

Local Government Reform in Estonia



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Having restored its independence in 1991, the Republic of Estonia has been one of the most successful reform countries in Eastern Europe.

After the disintegration of the Soviet Union, a number of liberal reforms were implemented quickly, which consisted in the breaking up of national monopolies, the establishment of the rule of law, privatization, and the establishment of the capitalist rules of the game.

The transition from the socialist planned economy to a market economy was very complicated and painful for many, but it proved to be the correct decision after a short number of years. Estonia became a rapidly developing, open, and Western-minded Nordic country. The e-government model and the digital society of Estonia are also an example for many developed countries in the West nowadays.

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However, there was one area where there had yet been no success in carrying out the necessary changes over 25 years: the local government reform. During two decades, six attempts had been made to carry out the local government reform, but all the attempts had failed.

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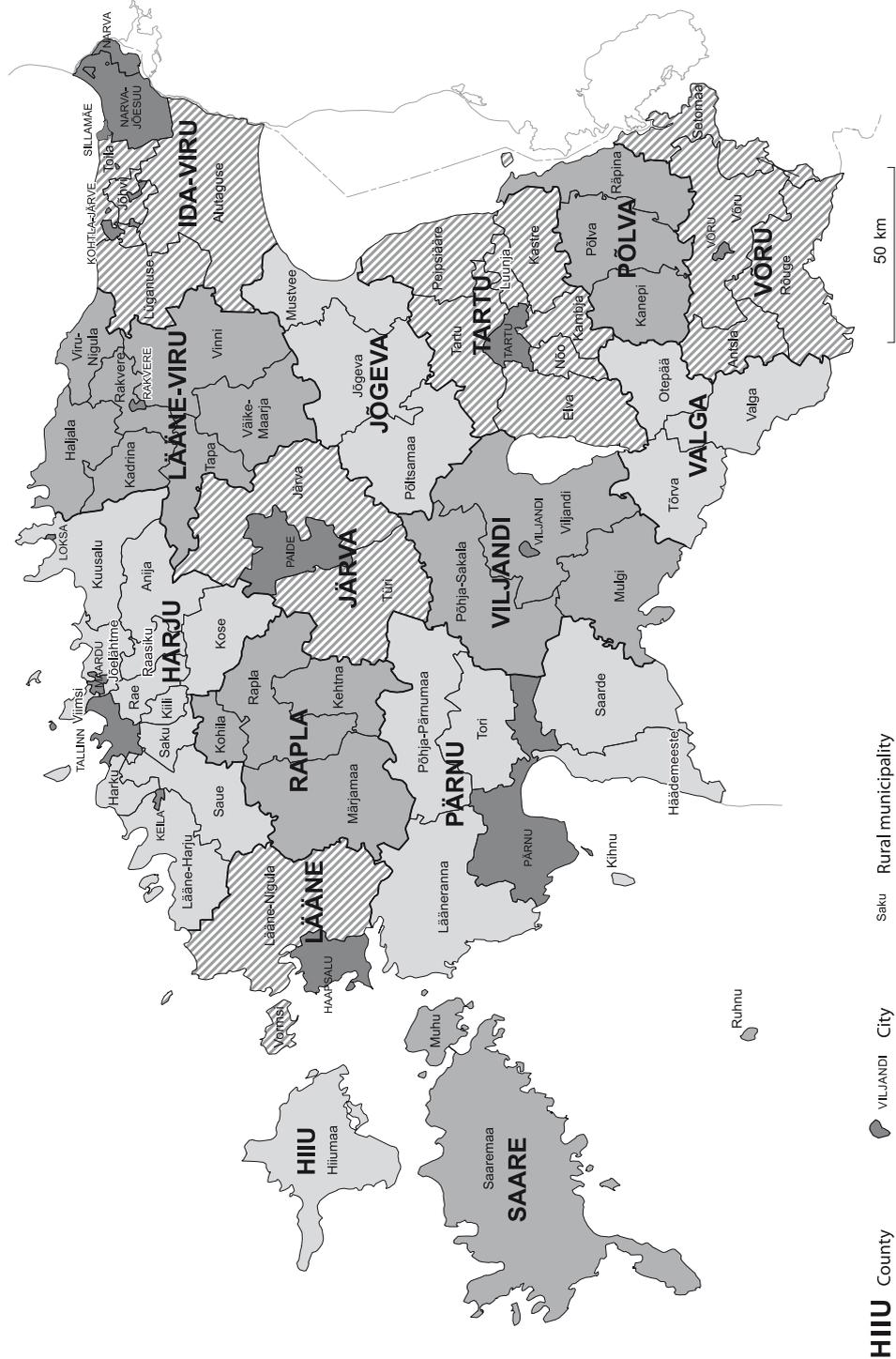
Estonia, with its population of merely 1.3 million, was fragmented into 213 local governments of extremely varying size and capability. Against the background of that stagnated local government model, creeping centralization took place, and the role of the state in the shaping of social processes and public services was gradually increasing.

