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**Local Government Absorption Capacity Problems in the European Union Structural  
Funds: The Case of Estonia**

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## **ABSTRACT**

The main goal of the European Union regional policy is to decrease the regional disparities within the European Union. Beyond its economic impact, the European Union regional policy also has important political consequences, stemming mainly from the application of the core Structural Funds principle of partnership, which requires the existence of competent regional and local authorities and their involvement in various aspects of the administration of structural spending. The current thesis discusses Estonian local governments' absorption capacity problems in the EU Structural Funds by investigating the implementation of partnership principle in Estonia and its impact on local governments' effective absorption of Structural Funds as well as indicating the main problems among the Estonian local governments, which are restricting them from using the Structural Funds facilities in the socio-economic development of their authority. The thesis shows that the planning of regional aid in Estonia is rather centralised, leaving the local government level little access to the regional policy decision-making process. Furthermore, it appears that Estonian local governments see the European Union regional policy (mainly through the Structural Funds) as one of the most important instrument in their socio-economic development while the capacity to absorb these possibilities is limited due to several administrative and financial reasons as well as due to the small size of the Estonian local authorities and strong core-periphery problems of the state, restricting the accession to the funds of municipalities where the socio-economic situation is relatively weak.

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## 1. INTRODUCTION

Alongside the single market and economic and monetary union, a fundamental objective of the European Union (EU) is cohesion, the reduction of economic and social disparities between richer and poorer regions within the Union. According to the Treaty on European Union, the Community must act “*to promote overall harmonious development*” and “*reduce the disparities in the levels of development of the various regions*” (Art 158). To ensure that this goal is reached, the concept of Structural Funds was introduced in the context of EU regional policy (Faiña and López-Rodríguez 2004; Glen 2000, 2; Ott, Ban and Pecotić 2005, 16).

In addition to enforcing social and economic cohesion in the EU it has been argued that an important consequence of EU regional policy has been its impact on the territorial politics of member states. It is widely claimed that EU regional policy has been a major factor promoting political decentralisation and regionalism in the EU (Baun 2002, 261). This is mainly due to the core Structural Funds principle of “partnership” introduced with the 1988 Structural Funds reform, which requires the existence of competent regional authorities and their involvement in the planning and implementation of regional aid. Partnership principle was introduced in order to improve the effectiveness of EU regional policy and ensure that its objectives will be achieved by involving sub-national authorities from the most appropriate level in the policy process (Bauer 2002; Héritier 2001, 6; Kungla 2002, 8). The principle of partnership and its actual implementation at member state level may be important when exploring the absorption capacity of Structural Funds by sub-national levels. The condition of their actual institutional and administrative capacity may restrict them to be active in this policy process as well as the lack of their involvement by the central government may be an important factor hindering local governments’ absorption capacity of Structural Funds in terms of inappropriate measures for regional development. Following this, the relevance of partnership principle in the discussion of absorption capacity is important and will be addressed in the current paper.

In 1993 the European summit of the EU gathered in Copenhagen and made a historical decision that Central and Eastern European countries (CEEC) would be allowed to become EU members. The enlargement has obviously been not an easy process: the new member

states face a wide range of internal regional problems and are economically and socially behind the established EU members (Beugelsdijk and Eijffinger 2005, 38). This also creates difficulties for the whole Union to achieve the objectives of overall cohesion and regional policy. The effective implementation of EU regional policy requires that local and regional governance systems in member states are compatible with the EU practice and regulatory norms, indicating that the strength and effectiveness of local authorities is one of the main indicators of regional development.

The current paper focuses on the positions of the Estonian local governments when participating in regional policy decision-making that is immensely affected by the EU regional policy, most of all through the accessibility to the EU Structural Funds. As recognised by Hughes, Sasse and Gordon (2001, 4) there is an immense research literature on regional and local governance in western Europe and the impact of EU on these levels, but much less has been written about this in the CEEC, and still very little is known about the institutional capacity, practices and attitudes of the elites at this level. Nevertheless, the sub-national arena of regional and local politics is of key importance for the EU eastward enlargement, too. For political and economic changes to become consolidated, they have to become ingrained at all levels of governance (Sasse 2003, 1). Set aside the fact that Estonia as a whole is part of the most lagged-behind region in the new EU, it has considerable disparities within its territory (Oppi and Moora 2004, 1, Wrobel 2003, 277). The large number of weak municipalities (most of them in constant financial difficulties) poses a threat of not being able to absorb the funds assigned by the EU. In this respect, low administrative and financial capacity of local government units (like in most new member states) is one of the key problems and challenges for Estonia and this problem will be addressed also in the current thesis.

### **1.1 Approach and methodology**

Correspondingly to previous introductory discussion, the central aim of the Master's thesis is to explore the role and impact of the EU regional policy on local governments and regional policy in Estonia and to evaluate Estonian local governments' "absorption capacity" of the EU Structural Funds and the factors influencing it. The main research issues are the following:

- Ø How relevant is the “partnership” principle in Estonia in the sense of involving Estonian local governments to the regional policy decision-making process?
- Ø What is the Estonian local governments’ absorption capacity of the Structural Funds and what have been the main problems that are restricting local governments from using the EU Structural Funds?
- Ø If and how have the current measures co-financed by the Structural Funds fulfilled the development expectations of the local governments in the sense of appropriate measures?
- Ø Which factors can influence the Structural Funds absorption capacity of the Estonian local governments?

The thesis is based on several combined sources, being a qualitative study in its nature as well as having independent empirical value. Firstly, this paper is based on the research conducted by the author among the Estonian local governments in spring-autumn 2005 and published in co-operation with Innopolis Consulting Ltd. and SEB Eesti Ühispank in autumn 2005 (see Innopolis Consulting Ltd. and SEB Eesti Ühispank 2005).<sup>1</sup> As the author has been fully engaged in this empirical study, it has been the basis for the current paper and therefore, the inseparable part of it. The empirical study was conducted bearing in mind that currently the preparations for the next “National Strategic Reference Framework 2007-2013” have started, which means that measures for using the Structural Funds money will be decided. Therefore, it is relevant to know how local governments (which, considering their role in the Estonian administrative system, are one of the main triggers of the regional development within Estonia) think about the process of distribution and management of Structural Funds at the current moment and what are the main problems that restrict the local governments’ use of the EU Structural Funds. The empirical study searches answers to the following questions: in which spheres the need for regional aid in Estonia has been the most urgent; which are the most frequent problems when applying for regional aid grants, and what kind of measures are expected for the next Structural Funds programming period on the local level. The questionnaire (see Innopolis Consulting Ltd. and SEB Eesti

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<sup>1</sup> Hereafter it will be recurrently quoted as „empirical study”.

Ühispank 2005) was sent to all the local authorities in Estonia.<sup>2</sup> The questionnaire received responses from 84 local governments, making 35 per cent of all the municipalities in Estonia. Even though the sampling is rather small, all 15 counties in Estonia were represented and the empirical study showed quite similar patterns among the respondents. This enables to assume that in the case of bigger sampling, the results would have been pretty much the same. Therefore, the study gives quite a good overview of the general trends in absorbing the Structural Funds by local governments, as well as lets to assume how the needs and problems related to the EU regional aid are distributed regionally.

