments and Regional Development became a Department of the Ministry of Interior in the course of a government reform. In 1996 about 2,7 million euros were allocated to RP from the national budget for the programmes of regional development, the enterprise development system, regional policy loans, and development funds of counties, RP was reduced when the governments changed. At the same time Estonia commenced negotiations to accede the EU and PHARE measures opened.

#### ***4.4. Development of institutions of regional policy and drawing up a strategy – 1997-1998***

Minister of Regional Affairs of Siimann’s government (former mayor of Viljandi, Mr Peep Aru) was nominated as the second minister of the Ministry of Interior, which gives him “a portofolio” – Department of Local Governments and Regional Development under direct subordination. In 1997 administration and co-ordination of regional policy came under the Ministry of Interior Affairs. 3,8 million euros were allocated for RP in 1997. A new measure was the Setomaa programme. The Estonian Regional Development Agency (ERDA) was established which guaranteed a flexible arrangement of regional policy, especially grant schemes, and united the national business support system and standardised the list of services. At the initiative of the Ministry of Economic Affairs preparation of the strategy of Estonian regional development (project manager Dr Jan Maarten de



Vet) was begun in 1997, continued in 1998 and it is still in force (effective until the beginning of 2005) as a primary fundamental document of regional policy (Eesti regionaalarengu... 1999). The record amount of funding allocated to measures in regional policy in the pre-election year totalled over 8,7 million: the regional development programme of South-East Estonia and the foundation of crisis settlements were added. "Investment programme related to children, families, the elderly and the disabled" was launched on the basis of allocations from gambling tax. The regional development programmes targeted at objective regions were based on co-financed grants which is a common practice in Europe. Application forms and an assessment system relying on experts were worked out. In early 1998 an income tax incentive for corporations was introduced outside the Greater Tallinn. Free zones were also created in Sillamäe, Võru and Valga.

At the same time, centralisation of administration, or the so-called creeping administrative reform, took place at the expense of county administrations. During the first phase took units until then under county governments under their direct management or established parallel structures, which step by step took over functions from county units. In the second phase some offices in the smaller counties were closed down which created very different administrative districts with different centres. Also, the local governments were given more tasks, some of them they were not able to fulfil considering their largely varying size and administrative capacity due to shortage of specialists or funds.

During that Parliamentary period a new term "political school roof" was coined which meant allocation of considerable sums from the national budget to political allies in the municipalities. Under the conditions of the minority government the opposition also had a chance to support "their men" and the phenomenon became widely spread. Rather often party politics refused plans and agreements coordinated earlier by the ministries, county governors or self-government unions: objects that were not prioritised in the county were erected or repaired, on the other hand, funding was not allocated for the objects in primary need of it. There are always municipal politicians who value their self-interest higher than collaboration and therefore unity of counties slackened because of disagreements between municipalities. Typical conflict is between larger urban (eg. central city) and rural municipalities. Ministers of the Siimann government Raivo Vare, Jaak Leimann and Mart Opmann presented an idea of the territorial administrative reform – to merge small and weak municipalities – at the end of their election period and the commission chaired by Minister Peep Aru started to prepare it. The merging municipalities were offered allowances, which inspired Otepää-Pühajärve, Vihula-Võsu and some other so-called small town surrounding rural municipalities to join their centres (or vice versa).

Under the conditions of the rapidly increasing budget in the 1990s there was a growth in RP earmarked means and investments in the peripheral areas also grew. Institutions necessary for implementation of RP were established. On the other hand, local governments were politicised, which decreased their cooperation capacity, also, the centralisation of functions in the competence of county governments or their reallocation began, which diminished opportunities for planning the regional development along with efficiency of relevant developmental work.

#### ***4.5. Administrative centralisation and preparations for joining the EU – 1999 to early 2003***

Plans of the municipalities for mergers were given a cold shower when the Prime Minister Laar's (second) government refused to pay out merger bonuses in 1999 that were promised by the previous government and by the attempt to start a compulsory administrative reform. The Administrative Reform Office was established in the State Chancellery (Head Mr Väino Sarnet) who was to prepare the administrative reform, initially planned to be on a wide scale, and

coordinate its implementation. Fierce resistance from irritated local politicians in combination with the uncompromised campaign of the presidential election removed political support from the administrative-territorial reform.