At the same time, the petrified local government structure did not consider the rapid demographic changes that had taken place in society, such as the ageing of the population and urbanization. This article sheds light on the governance in Estonia, the role of local governments, and on how local government reform was finally implemented in 2016–2017.

THE ROLE OF LOCAL GOVERNMENTS IN ESTONIA

Local governments have played a very important role in the formation of the independent Estonian state, both at the beginning of the 20th century and in the restoration of its independence in 1991. In the last century, local level elections were the first elections to produce the Estonian politicians and statesmen.

Figure 1: Local Governments in Estonia after Administrative-Territorial Reform 01.01.2018



Local governments have been important shapers of identity and hotbeds of democracy throughout history. It may be said with a slight reservation that already when Estonia was still in the Soviet Union the first almost free elections were held in 1989 at the local level. The central power of Moscow was already weakened, and the freedom movement gained momentum. Moscow was unable to control all the local candidates, thus local governments have played an important role in the establishment of the independence of Estonia and therefore are important to many people. Exactly in the same way, the Estonian local government leaders attach great importance to the European Charter of Local Self-Governments that emphasizes the autonomy of local governments and the importance of making decisions for oneself.

The political model of state management in Estonia is relatively simple. After all, a small country cannot afford a complicated and costly system. We have only one national level – parliamentary elections. Besides, there is only one local level – local council elections every four years. There are fifteen counties in Estonia, but they are mainly of historical and cultural importance. The county governments had very little administrative power and were finally closed on January 1, 2018. No elections are held at the county level as a part of the national administration.

FRAGMENTATION OF LOCAL GOVERNMENTS

When the independence of the Republic of Estonia was restored in 1991, more than 250 local governments were born, including rural municipalities and cities with a long history, as well as units that had emerged within the boundaries of the rural councils dating back to the time of occupation. Over the course of twenty years, about thirty local governments who merged with their neighbors voluntarily disappeared from the map.

“OR THE MOST PART LOCAL GOVERNMENTS DEPEND ON THE SUCCESS AND GEOGRAPHICAL LOCATION OF THEIR WORKING AGE POPULATION

Those mergers were mostly considered to be success stories, which never brought about a greater wave of mergers. Local government leaders defended their power positions very jealously, and various fears and myths prevailed among the population. Merger negotiations between local governments often broke down at the very last minute when no agreement could be found on the name or the location of the rural municipality government of the new local government.

The local government landscape was very fragmented in Estonia. Tallinn, the capital, was the largest local government (450,000 residents), while the small island of Piiressaar was the smallest (99 residents). At the same time, they had to equally ensure all functions and services, according to law.

Of course, that was an absurd requirement. While there are wealthy local governments in the capital region who are not significantly inferior to Scandinavian local governments in terms of capacity, in poor micro-rural municipalities in the periphery the state subsidies accounted for 70% of the local government budgets in order that the rural municipality would be able to ensure basic services at a minimum level.