Secondly, additional meetings with the heads of the municipalities were organised in December 2005 and February 2006. Three counties in Estonia were selected for this purpose. Lääne-Viru County was selected, because the county's representation in the empirical study was the lowest – only one municipality answered to the questionnaire. Pärnu County was selected as an example of the local governments which can be characterised by comparatively well developed regional situation, and Jõgeva County was selected just for the opposite reason – Jõgeva County belongs to the least developed regions in Estonia. Also a meeting with the Vice-Mayoress of Tartu City was conducted bearing in mind that Tartu is likely the second best developed and largest city in Estonia and probably one of the most active in absorbing EU Structural Funds. The main purpose of these meetings was to discuss the subjects presented in the empirical study, as well as to investigate how local governments evaluate their participation and involvement in the planning process of regional development programs and to the composition of the strategy for absorbing the Structural Funds in the period 2007-2013 (the exact list of local governments who participated in these meetings is given at the end of the paper). In addition to conducted empirical study and county visits, several theoretical materials (original articles and published books) were worked through and thorough secondary source analysis was incorporated to the thesis.

The current paper will not directly investigate the issue, if it is possible to make some final conclusions about the EU regional policy in fostering regional development in Estonia

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<sup>2</sup> 241 local governments received the questionnaire, which was official number of local authorities in Estonia during the time the questionnaire was sent out. After the local government elections on 16<sup>th</sup> October 2005 there are 227 local governments in Estonia.

according to the first two-year experience. It is clear that huge regional disparities are present in Estonia, among the counties and local authorities. Structural Funds could be one important solution to overcome these disparities. In the light of the following analysis it seems that based on the first experience among Estonian local governments with the EU funds, regional disparities will be quite difficult to overcome as among other problems there have not been created measures that are actually needed at the local level. Besides, especially smaller and more periphery local authorities face more problems and lack ability to use the Structural Funds.

As the author argues, the applicability and implementation of the “partnership” principle is relevant in actual absorption of the Structural Funds by sub-national levels, therefore, the first part of the paper focuses on this issue and tries to evaluate the applicability of partnership principle in Estonia and its influence on the local governments’ absorption capacity. In the first part of the paper also the impact of the EU regional policy on the Estonian regional policy formulation is given and the role of local governments in this process is emphasised along with the overview of local governments in the Estonian administrative system.

The second part of the paper focuses mostly on the findings from the empirical study and county visits and investigates the capacity of the Estonian local authorities to actually absorb these new financial possibilities introduced by the Structural Funds to foster the regional development. This part also brings out the main absorption problems in the EU Structural Funds among the Estonian local governments.

The results of the current study can be successfully incorporated into wider regional development evaluation studies in Estonia. After all, it seems that Estonian local governments see the EU regional policy (mainly through the Structural Funds) as one of the most important instrument in their socio-economic development, but the capacity to absorb these possibilities is limited due to several reasons, among them the small size of the Estonian local authorities and strong core-periphery disparities of the country.

## **1.2 Defining absorption capacity**

A review of academic and EU-internal literature indicates the absence of a conceptual framework to comprehensively assess the issue of absorption problems relating to Structural Funds. According to Horvat (2004, 4) one reason for this may be that the EU's regional (structural) policy is a relatively new field for investigation. For example, Ruubel (2002, 27) points out that although it has always been a part of the assessment of the candidate states, the "administrative capacity" as part of overall absorption capacity, has not been the key issue in the previous enlargement rounds before the last EU enlargement in 2004. Therefore, the current paper is based on absorption capacity definitions given in different evaluation studies and reports prepared and published by the European Commission (EC) or by the EU new member states (see also Horvat 2004, 5).

The absorption capacity stands for the degree in which a country is able to effectively and efficiently spend the financial resources from the Structural Funds as making a contribution to economic and social cohesion (NEI 2002, 2). In order to do this, it is necessary, on one hand, to have an absorption capacity from the institutional system created by the particular state in order to manage the funds at issue and, on the other hand, an absorption capacity from the beneficiaries whom these funds address – then it could be spoken of two distinct characteristics, namely the absorption capacity on the supply side (of funds) and absorption capacity on the demand side (Oprescu et al. 2005, 9). The latter is related to the capacities of potential beneficiaries to design projects and to finance them. This paper mainly concentrates on the absorption capacity from the demand side.

Furthermore, absorption can be determined by three main factors (Horvat 2004, 7; NEI 2002, 4; Oprescu et al. 2005, 9-10; Ruubel 2002, 11; Šumpíková, Pavel and Klazar 2004, 2): macro-economic absorption capacity, financial absorption capacity and administrative absorption capacity. As all these components would deserve substantial analysis and as this paper will concentrate only on the capacity from the demand side, it will not look at the macro-economic absorption capacity, which can be defined and measured in terms of GDP levels to the allocated Structural Funds. In the current thesis the administrative and financial absorption capacity of the EU Structural Funds among Estonian local governments will be investigated in more detail. In the following analysis also the EU

influence on local authorities identified by de Rooij (2002) will be incorporated. Because of the new opportunities for local governments, which have arisen in the EU and new funding possibilities, it is supposed that the EU has had an impact on the political-administrative institutions of municipalities (Zerbinati 2004, 1000-1001). Three dimensions can be identified when looking at the impact on the municipalities (de Rooij 2002, 452-453). Firstly, the “absorption” of the EU policy or EU funds, which comes top-down from the EU to the municipalities: the implementation of the EU legislation, meeting the criteria for money from the EU funds (indicated by the term “eligibility”), and receiving money from the EU funds. Secondly, “proactive attempts” to influence the EU policy and promote interests which go bottom-up from the municipalities to the EU: attempts to influence the EU legislation, attempts to influence the distribution of EU funds, an orga-lobbyist, and contacts with national and European politicians. Thirdly, the “organisational adaptation” which is connected to “absorption” and to “proactive attempts”: new departments, new officials and new items on the agenda of the local council. Besides the general definition of absorption capacity in the EU Structural Funds context, this paper will take also these latter notifications, presented by de Rooij, into consideration and analyses if these manifestations are present in the Estonian local governments according to the collected empirical accounts.

## **2. REGIONAL POLICY IN THE EUROPEAN UNION**

### **2.1 Regional Policy and Structural Funds**

Regional policy of the EU refers to a set of activities the aim of which was actually phrased in 1957 in the Treaty of Rome: “... *to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions*”. The Single European Act rephrases the “harmonious development” to “economic and social cohesion” but the idea remains the same: how to reduce the regional disparities within the Union itself and the member states (Allen 1997, quoted Oppi and Moora 2004, 2).

Regional policy of the EU is a dimension of the cohesion policy taking its own view on work planned at local level, seeking to assist measures that encourage endogenous development and growth of the regions concerned (Evans 2000, quoted Ruubel 2002, 51). The literature on the rationale for the EU regional policy usually provides a blend of arguments, mixing social, political and economic reasoning (Armstrong and Taylor 1993, quoted Martin 1999b, 216). At the core of the EU regional policy is the concept of regional development (Nanetti 1996, 60-61). Regional development is, according to the 1980s metaphor, “the tide which lifts all boats”, but doing so it maintains or increases disparities, which would not be in compliance with the goal of cohesion. What would be in compliance is the regional development, which translates into relatively high gains for the disadvantaged regions of the Union without halting or reversing the growth of the more developed regions (Ibid., 61). Since the first (Denmark, Republic of Ireland and the United Kingdom, 1973) and the “southern” (Greece 1981, Spain and Portugal 1986) enlargement of the EU, regional problems in the EU were intensified and the basic rationale for the development of the EU regional policy was established (Martin 1999a, 7-9; see also Nugent, 1999).