During the Laar's government investment decisions were exclusively concentrated in the hands of central government. By the 2003 elections the county governors had lost almost all major functions. Vertical centralisation of authority strengthened : each authority established their own administrative districts based on economies of scale, thus their offices in a number of smaller county centres were closed down. Politicising of the executive apparatus of public administration took place in several ministries too: officials were compelled to join the minister's party or were replaced by the "loyal" party people.

A number of changes were introduced in RP management after the 1999 elections. The Minister of Regional Affairs (Mr. Toivo Asmer) left the Ministry of Interior Affairs and established own office on different site. No rational grounds have been presented, thus the reason might have been contradictions with Mr Jüri Mõis, a short-term Minister of Interior Affairs whose understanding of RP was only remotely in line with the strategy of the previous government, he publicly supported the idea of concentrating the whole population and investments in Tallinn as a Nordic Hong Kong. Later on, at local elections he became the mayor of Tallinn<sup>7</sup>. The Regional Development Strategy approved by the previous government was adopted on 16 November 1999 with minor amendments. Financing of regional policy decreased significantly: in 1999 a total of 4.7 million kroons were allocated (54% of 1998 allocations), 3.2 million euros for regional programmes of objective areas. In 2002 allocations for regional programmes shrank more than twice to 1,5 million euros. The council of the national regional policy discontinued their meetings by the end of the election period.

A major change occurred in RP application. A number of national foundations were merged under the Enterprise Estonia Foundation under the Ministry of Economic Affairs, Regional Development Agency (RDA) came under it. Merging, however, took place in a hostile atmosphere: representatives of the ministries hindered changes and the existing foundations attempted to continue as agencies irrespective of the merger. The Ministry of Economic Affairs became formally responsible for the implementation of regional policy; its officials initially harshly questioned "wasting of money" and wished to discontinue regional programmes altogether. The institution, which had to carry out regional policy was reformed and moved around for two years. In combination with a lack of political willingness it meant a standstill of RP, only in 2003 the volume of regional programmes of the year 1998 was achieved – 3,9 million euros.

An independent Department of Regional Development was founded in the Ministry of the Interior Affairs, where legislative work on regional development is coordinated, EU development programmes are managed and applications of the national development plan are worked out. The Office of the Regional Minister operated separately. Co-operative spirit of key ministries responsible for RP continuously left to be desired. A lot of energy took working out the single programming document (SPD) of the EU Structural Funds and consequently no new RP initiatives were implemented. Even though the European Commission has repeatedly posed questions concerning the huge regional differences within Estonia, it was decided not to distinguish such objective areas within the country.

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<sup>7</sup> Also for a short period – he was forced to resign mainly because of inappropriate behaviour and declarations.

#### ***4.6. Implementation of European structural policies and the end of the Estonian regional policy – 2003 onwards***

Regional policy has altogether disappeared from the political rhetoric of Mr. Juhan Parts' government which came to power in 2003 elections. The words "regional policy" appears only once in the coalition treaty in the chapter on Rural Development Policy, where they promise to stop a fragmentary situation of Rural Development and Regional Policy (to form development centres in counties), to ensure introduction of regional planning, and in the last paragraph of the chapter a promise is made to adopt "law on policy of areas" on 01.01.2005. These promises have not been touched.

The EU accession process went along. In regional policy it meant re-arrangement of the entire existing framework and subjecting it to the operating principles of the EU Structural Funds, that is, the ministries worked out programme documents and Enterprise Estonia became the so-called payment agency. The Estonian regional policy was previously fairly well harmonised with the European schemes and had practical experience (PHARE, ISPA, SAPARD), thus the process was not overly difficult, but arrangement of distribution of much larger means and its novelty came to a considerably more extensive workload, and hire of new and inexperienced personnel.

The Minister of Regional Affairs, the former county governor of Tartu, Mr Jaan Õunapuu assumed the post of the second Minister of the Interior Affairs and initially made attempts to reform regional management: to create an administrative level in counties – essential for implementation of RP. However, the approach was not acceptable to the government and the municipal leaders and became a political issue. Besides, in 2003-2004, discrepancies within the ruling coalition clearly damaged regional development: over a year no new county governors were nominated to the posts. In early 2005 there were still 5 acting governors who had not been appointed. The Estonian RP programmes had a delay for a year in 2004 because of artificially created bureaucratic obstacles: the launch of local initiatives programme was lingered until November 2004 and development funds for the counties only arrived in 2005.