FUNDING AND EDUCATION

The model of funding local Estonian governments is similar and uniform for all. 11.7% of the personal income tax of the people residing in a local government is given to the budget of the local government (the general rate of personal income tax is 20%). The more taxpayers and the higher the incomes, the larger the local government budget. Of course, added to this are various regional subsidies and the European Union funds, but for the most part local governments depend on the success and geographical location of their working age population. The proportion of local taxes are very marginal in Estonia, and excluding the land tax, very few have been established in fact.

Estonia is a country with one of the lowest population densities in Europe (30 people per km²). Very few people live in a relatively large territory. Estonia is larger than the Netherlands by size, but thirteen times less people live here. The population density is especially low in rural areas and the periphery. At the same time, the offering of certain services and the maintenance of the infrastructure is significantly more expensive in a large territory than in densely populated cities.

This brings us to the core of the problems of many rural areas – a large region, high costs, but few taxpayers and a low salary level. It is clear that local governments cannot get out of this vicious circle on their own. These problems can be solved only in cooperation with the central government.

In spite of the emotional and historical importance of local governments in Estonian politics, they have not really played a very large role in organizing national life and offering public services. According to the 2013 OECD data, for example, local and regional expenditure accounts



IN SPITE OF THE EMOTIONAL AND HISTORICAL IMPORTANCE OF LOCAL GOVERNMENTS IN ESTONIAN POLITICS, THEY HAVE NOT REALLY PLAYED A VERY LARGE ROLE IN ORGANIZING NATIONAL LIFE AND OFFERING PUBLIC SERVICES

for 36.4% of GDP in Denmark and 23.9% of GDP in Finland¹. In Estonia, the relevant indicator has been as low as 9.9% of GDP. Over the years, the power balance at national and local levels has clearly shifted in favor of the central government. The main reason is often the fact that the central government has had more sources of income, and more professional organization of work. It is, of course, no big surprise that a local government the size of an apartment building is not capable of being an equal partner and balancer to the central government.

The role of Estonian local governments, cities, and rural municipalities with equal status has been mainly confined to organizing

¹ See <http://www.oecd.org/regional/regional-policy/country-profiles.htm>

the local life at the lowest level, such as road construction, property maintenance, social protection, the nursery service, and municipal planning. In addition, they also deal with the shaping of the local school network and the property relating to that.

Education is valued very highly in Estonia and a local school is often considered the heart of local government. If a school disappears, children, parents, jobs, tax money and identity disappear together with it. Unfortunately, society is undergoing great changes and many rural schools are forced to shut down. Because of urbanization and low fertility rates there are not enough students, teachers or money to manage a school. This has also been one of the greatest fears in the merger of local governments. Yet, changes became increasingly more inevitable. Why?

DEMOGRAPHIC CHANGES AND URBANIZATION

Similar to other developed countries, Estonia is also experiencing long-term but indisputable demographic trends that affect the functioning of local governments. Primarily urbanization, which in Estonia manifests itself in a population concentrating in the city of Tallinn and its surroundings.

Already around 45% of the population live in the capital region alone, and this trend is continuing. Higher paid jobs and higher tax revenue also concentrate around the capital. As the population of Estonia is not growing, concentration into Tallinn also mean that some rural municipalities in the periphery have lost 30-40% of their former population. If we add here the ageing of the population, greater pressure on the working-age population, and ever higher expectations of local public services, it becomes clear that continuing in this way will lead to a dead end.



AS THE POPULATION OF ESTONIA IS NOT GROWING, CONCENTRATION INTO TALLINN ALSO MEAN THAT SOME RURAL MUNICIPALITIES IN THE PERIPHERY HAVE LOST 30-40% OF THEIR FORMER POPULATION

Obviously, there are also positive changes for rural regions; such as the growing mobility of the people, improved transport opportunities, Internet and e-services, and more flexible employment relationships that enable teleworking from any forest farm. However, if we analyze the big picture it becomes evident that changes are needed to adapt.