EU regional policy is a genuinely shared policy based on financial solidarity. It permits the transfer of over 35 per cent of the Union’s budget, which comes mainly from the richest member states, to the least favoured regions (Ott, Ban and Pecotić 2005, 17). The instruments of solidarity are the Structural Funds, informed by structural policy and the

main non-structural fund financial instrument Cohesion Fund,<sup>3</sup> which are intended to have a major impact on the competitiveness of the regions and to contribute to the improvements in the living conditions of their citizens, particularly in the poorer regions. Generally, the term regional policy is most prominent in this issue, but the terms structural policy and cohesion policy are used as synonyms where it is more accurate. Therefore, also in the current thesis mainly the term regional policy is used bearing in mind that European Regional Development Fund (ERDF), as the first most important basis of EU regional policy, has got probably the most of attention by researchers and the facilities of this fund are the most applicable to sub-national governments in Europe (see also Goldsmith 2003, 122) and probably as well in the new member state Estonia. In 1975 the Structural Funds accounted for less than 5 per cent of the EU spending. As regional policy has been viewed as necessary in the EU to sustain further economic and political integration that could be hindered by wide regional disparities, the EU has devoted an increasing share of its budget to this policy, which today amounts to more than one third of its overall budget (EC 2001).

There have been subsequent reforms of the Structural Funds (in 1988, 1992-93 and 1998-99) out of which 1988-89 is especially important because EU regional policy “*owes most of its distinctive features to the major reform . . . which took place in 1989*” in particular through the four principles of programming, concentration, additionality and partnership (Bailey and De Propris 2002a, 409). It is generally agreed that within the EU, the joint programming and implementation of the “partnership” principle have empowered sub-national actors and social partners in network-creation and institution building (Getimis 2003, 78). Moreover, according to several assessments EU regional policy is considered to have been effective in achieving its primary goal of promoting economic convergence and fostering changes in territorial relationships in the member states, as well as by enhancing the role of sub-national governments in the decision-making process and at the same time limiting the central power in planning and implementation of regional aid (Baun 2002, 262; Cappelen et al. 2003, Hooghe 1996). At the same time the EU regional policy has faced doubts and heavy critics. De Rynk and McAleavey (2001, 541) claim that: „*The Structural*

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<sup>3</sup> The term cohesion policy came into use after the Single European Act of 1987 to describe a range of Community measures, including structural policy, aimed at reducing regional and social disparities. Cohesion Fund was introduced in 1993. This had a strong regional dimension, but was not subject to the structural policy agreements that governed the operation of the Structural Funds. (Bache 1998, 12)

*Funds of the European Union have proved to be blunt policy instruments in serving their stated purpose of enhancing both economic and social cohesion. Cohesion policy is embedded in a context of intergovernmental bargaining on budgetary allocations which structures the core of the policy around the yardstick of GDP per capita. This complicates the targeting of the funds on real deprivation. Moreover, a pork barrel logic in policy implementation favours better organised and advantaged groups within regions. This situation, as well as the growing saliency of inequality issues at EU level, have raised concern with the question of “who benefits?” from cohesion policy.”* Therefore, they doubt in the effectiveness of the EU regional policy facilities – mainly Structural Funds’ - in terms of reducing regional disparities among the European regions and member states. They also follow the critics that even though one goal of the EU regional policy is to foster and enhance the power of sub-national level in the regional policy decision-making process, this purpose has not been achieved.

Also other authors have indicated that despite large regional policy expenditures, regional disparities in Europe have not narrowed substantially over the last two decades and by some measures have even widened (Allen 2000, 245; Bailey and De Propris 2002a; Borrás 1998; De Rynck and McAleavey 2001; Pamfil 2003, 11; Rodríguez-Pose and Fratesi 2004; Thielemann 2002). Besides, many also indicate that the EU regional policy has not yet led to a significant empowerment of regional actors or the decentralisation of government, and in most cases this is because national governments have sought to maintain their dominance and exercise a gate-keeper function with the respect to the EU policy and Commission-region relations (Bailey and De Propris 2002a; Baun 2002, 263). The following section will analyse the relevance of “partnership” principle in the EU regional policy implementation in more detail, as well as stress the importance of involving local government level to the regional policy decision-making process in Estonia.

## **2.2 The relevance of “partnership” principle in the European Union regional policy**

The EU regional policy is considered to be at the leading edge of the term “multilevel governance” (MLG) in which supranational, national, regional, and local governments are enmeshed in territorially overarching policy networks (Bache 1998, 23, 1999, 35). In order to explain the importance and background of the current thesis and empirical study, the

concept of MLG should be explored more. Gary Marks has suggested that the 1988 reform of the Structural Funds was a strong evidence of what he described as the emergence of MLG (Bache 1998, 143). It was claimed that “*structural policy has provided sub-national governments and the Commission with new political resources and opportunities in an emerging multilevel policy arena*” (Ibid.,144). The concept of MLG states that interaction between actors at the supranational, national and sub-national levels is important for European policy-making and for the direction of the process of European integration. National governments remain important, but they no longer have a monopoly in the European politics, nor are they the gate-keepers for other national political actors who try to move directly into the Brussels arena (Ansell, Parsons and Darden 1997; Featherstone 2003; Hooghe 1996; Marks 1996; Marks, Hooghe and Blank 1996). Policy is drawn up in a co-operation process between different layers. In this process the sub-national layer is becoming more and more visible and local authorities have started to realise that they can also lobby for EU Structural Funds (de Rooij 2002, 448; see also Hooghe 1996, 14; John 2000).

The concept of MLG originates from the “partnership” principle, which was introduced with the 1988 Structural Funds reform (Bauer 2002). The partnership principle was an attempt to make regional policy more effective by formally involving the sub-national actors most familiar with the problems and priorities of targeted regions (Ibid.; Héritier 2001, 6). The relevant Community Regulation is indicative in that respect: *Community actions (...) shall be drawn up in close consultation herein after referred to as the “partnership”, between the Commission and the Member State, together with the authorities and bodies designated by the Member State within the framework of its national rules and current practices, namely: the regional and local authorities and other competent public authorities, the economic and social partners, any other relevant competent bodies within this framework*” (European Council 1260/1999; Getimis 2003, 78). Therefore, the partnership principle meant that the EU regional policy, for the first time, would be a policy not just for the regions, but also by the regions, meaning that the member states should provide for involving the sub-national governments in the EU regional policy decision-making process (see also Armstrong 2001, 404-405; Bache 1998, 75; Bailey and De Propriis 2002b).