The second initiative of the Minister of Regional Affairs in regional administration – harmonisation of district with centres in Tallinn, Tartu, Jõhvi and Pärnu encountered opposition of the state agencies as well as municipalities and counties. The territorial administrative reform found a compromise solution at the end of 2004: a law on facilitation of voluntary mergers of local governments by national grants was adopted. The commission headed by Mr Aru in 1999 had presented a principally similar scheme. By the end of 2004 there were 241 local governments in Estonia. Considering the situation of merger negotiations and attitudes of local municipalities, the number of units will probably not decrease through voluntary mergers to a large extent. Administrative capacity and ability for regional development will neither improve significantly.

### **5. Connections between the results of regional policy and public policy**

*/.../ There is no common understanding of the basics of regional policy in Estonia, nor political agreement or cooperation between different institutions. Consideration of regional policy objectives in sector-policies is inadequate. Linking national regional policy and sector-policies has no legislative support and is therefore not viable in practice. Funding of national regional policy has not been sufficiently regulated in legislation either and has not been stable. /.../ the most expedient form of planning investments of local and regional importance and development activities is, according to international experience, regional programming while it allows a better use of local initiative, pre-requisites of specialisation and utilization of resources. It is assumed that regional development planning should be implemented across the country. Arising from the*

current Estonian administrative-territorial system it is rational to introduce development planning at the county level ((Regionaalse arengu... 2004, 1).

The extract comes from the draft legislation of “Act on regional development”, compiled by officials, it implies centralised character of Estonian public administration and a necessity to establish a set of rules for the implementation of regional development policy.

#### TABLE 2

In 2004 the Department of Regional Development of the Ministry of the Interior carried out an analysis on the results of the previous regional policy: whether and to which extent the strategy compiled in 1998 had reached its targets. Regional differences have actually increased, especially in unemployment (see Table 2). About 60% of GDP is produced in Capital City Harju county: GDP per capita in all other regions is significantly below national average (55-75%) and the gap is widening (Eesti regionaalarengu... 2004, 4). It also pointed out that:

/.../ little links of concrete development projects and long-term local and regional development strategies is a weakness, this is why relatively few large-scale development projects are initiated. Impact on creation of jobs has been modest because the private sector has generally not been involved in the framework of measures of regional policy and it has often not been involved in planning and implementation of development projects too (Ibid).

At first, we can state that **RP and the amount of funds of sector-policies spent in coordination to RP have been too small** to exercise an impact on economic processes, which boost concentration. Also, most of national budgetary expenses are given to Tallinn where most government agencies are located. These structures have strengthened their central offices in the expense of other parts of Estonia.

#### TABLE 3

**Political will of the government is decisive in RP implementation.** Government of 1994-1998 and carried out regional policy despite of absent institutional set up. The Cabinet of 1992-1994 paid little attention and in 1999 diminished the funds for RP (Tables 3, 4 and Figure 1). The Cabinet who came to power in 2003 removed RP from the political agenda completely. The governments who implemented RP relied on the European social democratic tradition, the central economic political doctrine of the governments who decreased funding of RP was neo-liberalism or *laissez faire* in their attitude towards regional differences.

#### TABLE 4

There is an interesting nuance. In the years preceding elections or in the election years the governments have considerably increased the amount of funding allocated to regions. The Savisaar government prepared a regulation on tax incentives on enterprise immediately before the 1992 elections. The ruling coalition in power consented to launch and finance the concept of regional policy along with hiring a minister of regional affairs in 1994, that is one year before the elections. 1998 was the heyday of the Estonian regional policy; significant allocations preceded the parliamentary elections. It repeated in 2002-2003 but on a smaller scale. Cycles related to elections are noticeable (Table 4, Figure 1) which is hardly occasional.