In Estonia, the administrative reform is mainly associated with the merger of local governments. Historically, the majority of the attempts at administrative reforms have focused on drawing borders, which has always created a very big resistance. Local people and local government leaders did not like the fact that politicians on a state level were deciding on their fate in back rooms in the distant capital.

THE CORE OF THE ADMINISTRATIVE REFORM

For me, the administrative reform meant much more than mergers of municipalities. Above all, the government's aim was to in-

crease the capability of local governments. The capability also meant updating the functions and improving the funding. That was also the focal message in the public communication which helped deliver a much more pertinent message than drawing borders. It is true that without the merger of local governments it was often impossible to achieve greater capacity and quality, but there were several other components to it.

The current mergers brought about positive effects, which have been repeatedly confirmed by local government executives and that will very likely appear also in future mergers:

1. A significant **growth of investment capacity** arising from the scale effect, and capability to accomplish things that would have been impossible in separate local governments. There are numerous examples of such large investments that have been implemented that were only dreamt of earlier. Be they new sports buildings, highways, renovated cultural centers or school buildings.
2. **Specialization of officials**, increased proportion of officials with higher education, higher prestige of rural municipality officials, and competitive salaries of employees. In the merged local governments, the salary level has become comparable with that of county centers which gives the possibility to hire competent specialists and avoid "brain drain" from the regions.
3. **The quality and variety of services**, including the quality of social welfare services, has improved. The benefit levels have, as a rule, been harmonized towards the higher level of the merging local governments. Several necessary services have emerged in new local governments which they were incapable of offering earlier.
4. **Emergence of the capability to support enterprise**. Local governments now have funds to develop the business environ-



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ment and to build infrastructure (for example, to develop the infrastructure of an industrial park with considerable cost-sharing).

5. **Local communities have become more active**, and self-governments now have clear cooperation partners locally. The system for supporting local initiatives has been organized.
6. **A clear improvement in the quality of the work of municipal councils**, as requirements for the professionalization of council members have increased. A better balance has been struck between officials and council members in the decision-making process, while the role of council committees has increased. As a rule, greater political competition ensures higher management quality.
7. The total **number of officials, and the proportion of general governance costs in local government budgets has decreased significantly** compared with the period before the merger. In many places it has become possible to direct nearly a third of the current governance costs elsewhere, for example, to the development of nursery schools or the cultural sphere.
8. **Possibility for comprehensive development of the region is created**. This may include development of road con-

struction, as well as waste economy. As a good example, school transport has been better organized with decisions being made with a larger region in mind.

9. **Payments between local governments and bureaucracy in the provision of services to residents in other local governments are eliminated**. Less paper-work and fewer officials make the decision-making process faster and cheaper.
10. The **work of the divisions of municipal councils can be made more efficient and flexible** by uniform organization of their management in places where local governments tend to remain too small when the population decreases, e.g. libraries, cultural institutions, and public utilities. It is better to have branch libraries or community centers with uniform management in a larger region in a situation where the alternative may be closing something down.

Urbanization and the ageing of the population is a proliferating characteristic in many countries. If we take the right action, we are able to balance these demographic changes, but in a democratic country it is neither possible nor necessary to reverse these processes entirely. However, it was definitely impossible to ignore the fact that when many local governments had lost a large part of their population and revenue base, the structure of the local governments remained unchanged for decades. No one was happy with the current situation, yet at the same time they were fearful about changes.

THE PREPARATION AND TIME SCHEDULE OF THE ADMINISTRATIVE REFORM

The coalition agreement entered into between the liberal Reform Party, led by Prime Minister Taavi Rõivas, the conservative Pro Patria and Res Publica Union, and the Social



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Democrats in spring 2015 set out that the aim of the local government reform was well-functioning and capable local governments.

The government wanted the local government reform to enhance the competitiveness of rural areas and make local governments stronger in order to enable them to offer higher quality services to their residents. Local governments must play a greater role and be more independent in organizing local life. Only a strong local government is able to really balance the central power and to protect the interests of local people. One of the important objectives of the reform was also to strengthen local representative democracy.