Even though the EU regional policy is therefore obviously the most important EU policy for the sub-national governments, it has still been found that the EU has had a very limited influence on the implementation of the principle of partnership and the member states have been keen on insisting that national territorial structures are in their competence and the Commission should have no influence there. It has been claimed that central governments have remained reluctant to truly involve sub-national governments in the regional policy decision-making (Kungla 2002, 11). Also the Commission has repeatedly complained about its lack of power in regional policy in the member states and criticised the weak partnership between central and sub-national authorities in the operation of Structural Funds (Hooghe and Marks 2001, quoted Hughes, Sasse and Gordon 2003, 11). The problems of implementing the partnership principle may arise as it is up to the member states to decide exactly how the involvement of sub-national actors is provided for (Bollen 2000, 55; Kungla 2002, 19). Moreover, as the member states have considerable leeway in how and to what extent they do it, there are no clear-cut rules to verify whether the member states truly involve sub-national governments or not. This situation is due to the quite loose regulations for implementing the EU regional policy at member state level. The EU law, regulations and guidelines are sparse on the institutional requirements for the implementation of regional policy (Hughes, Sasse and Gordon 2003, 13). Consequently, the *acquis* is extremely thin in this policy domain, and in some respects very vague. For example, Council Regulation laying down general provisions on the Structural Funds states: *“In application of the principle of subsidiarity, the implementation of assistance shall be the responsibility of the member states, at the appropriate territorial level according to the arrangements specific to each Member State, and without prejudice to the powers vested in the Commission, notably for implementing the general budget of the European Communities”* (European Council 1260/1999, art. 8). This regulation clarifies that there is no legal stipulation as to a particular institutional or other policy model(s) of regionalisation in the EU. Therefore, though the EU regional policy is closely tied to the dispersion of Structural Funds, the implementation procedures for Structural Funds are not universalised; rather they vary according to the institutional arrangements for regional and local governance in each member state (see also Hughes, Sasse and Gordon 2002, 4; Goldsmith and Klausen 1997, 6). Even though the early MLG literature where the “weakening-the-state” argument was most advanced, many studies no longer claim that European integration equally strengthens the role of sub-national authorities in European

politics, giving rise to homogenous regional and local level of governance in Europe (Börzel 1999, 576, 2001, 139). The member states are highly diverse in their patterns of regional and local governance and it is acknowledged that regions diverge in their capacity to employ the resources offered by the European policy making system (Ibid.). The diversity of regional and local governance has evolved largely on the basis of country-specific historical path dependencies and the interaction of the European, national, regional and local politics. Therefore, also the implementation of the partnership principle in each member state, however, depends on the institutional and structural edifice, central-local relations and state-society relations, local/regional embeddedness, social capital and the political culture in each country (Getimis 2003, 78). Regional policy and the dispersion of regional funds per se, therefore, may not necessarily connect regional elites and networks either with each other or with EU institutions (see also Hughes, Sasse and Gordon 2003; Sasse 2003).

### ***2.2.1 “Partnership” principle in Estonia***

Bailey and De Propris (2002b) investigated the relevance of MLG in the light of the EU latest expansion and they mark that situation in CEEC is still far from the essence of this concept. New member states have had to change their structures and institutions during a quite short period of time according to the requirements of the EU, although it is clear that this process cannot happen at the same time effectively and quickly, which causes still some problems in the new member states. This seems to be the case for Estonia as well. Regional policy is expected to involve national, county<sup>4</sup> and local governments (Bailey and De Propris 2002b, 315). In fact, generally municipalities are not involved in local economic development. Estonia has adopted a relatively centralised arrangement of regional policy, with the Ministry of Finance playing the key role in co-ordinating and managing the regional funds (Kettunen and Kungla 2005, 374-375). Therefore, the government seems to have adopted the requirements of the EU regional policy with no significant changes in territorial governance. Moreover, the EU arguments have been used to promote some reforms that have contributed to the centralisation rather than decentralisation and local

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<sup>4</sup> County governors are responsible for the local level implementation of a range of central government policies, including aspects of regional development policy (Bureau of Minister of Regional Affairs of the Republic of Estonia).

governments do not enjoy privileged access to the central government decision-making (Ibid.). In new member states like Estonia this evidence can be also due to the fact that pre-structural funds were directed more at central levels (see also Oppi and Moora 2004, 8) and therefore in implementing the EU regional policy on the domestic level, much of emphasis has been laid on raising the institutional capability of state institutions rather than achieving those same objectives on regional and local levels. Furthermore, this may relate to relatively weak administrative capacity of the Estonian local governments to absorb the Structural Funds as discussed later in this paper, since Oppi and Moora (2004, 12) claim that the pre-accession programs were mainly targeted to the national level, not for the regional development. Even if the programs were opened to the local governments, they had to compete with non-governmental organisations and other regional institutions. It has caused the situation, when most of the municipalities have no experience and skills to apply for European assistance (Ibid.).

In spite of the quite centralised decision-making process in planning regional development funds, the implementation of partnership principle in Estonia seems to work formally. The delivery of Structural Funds assistance is implemented through multi-annual programs and key to the development of each program is the drawing up of a Single Programming Document (SPD).<sup>5</sup> The role of the regional and local partners in the SPD is important since these partners are the ones with the local knowledge and expertise needed for effective planning (Armstrong 2001, 404). Generally, involving necessary interest groups to the decision-making process is not compulsory according to Estonian laws, except some exceptions from specific fields (Lepa et al. 2004, 73). It has been stated that the general Structural Fund regulation adopted by the Commission, which states that social partners need to be involved into planning and composition of SPD (European Council 1260/1999), has introduced this principle more to the Estonian government (Lepa et al. 2004, 73). In

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<sup>5</sup> Planning EU Structural Funds support for the financing period 2007-2013 is organised in parallel with planning of the Estonian National Budget Strategy, enabling to design EU support together with Estonian national grant schemes. Estonia will incorporate specific operational programs of different sector policies to this planning process of the Structural Funds distribution (see “National Strategic Reference Framework 2007-2013” Draft). These operational programs will determine the exact eligible actions and the amounts of funding from Structural Funds for the period 2007-2013.

spite of that, the process can be criticised and even now, when Estonia is preparing “National Strategic Reference Framework 2007-2013” and the importance of involvement of sub-national structures is highlighted again, this seems to be more formal than the actual procedure (meetings in Jõgeva County 22.02.2006; Lääne-Viru County 13.12.2005; Pärnu County 08.02.2006; see also <http://www.strukturifondid.ee/?id=3979>). Very many local authorities are still worried that their actual needs will not be considered in the decision-making process. The visits to different counties in Estonia organised by the Ministry of Finance (<http://www.strukturifondid.ee/?id=3979>) showed that actually in every county there were concerns that local authorities will not be included in the planning process of the new framework program. In every county the problem was emphasised for several times, mainly claiming that actually regions/counties are not included to the decision-making process, that their strategies are not accepted and that there is a lack of information about the whole process. Also the concern that the state is still accepting just national projects upon local needs was highlighted several times (see also Karnau 2006).