#### Figure 1

Estonian legislation and governmental regulatory documents on regional development alternate and especially **institutions implementing RP change frequently** (H1). Models of legal acts originate from various countries and administrative schools (where the ministers or officials have received training), they contradict or do not consider the capacity of the Estonian culture, wealth and other factors in fulfilment of such legislation. For instance, Property Act comes from Germany, but the Planning Act originates from the Nordic legal space (Denmark). The Planning Act provides for national and county planning, agreements in this framework should shape regional development of Estonia, but have become papers which broaden horizons but do not oblige institutions take any steps. The success of RP has largely relied on the capabilities of ministers (of regional affairs) (H3), their ability to succeed and cooperate in order to concentrate resources of sectoral ministries for regional development. In most cases they have failed. Act on regional development has not been passed either.

**The Estonian policies are characterised by lack of proper analysis and ad hoc (incl. based on copying) solutions** (H4). In several cases, regarding the programmes or policy recommendations compiled by working groups of experts, the responsible ministers have said: “I don’t like it” or “it doesn’t suit me” or “it won’t work politically”. Advice of experienced officials or internationally recognised experts is considered selectively. Rather frequently inexperienced officials of political parties are hired as ministers’ advisers<sup>8</sup>. Quite often they stress on “common peasant sense” and/or easily calculated and achievable (political) rewards – pragmatism. Regrettably we frequently witness a behaviour where the policy of the previous government is abandoned or left aside, and after some time it is adopted, after some minor amendments have been introduced, as their own initiative. Time is thus lost.

**Sectoral administration and the weakness of Prime Minister Office** has also hindered implementation of RP (H2). In early 1990s RP was mostly created at the initiative of officials and it took shape in the RP concept in the cooperation between the ministries of the interior affairs, environment, economic affairs and agriculture, significantly co-ordinated by Prime Minister. Rivalry of the same ministries and relatively weakened Prime Ministers Office hindered a launch/change of the institutions in late 1990s. Partly the problems arose from power struggle between the ministers who represented their parties and partly from the conflicting views of the officials: communication errors caused by different education and frequently changing people, also by constant reform and relocation of institutions who prepared or implemented the policy.

#### *TABEL 5 & 6*

**Territorial administration has not been reformed in Estonia.** Denmark is planning the second wide-scale administrative reform in its history (Boye 2004, Knudsen 2004), Poland carried the major reform out in 1998 (CPMRP 1998), Lithuania in 1994 (NEI 1999). An argument of the reformers is that, generally, the administrative capacity and efficiency of larger local municipalities improve and they provide better quality of services. Local self-governments (see Tables 4, 5) that were re-established (without reform) in Estonia and most East European countries are far too small to act as partners of the central governments in the implementation of RP. The same is stated by Hovgaard and others (2004, 60-62) in the recent study on small local governments in the Nordic countries where instead of initiating changes in the economic structures and implementation of RP there is a tendency to blame the central governments for their little attention and for lack of financing of the services (schools, etc). National development policies,

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<sup>8</sup> They have got a lovely nickname – “political cable” (*poliitiline juhe*).

including new Regional Development Strategy, will hover somewhere in the mid-air because the small local governments do not initiate projects or are unable to co-finance them. The gap between the large and rich cities, and the small and poor municipalities will be expanding. Measures in the regional development applied in Europe presume a much larger scale than units of 1000-2000 people. The suggested minimum size of population of local governments of the primary level in Denmark is 30 thousand (Boye 2004), which almost equals a small county in Estonia. Several European countries have established national planning regions in order to achieve critical scales, e.g. Portugal did it recently to arrange development activities, and to plan regional economy and infrastructures as well as implement required programmes despite the municipalities' small size, low capacity or unwillingness.

**Administrative and financial centralisation have decreased investment capacity of counties and most municipalities:** assistance from national institutions is requested for any larger construction work. The main sources of income of Estonian municipalities – personal income tax, land tax and natural resources tax account for 46.5% of the total budget. The revenues from taxes of the rural municipalities neighbouring Tallinn and having the largest tax income account for about 60 %, in peripheral rural municipalities they account for just 20-40%; plus other types of own income, on average 12% (Jõgi and Sannik 2004). The rest is transferred from central compensatory funds and ministerial budgets. Following the dominating interests of small local governments, financing is targeted at renovating schools or erecting sport halls, as a fashionable whim. Basic budgets of associations of municipalities of counties and independent business/development centres mostly range between 60 and 250 thousand euros. The potential of independent development policy and capacity of business support only exists in two university cities Tallinn and Tartu.