There were too many local governments in Estonia whose subsistence depended wholly on assistance from the state. The state support fund payments made up more than

one-third of the budget revenue in these rural municipalities. There were local governments who had received no investments from European Union funds over eleven years. They lacked the actual capacity to write project applications, not to mention the possibility to ensure the necessary self-financing. Their budget and the smallness of their service area did not allow for hiring specialists with the required professional education – be it a financial analyst or a child protection official. As the municipalities were very small, there were neither enough political parties, nor independent local politicians represented. The non-existent competition in local elections was described as a democratic freeze. In such a situation, the principle of local autonomy is merely an illusion, and not reality. All this had to change.

The expert body preparing the reform wrote down the core capabilities of a future local government, and the main functions that every city and rural municipality had to be able to perform. These included competence in law, financial management, development work, planning, construction, and the environmental sphere.

Likewise, a local government must be able to independently organize education and youth work, the social field and the utilities. It is clear that the performance of these functions in a modern and high-quality manner requires competent specialists and a sufficiently large customer and revenue base.

In preparation for the reform, it was possible to consider many different alternatives. Local government reforms have been carried out in many neighboring countries and the studies and analyses conducted in the designing of previous reforms were easily accessible. It was also clear that it was impossible to copy exactly one-to-one the reforms of any other country or age, because the historical, cultural, and political situation is always unique.

Nevertheless, the expert committee that assisted the Minister of Public Administration reviewed three or four different alternatives on how to assess the capability of a local government and how to carry out mergers. Finally, it was decided that – similarly to several other countries – the number of residents would be taken as the basis for merging local governments. The revenue base, the capacity to offer services, and the investment capability of a local government are contingent on the number of residents. Therefore, the following principles were agreed on in the Administrative Reform Act:

- the minimum size of a local government is 5,000 residents;
- the recommended size of a local government is 11,000 residents;
- the government may grant exceptions to islands (four) and rural municipalities with a very large territory.

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TO ENCOURAGE THE ESTABLISHMENT OF LARGER UNITS, IT WAS PROPOSED THAT LOCAL GOVERNMENTS WITH MORE THAN 11,000 RESIDENTS WOULD RECEIVE AN ADDITIONAL MONETARY BONUS

Of course, the requirement of the minimum size of local governments created the biggest debate. Many local government executives considered it too large, while several political powers considered it too small. It was definitely not reasonable to lower the bar any further, because then the whole reform would have become pointless.

To encourage the establishment of larger units, it was proposed that local governments with more than 11,000 residents would receive an additional monetary bonus. Experience showed that for many local governments the sizeable merger bonus was a fairly strong argument for a more ambitious merger.

The drafting of the Administrative Reform Act, and the political debates that ensued began in spring 2015. The parliament (Riigikogu) adopted the Act on the reform in June 2016. A conscious choice was made in the Act to the effect that, at first, local governments would have the possibility to find suitable merger partners for themselves, and the government would intervene only in the second phase. In the implementation of the reform, several important stages can be marked out:

- I The drafting of the Act and its adoption in parliament (June 2016)
- II The phase of voluntary merger of local governments (until December 31, 2016)
- III Forced merger of local governments that failed to meet the criteria (January 2017–July 2017)
- IV Election of new municipal councils (October 2017)

After the Act had been adopted in parliament, local governments had only half a year to find suitable partners for themselves, enter into a merger agreement, and agree on the name and center of the new local government. This may seem to be an extremely short period, which was made all the more so as a request to declare the Act adopted in the parliament

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to be in conflict with the Constitution was submitted to the Supreme Court immediately, and the final response did not arrive before December 2016.

Unfortunately, the time schedule for carrying out the reform did not allow for greater flexibility because certain principles and the election terms are fixed in the Constitution of the Republic of Estonia. However, nobody wished to amend the Constitution. Moreover, debates on mergers had been going on for a good many years, and the majority of local government executives knew very precisely with whom to hold merger negotiations. Many local government executives had started negotiations already before the Act was approved in parliament.