In the light of MLG and “partnership” principle discussion the other side of the weak involvement of the local governments in Estonia should be highlighted. As also indicated by the Estonian national government representatives (Mändmets 11.10. 2005; Ristkok 11.10.2005), even though this kind of involvement is more than needed, one problem is that Estonian local authorities are not very active themselves. This can also be seen from the number of respondents to the empirical study (84 out of 241) as only one third of the local authorities managed to answer the questionnaire, even though the purpose and value added of this study was explained to them for several times. At the additional meetings with the heads of the municipalities (Jõgeva County 22.02.2006; Lääne-Viru County 13.12.2006; Pärnu County 08.02.2006), only local governments, whose governors were active in the associations of local authorities<sup>6</sup> were more informed. This leads to the next problems

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<sup>6</sup> Since 1994 there are three national associations of local authorities in Estonia - the Association of Estonian Cities, the Association of Estonian Rural Municipalities and the Union of Estonian Local Authorities Associations. There are also Associations of Local Authorities in every county which main tasks are contributing to the general development of the local governments, representing the members of the association and defending their common interests, enforcing the co-operation between members and creating better conditions for implementing tasks that are made compulsory for the local governments by law. (see also Ainsoo et al. 284-285; Tönnisson 2004, 6; Ministry of Interior of the Republic of Estonia)

related to the capacity and performance of the Estonian local governments – factors like the lack of qualified personnel, information and other resources. Current study therefore also shows that even though Estonia has 227 local governments (33 towns and 194 municipalities) who should by law (Local Government Organisation Act 1993) organise development activities on the local level and who are according to the subsidiarity principle the most well informed about the real regional development needs on the local level, they just do not have enough knowledge, activeness and resources, also decision-making power and participation in the national regional policy decision-making in order to make use of the EU Structural Funds as the most important component of regional policy. Therefore, Estonian municipalities are still too dependent on central government decisions (see also Hirmo 2003; Kungla 1999, 2002; Tõnnisson 2004, 2006; Õunapuu 2005, 2006). Although sustainable development should be one of the key terms in implementing Structural Funds, it cannot be successful without the involvement of local levels. On the other side, only regions with strong identities and capable institutions can successfully pursue regional sustainable development (Berger and Narodoslowsky 2004, 7). As can be seen from the empirical study and analysis below, the Estonian local government level still faces huge absorption problems, and when planning measures for regional development with the help of Structural Funds, one should seriously consider this fact and find the ways how to improve the absorption capacity of local government level. Therefore, the importance of the current study in the light of MLG and partnership principle can also be highlighted.

### **2.3 The impact of the European Union regional policy on member state level**

The process of regional policy in the EU member states has been strongly driven by the EU (Bachtler and Downes 1999, 794; see also Temple 1994, 3-4; Thielemann 2002, 45). Generally, Structural Funds have become an important facilitator for regional sustainable development throughout the EU (Baun 2002, 262; Berger and Narodoslowsky 2004, 4) and regional incentives are provided not only on the European level, but also by most member states. In fact, Structural Funds are still the most important regional policy instruments at member state level (Martin 1999a, 101). The latter argument is evident in the development of the Estonian regional policy as well. Regional policy played a minor role in Estonia during the Soviet period. There existed regional policy in the Soviet Union, but funds were

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not allocated on the basis of economic discrepancies; rather the main resources were targeted into new production areas (Jauhiainen and Ristkok 2003). This legacy influenced the development of regional policy in the first half of the 1990s when clear priority was given to economic policy, and regional policy remained underdeveloped and weakly institutionalised prior to the EU accession negotiations. Coherent approaches to regional development, as well as necessary institutional framework, were developed only in the second half of the 1990s, i.e. parallel to the accession negotiations with the EU (Kettunen and Kungla 2005, 365). After the accession co-financing from the Structural Funds became available for Estonia and regional policy has been triggered mainly through these financial aids.<sup>7</sup> This tendency can be explained in the light of the EU regional policy. For example, OECD has interpreted this as *“the strong expansion of the EU’s regional development policy, which has replaced many national regional development programs, has guided the evolution of regional policy in Europe and has had a strong influence on the instruments used.”* (OECD 2003, 6). Therefore, the particular character of the European Union regional policy as it has evolved over the four decades, has left its mark not only on the governance at the European level but on the domestic regional politics and policy as well (Thielemann 2002, 44; see also Davey 2003, 154).

Besides the impact on member states’ national regional policy, accession to EU has also influenced strongly the administrative capacity of the member states’ public administrations. For example, the capacity to implement and enforce the *acquis* means that the EU is concerned with the entire judicial system; the need to administer the EU regional aid means that the conditions include among others the creation of administrative (and possibly political) units of sub-national government (Grabbe 2001, 1015, 2003, 304). The EU has therefore had a significant impact on all member state institutional structures. Like also stated in Drechsler’s study (2003, 15) the increase of “administrative capacity”, that is, public administration reforms geared towards high quality, have been in CEEC primarily EU-driven. It may well be that this administrative capacity of the CEEC vis-à-vis EU requirements is still highly deficient, but to the extent that CEEC public administration looks as good as it does, this is overwhelmingly due to the EU trajectory (Ibid.). Thus,

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<sup>7</sup> Estonia has also separated facilities to regional development programs from the national budget. Currently there are seven national regional development programs (for further information see [www.eas.ee](http://www.eas.ee)).

probably EU regional policy and access to the Structural Funds have influenced the shape of regional policy in Estonia, and it has been an important driver for better and more capable institutions at every level of the state. This is also an important factor in assessing absorption capacity of Structural Funds in the country. However, most probably the capacity of sub-national level has been less positively influenced by the EU than the central government level, as may be seen from the further discussion.

### **3. LOCAL GOVERNMENTS AND REGIONAL POLICY IN ESTONIA**

#### **3.1 Local governments in the administrative system of Estonia**

In accordance with the general principles of local government laid down in the Constitution of the Republic of Estonia (Art. 154 section 1 and Art. 155 section 1) there are 33 cities and 194 rural municipalities in the local government system of Estonia (Ministry of the Interior of the Republic of Estonia). Estonia has a long tradition of a strong local government. Even before an independent Republic of Estonia was established in 1918, the country had a functioning system of local administration (Wrobel 2003, 278). Notwithstanding, Estonian local governments have faced several changes and walked a long way throughout the transition period. After the occupation by the USSR, the Soviet administration's principles of overall centralisation effectively eliminated self-government on the local level. During the 50 years under the Soviet occupation, the communist regime transformed the Estonian public sector, where local governments were directly under the control of the central administration, more precisely under the control of the Communist Party (Tönnisson 2006, 9). After regaining its independence, Estonia had to transform itself very quickly from an occupied soviet republic to an independent European state. It meant transition from the communist past, systems and structures towards the market economy principles and liberal democracy (Ibid.). At the end of the 1980s, conceptual work to establish the basic principles of Estonian local government started. The local level was the first one to be changed and transformed according to the democratic principles (Ibid.). In November 1989, democratic local government was introduced in Estonia as the outcome of the first political reform (Kettunen and Kungla 2005, 361).