Lack of finances forces the heads of municipalities to lobby in ministries and the Parliament in order to get national financing a municipality mayor must have good relations with officials in the ministry or ministers of the ruling political parties who make decisions on investments. The ruling parties, in their turn, have put that dependency situation into use to increase their power locally, often the receipt of investments is made dependent on party membership. Several mayors of towns or rural municipalities have changed their parties 3-4 times “because of necessity”. There are some larger municipalities where local politicians have divided themselves between the ruling parties.

**Practice of development work has common features with the Soviet period (H4)** when investment decisions were also highly centralised and managers of collective farms or companies had to visit ministries in Tallinn or Moscow to get funds. However, during the Soviet period: 1) laws and institutional framework was more stable; 2) lobby work was done with one party, and 3) at the county level there was a stronger administration. Another similarity is that laws, national policies and plans are implemented selectively. Local policymaking is very pragmatic in Estonia. As it was few decades ago. A number of local development plans have been drawn up not in the best interests of local needs, but in the way, which secures investments for local construction sites (Noorkõiv et al 2004). As there is very limited co-ordination of municipal development activities at the county level, investments often copy each other and do not take into account the needs of the region as a whole; heads of municipalities act in many ways like competing collective farms leaders during the Soviet time.

## 7. Conclusion

Estonian regional policy (RP) in 1991-2004 has failed to reduce regional differences. However, without the implemented RP measures there would be many more settlements in a crisis situation, and there would not be successful companies and organisations that created hundreds of new jobs in the peripheral rural or declining industrial areas. Also, several municipalities of Southeast Estonia or Estonian islands would not be able to compile project applications to the EU structural funds in their current volume or quality without previous RP experience.

RP in Estonia has been mainly dependent on the will of politicians. Most of the time Estonia has been ruled by governments favouring neo-liberal doctrine, which has not encouraged RP. Since May 2004, after joining the EU, Estonia does not have a real regional policy, even if the government approved the new strategy of regional development in May 19 2005. The EU structural policy is implemented without determined objective areas within the country<sup>9</sup>. Local governments, companies and non-profit organisations located in the capital, small towns or tiny remote municipalities – all can apply grants in “equal” terms. Such an approach apparently increases domestic regional differences, as a number of areas are unable to carry out economic restructuring and manage relevant development projects. Absence of RP may finally lead to economic desertification of several areas struggling with structural difficulties and depopulation.

The initial hypotheses compiled in the introductory part were proved: Estonia belongs to Eastern Europe as to its regional policy, characterised by a rapidly changing legislation and institutional framework: national planning is not considered, sectoral strategies are horizontally not coordinated, and consistent regional development policy do not exist. This has caused application of rash, *ad hoc* solutions and modified implementation of earlier, soviet experience (culture) in administrative techniques at both the central government and local levels. For many policies or plans no objective analysis nor ex ante or ex-post evaluation are made.

This article added some new nuances. Public administration in Estonia is becoming highly centralised (contrary to Balchin et al 1999) and also fragmented and vertically politicised restricting in that way horizontal regional cooperation. The public policy does not support regional development and tends to favour a growth in regional differences. European principles of programming, partnership and subsidiarity are well known in Estonia, but, however, they have been not put into the practice. Despite the knowledge, already third regional development strategy (concept), well functioning implementing agency Estonian Enterprise, and even Minister of Regional Affairs, policies considering regional differences have been reduced to a minimum (Figure 1, Table 4). So far, the Estonian regional policy has been excessively dependent on individual and party interests. This interest has been lost for now.

Another question mark lies in the territorial administrative structure. Who will carry out RP? Or apply from EU structural funds? Abolition of administration at the county level – potentially efficient development agency has been a mistake as regards regional development. Without region-based development associations that have a critical mass and are able to apply national RP or EU structural policies, large areas of the country will be not involved in RP and differences will grow.

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<sup>9</sup> For some measures, there are restrictions that leave Tallinn out or set upper limits of receiving grants.