The later experience eloquently showed that everything hinged on political will. The majority of the local governments were able to meet the deadlines without problems. Yet, there were still those who, for personal or political reasons, never started the mergers.

The government used several other incentives to motivate voluntary mergers:

- 1) **a merger bonus for voluntarily merged local governments** (total expenditure ca. EUR 65 million);
- 2) **a lump-sum compensation** to the extent of up to one year's salary to local government executives who leave office, if they do not continue in the same post in the new local government;
- 3) **merger experts funded by the government and documentation** to assist local governments.

Of course, such incentives created a certain amount of discontent among the media and the opponents. The lump-sum compensations paid to local government executives faced the greatest wave of criticism. According to the most vocal critics, it was all too expensive and unnecessary². Yet, every reform comes at a price. The experience of other countries also showed that granting lump-sum compensations to local government executives released many tensions and obstacles³. After all, in the final analysis, these are the people who have to carry out the merger successfully on the spot.

The carrying out of the administrative reform concerned nearly all Estonian local governments and a large part of the population. Before, 80% of the old local governments did

² See <https://www.saartehaal.ee/2017/01/14/lahkumishuvitis-tekitab-eriarvamusi/> [in Estonian]

³ For example, Finland had used a similar lump-sum compensation system. It reduces the risk of losing the living standard for local government executives. One year is a long time to find a new suitable job.

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BEFORE, 80% OF THE OLD LOCAL GOVERNMENTS DID NOT MEET THE CRITERION OF 5,000 RESIDENTS. THE LATER RESULTS SHOWED THAT THE MAJORITY OF LOCAL GOVERNMENTS MERGED VOLUNTARILY

not meet the criterion of 5,000 residents. The later results showed that the majority of local governments merged voluntarily. Some local governments were granted exceptions under law, and there were a few dozen local governments that the government had to merge by force with some of their neighboring local governments⁴. There were also some local protests by inhabitants, but surprisingly not on a state level. None of these protests had any remarkable influence on the decision-making process. The relatively wealthy and densely populated capital region was the least affected by the administrative reform, but capability was never an issue with them in the first place.

Out of the 213 local governments, 79 remained in place after the reform (15 cities and 64 rural municipalities). The median

⁴ For details see <https://haldusreform.fin.ee/vv-algatatud-uhinemised/> [in Estonian]

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number of residents in local governments grew four times (from 1,887 to 7,865), whereas the average size of local governments grew three times to 512 square kilometers. The size and capability of local governments were clearly harmonized. In a later phase of the reform, the state also transferred additional functions together with an increasing funding to local governments, and therefore it may clearly be said that the role and financial situation of local governments improved significantly.

After the reform, 96.2% of the Estonian people lived in local governments that met the criteria of the administrative reform. In the European context, starting from 2017, Estonia belongs among *the average* in terms of the number of residents of local governments, ranking next to the Nordic countries⁵.

Certainly, no reform is ever ideal, and the debates will go on for a long time. Yet, another local government reform will likely follow at some time in the future and it might go in an entirely different direction. However, a great majority of the Estonian local gov-

⁵ Rahandusministeerium (2018) *Administrative-Territorial Reform*, p. 159. Available [online]: <https://www.rahandusministeerium.ee/en/objectivesactivities/local-governments-and-administrative-territorial-reform/administrative>



ernment leaders, politicians, and experts are of the opinion that the reform carried out in 2016–2017 was a success⁶.