After years of reforming the basis and principles of local self-governments, a one-tier local government system was introduced in 1994. According to this the cities and rural municipalities are community based administrative units, which form the first layer of the administrative system in Estonia. The second layer is the central government, the state. Besides the 227 local governments Estonia is also divided into 15 counties, governed by county governors. Although 15 counties can be seen as regional governance units, they cannot be seen as administrative levels: as by law they are parts of the central government which are financed directly from the state budget and are subordinated to the central government. They are no autonomous administrative units but extensions of the central

government at regional level. (Ainsoo et al. 2002, 279; Mäeltseemes 2000, 64; Oppi and Moora 2004, 5)

The 227 local governments in Estonia vary to great extent in their size, economical indicators and ability to fulfil their functions. In principle, most of the revenues of a local government should come from the personal income tax paid by the inhabitants of the local government. At the same time most of the local governments are small or even very small (mainly by population). But they all have to carry out the same tasks as provided by the law. At the same time local governments also face severe difficulties in getting financial tools from the central government for being able to carry out required activities imposed on them by the state and stated in laws and other legal acts. Therefore, the lack of finances and financial dependency on the state is currently one of the major problems that Estonian municipalities are facing (Tönnisson 2006, 12). Moreover, though according to the Estonian legislation, the state budget and local governments' budgets are separated and local authorities have their own independent budget, the central level is keeping considerable control over local governments' finances and while Estonia is a country with large regional income disparities it is also with relatively high fiscal centralism - the highest in the Baltic states (Wrobel 2003, 277).

Besides financial capacity problems, there exists another central problem in the Estonian municipalities, which can directly be related also to the absorption capacity of Structural Funds – low administrative capacity. Despite Estonia has been seen as one of the most successful transition countries in the former Soviet and CEE region that joined the EU in May 2004, in terms of macro-level reforms regarding the creation of a liberal market economy and democratic institutions, the transformation of the public administration has not been that remarkable, however (Lember 2004, 428). The problems with the administrative capacity of the Estonian governmental sector have been acknowledged in the context of solving domestic policy problems as well in the joining process with the EU (Ibid.; see also Verheijen 2000). This is also due to the limited human capacity of the small country (Randma 2001a, 2001b) as in small systems, it is vital to be able to use all the available skills, since the pool of human skills is limited (Bray and Packer 1991, quoted Randma 2001b, 380). There is also a lack of qualified personnel – the “old-school” civil servants carry the values of the Soviet culture and the new servants do not have the

necessary experience of how bureaucracy works (Verheijen 2000, quoted Lember 2004, 428). Local governments do not often have enough skills and knowledge to develop strategies for the best possible usage of the resources today and to improve the existing state of affairs (Tõnnisson 2006, 12). It has led to the situation where most municipalities deal with their own everyday problems, having no interest and resources to deal either with their long-term plans or Estonian public administration development in general. However, societal broad-scale developments presuppose a strong and functioning central level as well as local governments which do not exist yet. (Ibid.)

It can be assumed that the actual ability of local governments to fulfil their tasks and to contribute to the local development varies to a great extent. Therefore, there have been several attempts to tackle the efficiency problems of the fragmented local government system by reducing the number of local government units. Nevertheless, thus far all such proposals to drastically reduce the number of local government units have been watered down largely because of the central government politicians' fears of losing support in the localities concerned and the overall complexity of the issue (Kettunen and Kungla 2005, 363). As will be seen afterwards, reducing the number of authorities may actually not be the best solution for fighting with the local governments' absorption capacity problems.

### **3.2 Regional policy in Estonia**

Regional policy is not totally new to the CEEC as well as to Estonia among them. Before transition, regional policy was characterised by central decisions that generally affected regions according to the national industrialisation plans (Szemplér 2000, 34). The methods of such regional policy were direct; local initiatives had very little opportunity to influence central decisions, which often were made based on political considerations. Such regional policy was not able to address successfully the already existing dual challenge of development (overall underdevelopment versus regional disparities) (Ibid.). The current regional policy in Estonia have been affected by the EU as discussed above and regional policy in Estonia is defined as purposeful action by the state authorities in order to improve development preconditions of the regions and directing the state's regional development. The short-term objective of the policy is the balancing of regional development of the state through the strengthening and maximum use of the local preconditions for development,

which will contribute to the general macroeconomic and social development of the state. On behalf of the Estonian complete and balanced regional development, the concurrent objective is to restrain the convergence of population and economic activities into the capital region. (Estonian Regional Strategy 2005-2015; Ruubel 2002, 65-66)

Quite comprehensive overview of the development and chronology of the Estonian regional policy is given by Brusis (2002), who analysed several EU candidate states in 2000, Janikson and Kliimask (1999) and Ristkok (2003). It should be mentioned that the regional policy model in Estonia described approximately three to six years ago in these works has not changed remarkably. The Estonian government adopted regional policy concepts already in 1990 and recently steps to codify their institutional arrangements in the law have been taken. Importance of the law has also been pointed out by several experts, who have indicated that without the law regional differences among Estonian municipalities will not be reduced very soon in the future (Kokovkin 14.02.2006; see also Brusis 2002, 7). According to Karnau (Postimees 04.04.2006) the first attempts to accept regional development law has been made and the draft of the law has been published. According to this draft, county governors, for instance, have to compose strategic plan and financing project for the whole county. All state agencies and state budget composers have to consider these plans when planning measures for regional development either from the national or EU budget. According to the Minister of Regional Affairs – Jaan Õunapuu - this law is an attempt to enhance regional policy in Estonia, which has not been successful in the previous years. He claims that in spite of the implementation of the Estonian Regional Strategy 2005, regional disparities between counties have increased and this is exactly due to the insufficient participation on regional and local levels in planning the distribution of investment money, as was also indicated in the previous discussion of this paper.

Nevertheless, in the concepts of regional development and regional policy the central importance lies in the term “region”. For the EU regional policy purposes regions refer to national or sub-national administrative areas. This symptom is known as Nomenclature of Territorial Statistical Units (NUTS). The NUTS system was established by Eurostat more than 25 years ago in order to provide a single uniform breakdown of territorial units for the production of regional statistics for the EU (Introduction to the NUTS and the Statistical regions of Europe; see also Jeffery 2001, 156; Martin 1999a, 9, 1999b, 210). According to

NUTS evaluation Estonia as a whole belongs to the NUTS II classification, meaning that Estonia is eligible for objective 1 assistance from the Structural Funds (Baun 2002, 272; List of NUTS regions). The decision to treat Estonia as a single NUTS II entity seems to be reasonable due to the very small size of the country. According to the Estonian Regional Strategy, the country's municipalities are too small and the counties too heterogeneous in order to explore developments among different regions/entities. Thus, Estonian regions cannot be treated according to the usual understanding in the EU. Estonia is located far away from the European core regions, it is very scarcely populated compared to other European regions (approximately four times less people per one square kilometre) and the decrease in the population and labour force is the quickest among the member states (Estonian Regional Strategy, 4). In spite of these huge differences compared to other regions in the EU, there are very remarkable regional disparities also between the Estonian regions, which are quite unusual compared to other EU regions of the same size. Bachtler and Downes (1999) examined regional development and policy in transition countries, including in Estonia. They state that in all the transition countries the major agglomeration and urban centres are leaders in the transformation process. Most prominent is the dominant role of the core and capital city regions, and indeed in Estonia, among some others, there is no centre which rivals the capital city. For example even now Tallinn has 43 per cent of all the registered enterprises, 71 per cent of foreign-owned private enterprises, 80-90% of all foreign capital, and 70 per cent of all foreign visitors to Estonia (see also Bachtler and Downes 1999, 794; Estonian Statistical Office; Ruubel 2002, 60). Therefore, regional policy is needed to facilitate regional development among the Estonian regions (mostly counties) and also one of the main priorities is to decrease disparities between the capital and other regions in Estonia. According to the study carried out for this paper, most of the responded local authorities were small (population of 1000-5000) and mainly from counties and Estonian regions, which are less developed and face more difficulties in regional development. Most of the respondents were from Põlva (71 per cent of the county) and Jõgeva County (62 per cent of the county), which belong to the less developed regions in Estonia (see figure 1 in Annex). Therefore, it can be concluded that the problems faced by these respondents are the most urgent ones in the regional development and give us a true picture of what are the main difficulties related to the absorption of Structural Funds on the sub-national level of the government in Estonia.