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**Table 1. Comparison of paradigms of passive and active (old and new) regional policies.**

	<b>Traditional paradigm</b>	<b>New paradigm</b>
<i>Problematic regions</i>	dichotomic (e.g. developed and underdeveloped)	different structural weaknesses
<i>Objective</i>	equality	efficiency, result
<i>Primary strategy</i>	regional growth	innovativeness
<i>Organisation</i>	centralised, initiated by the state	decentralised, based on regional initiative
<i>Primary mechanism</i>	re-distribution among regions	mobilisation of local resources
<i>Primary measures</i>	capital, material	information, technology
	economic growth	structural change
	industrial (mass) production	service sector, networking
	single larger projects	programmes
<i>Dynamics</i>	stable regions, planned growth centres	rapidly changing/alternating problematic regions

Source: Stöhr 1989, 192.

**Table 2. RP indicators set up in the regional development strategy in 1999 (differences between counties below 25%). The differences have actually grown.**

Average living standard				Unemployment				Receipt of tax revenue			
1997		2003		1998		2003		1998		2002	
Harju	124	Harju	123	Lääne-Viru	63	Rapla	50	Harju	132	Harju	150
				Pärnu	76	Tartu	53	Hiiu	116	Hiiu	128
				Lääne	84	Hiiu	59	Lääne	105	Saare	110
				Harju	93	Lääne-Viru	64	Tartu	105	Tartu	109
				Tartu	93	Saare	65	Pärnu	103	Rapla	106
				Viljandi	95	Pärnu	75			Lääne	105
				Saare	97	Valga	79			Järva	101
						Viljandi	92			Pärnu	100
						Harju	96				
Rapla	100	Tartu	97	Järva	100	Võru	104	Ida-Viru	100	Lääne-Viru	94
Lääne	93	Pärnu	95	Valga	100	Lääne	113	Järva	100	Viljandi	88
Pärnu	93	Saare	94	Võru	108	Järva	132	Lääne-Viru	98	Ida-Viru	80
Tartu	91	Lääne	91	Rapla	110			Saare	96		
Saare	91	Järva	90	Põlva	124			Rapla	94		
Järva	90	Lääne-Viru	88	Jõgeva	129			Viljandi	87		
Hiiu	85	Rapla	88					Võru	76		
Võru	84	Viljandi	86								
Viljandi	83	Hiiu	83								
Ida-Viru	80	Põlva	81								
Jõgeva	80	Võru	79								
Lääne-Viru	78	Valga	79								
Valga	74	Jõgeva	73	Ida-Viru	150	Põlva	137	Põlva	74	Põlva	74
Põlva	67	Ida-Viru	73			Jõgeva	158	Jõgeva	74	Võru	74
						Ida-Viru	182	Valga	74	Valga	73
										Jõgeva	71

Estonian average = 100

Note: Average living standard is measured as average income per member of household, unemployment as rate of unemployment (ILO), receipt of tax revenues in the budget of local governments as receipt of personal income tax.

Source: Eesti regionaalarengu ... 2003. 3. Source data: Statistical Office.