MAIN LESSONS IN CARRYING OUT AN ADMINISTRATIVE REFORM

Implementing sophisticated reforms always teaches politicians several substantial lessons. Here are some of the most crucial ones that have a wider range of application:

- political will and leadership at the highest level of governance are of key importance. When there is a will, there is a way;
- it is important to be clear that those who manage are responsible for the whole process. In Estonia, a separate portfolio for the Minister of Public Administration was established for that purpose, which was justified. The processes is complicated and cannot be managed in parallel with other functions;
- for reforms to succeed, a clear aim, a time schedule, a team, and a budget are needed. Every reform comes at a price (budget) that pays off later;
- choosing the right pace for a reform is of vital importance. When things are done in a hurry, involvement suffers, and technical and legal mistakes occur. On the other hand, if there is too much delay, reform tiredness sets in, and problems tend to amplify. It is impossible to please everyone and at some point decisions must be made and implemented;
- decisions must be made and explained in an involving and broad-based manner. The researchers and political experts participating in the carrying out of the reform increased the quality, reliability, and legitimacy of the decisions;
- communication is the key. Repeating your simple and clear message and fighting the fears and myths of skeptics is a te-



THE ADMINISTRATIVE REFORM WAS FORMALLY COMPLETED WITH THE LOCAL ELECTIONS OF 2017, BUT ITS REAL IMPACTS WILL AFFECT ESTONIANS FOR DECADES TO COME

dious but inevitable part of any political campaign. Of course, modern technical means and social media can be put to use here.

It is common that complicated public sector reforms do not reward the reformers with huge public support in the short run. One might even lose the next election. But liberals should not hesitate and still do the right thing. After all, it is our moral duty to think and act for the benefit of the next generations.

CONCLUSIONS

The administrative reform initiated in 2015 in order to increase the capability of local governments was undoubtedly one of the changes with the greatest social impact in Estonia in the last 15 years. The accomplishment of the administrative reform is all the more miraculous as all earlier attempts had failed, causing a certain amount of disbelief in many parties involved. The administrative reform was formally completed with the local elections of 2017, but its real impacts will affect Estonians for decades to come.

With such a great and complicated change, it is no wonder there were many opponents – both for political and personal reasons. The local government merger considerably shook the established power positions and forced many to come out of their habitual comfort zone. Yet the reform became reality, thanks to very clear political will, social maturity and professional execution.

The opponents of the reform (opposition parties in the Riigikogu and some local politicians) tried to stop the process both at the governmental level and in the parliament, not to mention the complicated court actions that reached as far as the Supreme Court. Some of the local governments applied for a constitutional review of the Reform Act in the Supreme Court. The Supreme Court decided that the government-initiated mergers were in accordance to the Constitution and other legislative acts. This was probably an even more important moment than the adoption of the Act in the parliament itself half a year earlier that had been politically predictable, despite the difficulties. Political forecasts have no importance in the Supreme Court, however. At that moment, all legal obstacles have disappeared.

It was undoubtedly a positive development that the revolutionary change of government at the end of 2016 (the Reform Party who had been in power for 17 years went into opposition) did not halt the carrying out of the administrative reform, and it continued according to current plans. Discarding all the work that had been done so far, and repealing the Administrative Reform Act would have postponed the long-awaited reform for yet another decade. Local governments and the credibility of the whole Estonian political system would have stood to lose.

Of course, to increase the capability, investment capacity, and the professionalization of the officials of local governments, it is nec-

essary to improve the funding and shape the functions of local governments in addition to merging cities and rural municipalities. The vision of the administrative reform was that the role of strong and capable local governments in the Estonian governance must grow. Fortunately, both previous governments and the current left-center government have supported that vision.

Many ideas that have strengthened local governments have already been enshrined in law, whereas several proposals are still being processed. One of the most important issues is that of a local government funding model that would help alleviate (instead of aggravating) the problems associated with regional varieties, low density areas, and urbanization. It is clear, however, that without the vigorous wave of the merging of local governments, all these changes would be no more than a surface ripple. The local government merger constitutes the foundation on which new layers can be laid.

What assessment the next generation will make of the administrative reform now largely depends on the new local government leaders and no longer on the members of the government of the Republic or the Riigikogu. It is in the hands of the freshly elected local government leaders how the new opportunities will be handled and what the identity of the local community will be. ●



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⁶ Valner, S. (2017) *Haldusreform 2017*. Available [online]: <https://haldusreform.fin.ee/static/sites/3/2018/07/haldusreform-2017.pdf> [in Estonian]