In sum, huge regional disparities in Estonia indicate a need for a strong and effective regional policy. In the light of the recent developments in this field, it can be assumed that regional development issues and the importance of local governments in this process will be addressed more intensively in the future. Also the experience with the EU possibilities increase and new ideas related to the effective participation and partnership in regional policy emerge, affected by the EU principles in regional policy as discussed before. However, it is still too early to make evaluations about the effectiveness of the Estonian regional policy supplemented by the EU Structural Funds. It can only be hoped that the main shortcomings with regional development measures in Estonia as well as arrangements in order to change regional policy more effective will be considered in the planning process of the new regional development measures.

### **3.3 Role of local governments in regional policy**

As stated by Bailey (1999, 5) the main role of a local government is to provide services in a way which properly reflects differences in local circumstances and local choice. Further on, at its broadest level, the creation of stronger local democratic institutions can be seen from of national capacity building and institutional strengthening, a necessary prerequisite of sustainable long-term economic development (Ibid., 6). One of the reasons for regionalisation and decentralisation in the EU in the first place was also the fact that nation-states often cut back their commitment to regional development policy and tried to offload the burdens of social and economic change downwards to the local authorities and/or regions. At the same time inter-territorial competition intensified. Regions and localities had to take on increasingly important functions in the fields of economic and employment policies. They tried to attract external resources as well as combine efforts and enhance the potential for growth and endogenous development (Bullmann 2001, 9). Another clear signal of the increasing importance of regional and local issues is the principle of subsidiarity, which was introduced by the Maastricht Treaty. Subsidiarity means that all decisions should be taken on the lowest possible level, where the requirements of optimal information are met best and where responsibility for decisions are most clearly defined (Szemplér 2000, 33). Moreover, some argue that in many instances, sub-national levels even are better suited to responding to the challenges of globalisation than the central government level (see also Jenei and Szalai 2002, 377) . The same is true concerning

European integration. The introduction of the Single European Market has had a considerable impact on the policy capacities of the EU member states. Because of the increased competition for qualified labour and capital, local and intermediate levels have gained additional salience as a decision-making space (see also Bauer 2002, 772; Hughes, Sasse and Gordon 2003, 11-12). Camiz (2003, 21) supplements that EU's interest to favour a partitioning into regions and strengthening the local levels provides both a more effective identity and better local policy, summarising advantages as: planning of economic development based on local needs and possibilities (economic efficiency, full utilisation of inherent resources and strengths); reduction of within region unbalance; maintenance and development of socio-cultural bases of local life and planning of both local environmental and infrastructures.

Therefore, the role of local governments in triggering regional development needs to be emphasised and also in the current paper the focus has been only on the local government level. It was argued before, that planning and composing regional development programs in Estonia has been quite centralised and the mobilisation of sub-national level has been rather formal. In Estonia, like in most of the unitary states in the EU (e.g. Greece, Ireland and France) national government seems to dominate the whole procedure: from the negotiation with the Commission to the programming and implementation of regional development plans and operational programs. However, local authorities play a crucial role in the regional development process. Local governments play a critical role in establishing an investment friendly environment in which private investors can expect a reasonable return of their investment and citizens can acquire a better quality of life through improved employment opportunities (see also Pamfil 2003, 73-74). As Estonian regions cannot be compared with traditional European regions (Estonia as a whole belongs to NUTS II level), therefore the importance of local governments in regional development process is relevant as well as their ability to absorb EU Structural Funds. In CEEC – LOGON project report (quoted Mäeltsemees 2001) it has been stated: *“Regional and local authorities must be convinced that regional and local levels will be the biggest beneficiaries after the accession to EU. This includes the preparation work for the accession which purpose is to ensure the best possible accession treaty and the membership as well as the membership, where the emphasis is on ensuring that implementing the EU regulations and requirements will bring benefits for the local and regional level.”* Also Estonian Minister of Regional Affairs - Jaan

Õunapuu - stated in his speech (2006) that local authorities in Estonia need to be actively involved into the planning process of the measures co-financed by the Structural Funds as already the European Charter of Local Self Government states that local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly (European Charter of Local Self Government, art. 4). In order to do so, the actual capacity of Estonian local governments to be equal partners in this process is important and also the preliminary study of the current experiences and problems in absorbing Structural Funds may be appropriate. Therefore, the following will give an overview and analysis of this matter.

## **4. ABSORPTION CAPACITY OF STRUCTURAL FUNDS AMONG ESTONIAN SUB-NATIONAL LEVEL**

### **4.1 Importance of “absorption capacity” at local government level**

According to John (quoted Zerbinati 2004, 1001), the main aspect of the EU that attracted the attention of local and regional governments was the possibility of accessing funds. Even where structural funding is awarded, the impact on the regional and local level often depends on the strength of regional and local government and its varying strategies and capacities (Bullmann 2001, 17). The basic principles of dealing with EU grants have been introduced already with the pre-accession instruments. The major idea of the Structural Funds is that they should co-finance national actions, on the basis of decisions taken by the EC. The need for co-financing is also a function of the absorptive capacity of the individual member states and the issue was very important before the last enlargement when the accession countries were from CEE and both with relatively weak regional and local level and administrative capacity. Therefore, Estonia being a candidate country to join the EU since 1997 was also under assessment together with the other nine candidate countries whether they meet the economic and political criteria to join the EU, can implement the *acquis* and establish the terms and conditions for the accession. The primary questions on the table of negotiations between the EC and Estonia were administrative capacity, regional policy and coordination of Structural Funds under the chapter 21 of the general *acquis* (Ruubel 2002, 7-8). Overall, this relates to the entire absorption capacity of the member state. Firstly, in the area of Structural Funds, the EC is not a simple subsidising authority. Grants are allocated to projects within the framework of a program, subject to specific conditions regarding the nature of expenditures eligible for a grant from a Structural Fund, the management of funds, and the ability to monitor operations and verify their execution (European Council 1260/1999). This means that the new member states have to have the ability to establish convincing programs, involving local and regional authorities as well as social and economic partners. Secondly, local/regional authorities and other eligible organisations should be able to submit projects which can benefit from a grant from a Structural Fund (Marcou 2002, 23). Therefore, not only the absorption capacity of the state's institutions is important, but also the capacity to apply for these funds from the local level needs to be considered.