**Table 3. Stages of Estonian regional policy and events in public policy.**

<b>Period and government (Prime Minister - Minister of Regional Affairs)</b>	<b>Events in regional policy, institutions</b>	<b><i>Economic situation.</i> Events in public policy</b>
Until 1991 Savisaar	Creation of the Department of Regional Development (in the Ministry of Economic Affairs) First measure of regional policy.	<i>The after-IME period, hyperinflation, economic crisis.</i> Establishment of Estonian structures of state Restoration of the system of local governments and decentralisation, generation of local democracy
1992 – beginning of 1994 Laar	Department of Local Government and Regional Development (in the State Chancellery, relocation). The beginning of regional policy initiated by officials with assistance from foreign donors. Board of Local Government and Regional Development (in the Ministry of Interior Affairs, relocation). First regional allowances.	<i>Monetary reform, economic crisis, macro stabilisation.</i> Increase in competence of local governments. Administration of counties is subjected to the central government; development departments are established in the counties.
1994-1998 Tarand - Nestor Vähi - Leemets Vähi – Kubri Siimann – Aru	The concept of regional policy. The council of regional policy is established. The Planning Act is adopted, planning is commenced. Department of Local Government and Regional Development (KOVRAO) (in the Ministry of Interior Affairs, relocation). Creation of the Estonian Regional Development Foundation (ERSA), the structure which implements regional policy (Ministry of Interior Affairs).	<i>A rapid growth of economy and budget.</i> The beginning of centralisation of administration at the county level. The beginning of politicising of public administration. “Political school roofs”. The minister of regional affairs as the second minister of interior affairs. The start of administrative-territorial reform to merge small local governments.
1999-2003 Laar – Asmer Kallas – Asmer	KOVRAO and ERSA move in the ministry of interior affairs. Adoption of the strategy of regional development but implemented with difficulties. Estonian Regional Development Foundation and Enterprise Estonia are merged and subjected to the Ministry of Interior Affairs (relocation). Department of Regional Development (Ministry of Interior Affairs). Preparations for the EU accession activities of the regional policy council brought to a halt	Budget shrinkage - backlash accompanies the economic crisis. The Minister of the Regional Affairs moves away from the ministry. Administration at county level is actually stopped. Offices of central institutions are closed in smaller county towns. Beginning of politicising of public administration Compulsory administrative-territorial reform fails.
2004- Parts – Õunapuu	Implementation of the development programmes of the EU Structural Funds. Enterprise Estonia is relocated. The end of regional policy in Estonia.	<i>EU accession, stable economic growth</i> The minister of regional affairs as the second minister of interior affairs. Regional administrative reform prepared by the minister of regional affairs is disapproved. Common determination of administrative areas is discontinued. Approval of the act of voluntary administrative-territorial reform.

**Table 4. Measures of the Estonian regional policy, means from the national budget and the EU, 1994-2005 (MEUR).**

Measure/programme	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Ida-Viru Programme			0,3	0,3	0,4	0,4						
Programme for Islands			0,4	0,4	0,6	0,5	0,5	0,4	0,5	0,7		
Programme for peripheral areas			0,4	0,5	0,6	0,5						
Programme for border areas; Cross-border cooperation programme			0,1	0,2	0,3	0,3	0,1	0,1	0,1	0,3		
Programme for mono-functional settlements			0,3	0,3	0,4	0,2						
Programme of assistance to village movement/ programme of local initiative			0,1	0,1	0,2	0,2	0,2	0,4	0,4	0,4		
South-East Estonian Programme					0,6	0,6						
Setomaa Programme				0,6	0,6	0,5	0,2	0,3	0,3	0,2		
Agricultural areas programme								0,7	0,6	0,9		
Industrial areas programme							0,5	0,5	0,4	0,6		
Network of centres programme							0,0	0,1	0,1	0,6		
<i>Regional development programmes*</i>			1,5	2,4	3,7	3,2	1,5	2,5	2,3	3,9	1,8	0,4
Business support system **	0,08	0,12	0,3	0,3	0,7	0,3	0,3	0,2	0,2	0,9	0,8	1,1
Loans for regional policies		0,89	0,6	0,8	1,0							
Business allowances in counties	0,10	0,10										
Earmarked allowances for small islands	0,03	0,03										
Earmarked allowances for the areas by Lake Peipsi and eastern border areas	0,06	0,06										
National development projects which support regional development	0,04	0,04										
Settlement activities	0,96	1,60										
Development funds in counties	0,10	0,10	0,3	0,3	0,4	-	0,4	0,4	0,3	0,3	-	0,4
Regional research			0,0	0,0	0,1							
Regional guarantee fund (elimination of socio-economic crisis situations)					1,5							
Investments in regional programmes related to children, families, the elderly and the disabled allocated from gambling tax					1,4	1,2	1,5	1,3	1,4	1,4	1,6	2,1
<b>Measures of regional policy in Estonia in total</b>	<b>1,4</b>	<b>2,9</b>	<b>2,7</b>	<b>3,8</b>	<b>8,7</b>	<b>4,7</b>	<b>3,7</b>	<b>4,5</b>	<b>4,3</b>	<b>6,6</b>	<b>4,2</b>	<b>3,9</b>
Cross-border cooperation programmes (Phare, Interreg)	0,0	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	3,9	4,3
Measures of Single Programming Document (EU ERDF)											11,2	15,0

Source: Ministry of the Interior, Enterprise Estonia.

\*Differences in regional development programmes separately and in total sum arise from different calculations of balance

\*\*Data concerning the takeover of the Estonian Regional Development Fund by Enterprise Estonia are deficient; therefore the sums are indicative and apparently not final.

**Table 5. Proportions of size of local governments in the Baltic States.**

Number of inhabitants	Estonia (1.1.2003)		Latvia (31.03.2000)		Lithuania (01.01.2003)	
	% of the local governments	% of the population	% of the local governments	% of the population	% of the local governments	% of the population
below 999	14%	2%	33%	6%	0	0
1,000-1,999	41%	11%	39%	13%	0	0
2,000-4,999	28%	16%	19%	13%	2%	0.1%
5,000-9 999	11%	13%	4%	7%	2%	0.2%
10,000-49,999	5%	17%	3%	15%	67%	37%
50,000-99,999	0.4%	5%	1%	9%	22%	24%
over 100,000	0.8%	37%	0.4%	37%	8%	40%
Capital	Tallinn (397,200)		Riga (764,300)		Vilnius (553,200)	
Total	1,353,500		2,377,400		3,462,600	

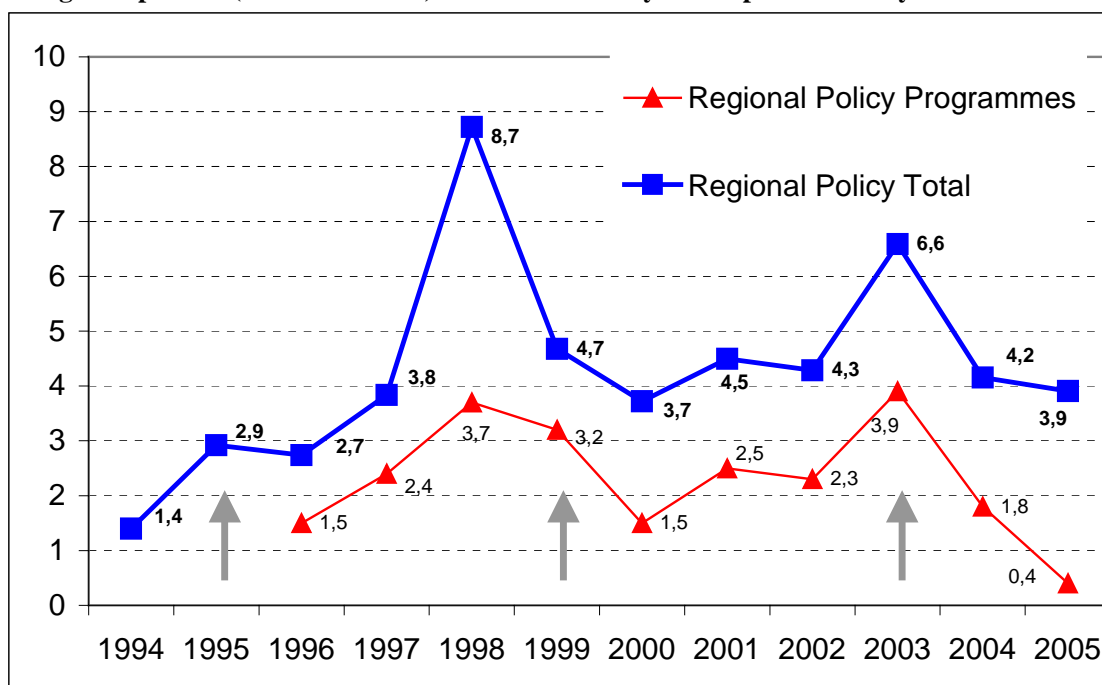
Source: Trasberg 2004

**Table 6. Figures of regions and local governments of Vyshegrad countries.**

Country	Regions	Units of intermediate level	Local governments	Average number of inhabitants in a local government
Poland	16	308	2459	15623
Slovakia	8	79	2825	1845
Czech Republic	14	77	6196	1667
Hungary	20	-	3130	1854

Source: Balchin et al, 1999.

**Figure 1. Funds from national budget allocated to Estonian regional policy, including programmes on regional policies (million of euros). Arrows indicate years of parliamentary elections.**



Source: Ministry of the Interior, Enterprise Estonia.