As indicated above (see 2.3), the changes in the administrative capacity of CEEC public administration has been strongly EU driven, not to mention the importance of the member states' absorption capacity of Structural Funds in the EU regional policy. It has been identified that because of the EU integration, new opportunities have arisen for local government (de Rooij 2002; Zerbinati 2004) and in order to identify the impact of the EU on the municipalities is exactly the "absorption" of EU policy or EU funds which comes top-down from the EU to the municipalities. Zerbinati (2004, 1000) adds that some researchers named these changes "Europeanisation" but the phenomenon remains still underresearched, especially at local level. In recent years, a huge quantity of research focused on the role of sub-national governments in European affairs has indicated the existence of a process of Europeanisation within the nation-state (Bomberg and Peterson 1998; Goldsmith and Klausen 1997; Goldsmith and Sperling 1997; John 1996, 2000), although relatively few studies have gone on to investigate how European initiatives have affected sub-regional governance (see also Marshall 2004, 4). It also seems that throughout the accession negotiations the EC stressed the need for necessary structures and administrative capacity at the central government level and paid only lip service, if even that, to ensuring that sub-national levels become truly involved in Estonia. Although, it is not yet entirely clear how the decision-making functions in detail, the previous discussion in this paper shows that Estonia has adopted a centralised mechanism that fulfils at best the minimal requirements of the principle of partnership. The central government ministries, especially the Ministry of Finance, clearly dominate all phases of the regional policy decision-making, assigning local and regional actors only a subordinate role (Kettunen and Kungla 2005, 367). The latter also relates the implementation of the EU "partnership" principle to overall absorption capacity of local governments. Although the partnership principle requires stronger involvement of sub-national authorities, in many cases this can be restricted also due to the weak administrative and also financial capacity of local levels, as seems to be the case for Estonia as well (see also Hughes, Sasse and Gordon 2001, 30). If local governments became more powerful, then this power shift might also foster participation on the local level (Tönnesson 2006, 22). Empowering local actors and increasing participation is often a precondition for following and implementing EU principles required for partnerships on the local level (Ibid.).

Quaisser and Woodward (quoted Backe 2002, 154) call for further action in several areas to increase absorptive capacities of new member states, namely to define the role of regions more clearly to further strengthen human capital formation and the adjustment to the EU's planning and management requirements, to improve the quality of political decision-making processes and to make further progress in fighting corruption. Hallet (Ibid.) in turn stresses that absorption problems can arise due to macroeconomic, administrative and budgetary problems. Pamfil (2003, 49) adds that therefore three variables are relevant for analysis: the statutory, functional and financial dependence of local authorities. Estonian public sector's low administrative capacity and also strong regional problems are not very surprising and can assumingly be explained by the Soviet heritage and many changes in administrative systems during the transition process. Local governments do not have their financial independence from the state, their role and tasks in the society are still unclear and the division of the tasks between the state and the municipalities varies among concrete cases (Kriz, Paulus and Staehr 2004; Tönnisson 2004, 2006; Wrobel 2003). Even though the statutory independence of local governments seems to be there (Estonian Constitution, European Charter of Local Self Government, Local Government Organisation Act) the right and capacity to fulfil certain tasks may conflict conditioning the need to centralise implementing certain obligations as it was happening in Estonia after transition to one-tier local government system (Ulst 2000), therefore, the functional and financial dependence on the state is still very strong (see also Kriz, Paulus and Staehr 2004; Kriz 2006).

#### **4.2 Administrative absorption capacity of Estonian local governments**

Administrative capacity can be defined as the ability and skill of central, regional and local authorities to prepare suitable plans, programs and projects in due time, to decide on programs and projects, to arrange the co-ordination among principal partners, to cope with the administrative and reporting requirements, and to finance and supervise implementation properly, avoiding irregularities as far as possible (Horvat 2004, 7; Šumpíková, Pavel and Klazar 2004, 2).

The question of administrative capacity regarding the use of Structural Funds in new member states emerged when these countries revealed differences in their use of pre-accession instruments, especially the Phare funds (EC 2003; Martens 2001). In the context

of the EU regional policy but also other EU policies, the Commission has been insisting that the candidate countries should have the “administrative capacity” necessary for implementation (Arnsward 2000, 55-60). Not surprisingly so, because the EU is dependent on the member states regarding the implementation of its policies as was discussed previously. The EU does not have its own administrative apparatus to implement its policies; it has to rely on the member states and sub-national governments in particular to implement the EU policies. Apart from that, the regions and localities in CEEC became the main beneficiaries of the Structural Funds and now have to spend considerable amounts of the EU money. Thus, there are obvious reasons why the EU has been emphasising that the new member states should demonstrate that they have the administrative capacity to implement its policies (Kungla 2002, 20).

#### ***4.2.1 Human resources and organisational adaptation***

A key objective of the 1988 reform of the Structural Funds was to secure partnership between the local, regional and national and Community levels through decentralised administration of the funds. In practice, administration of the funds within countries has been determined primarily by existing structures and responsibilities, so that there was considerable variation between member states. The main problem is that regions and regional authorities vary widely across the Community. Some local authorities, notably in objective 1 member states, have admitted privately that the implementation of Structural Fund policies required skills and competencies that exceeded their resources. Furthermore, the financial situation of such regions was often such that they could not compete with the private sector to attract staff with the requisite skills and technical expertise. (Wishlade 1996, 44-45) The case seems to have support among the Estonian local level as well. Estonia is a small state with a small pool of specialist-knowledge and therefore there is frequently the lack of resources for the qualitative development activities in the municipalities – in the sense of financial, time and human resources (see also Saarniit 2005, 2; Viks 2002, 19).<sup>8</sup> While (re-)creating local government, population has migrated from rural areas to towns and to the Tallinn area, which hurts municipalities’ tax basis as the main revenue source (Raus and Trasberg 2000, quoted Wrobel 2003, 282). Many rural

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<sup>8</sup> For a thorough discussion of Estonia as a small state and its influence on public service performance see: Randma 2001b and Randma-Liiv 2002.

municipalities and smaller towns therefore have difficulties in finding officials (Ibid.). The empirical study conducted for this paper shows that among the respondents the systematic development process in the municipalities is missing especially due to the lack of human resources. 44 per cent of the respondents had to admit that they do not have competent staff to work with the EU issues, development activities and applying for funds (figure 2 in Annex). Managing successful projects also has to be done from the side of everyday work which in turn means heavy workload for the people as well as sporadically poor quality preparations of applications and many problems in managing those projects afterwards. 30 per cent of the respondents admitted that they have established a position in the organisational structure for dealing with EU matters but in spite of that very many services related to specific preparations (e.g. feasibility studies, construction projects etc.) have still been outsourced due to the lack of specialist skills. Therefore, it seems to be true that the ability to recruit and retain highly educated people is a serious problem among Estonian municipalities (see also Arnswald 2000, 58). The ability to employ qualified people depends on the attractiveness of the local government as an employer (Šumpíková, Pavel and Klazar 2004, 4). Narrow specialists in Estonia are rare, they are difficult to recruit and retrain and increasingly tasks which require narrow specialist skills are outsourced (Randma 2001a, 45). Also 50 per cent of the respondents of the empirical study indicated that now and then they have to outsource the preparation of projects in order to apply for Structural Funds money or implement the accountancy of funded projects afterwards.

The lack of qualified people in very many municipalities in Estonia is directly related to the low administrative capacity in absorbing Structural Funds. This also puts an overwhelming emphasis on certain capable persons in the municipalities. Research conducted by the Estonian Ministry of Internal Affairs together with the University of Tartu (Evaluating the effectiveness of regional development projects, 2001), indicated also, that frequently the sequence of development activities in the local governments is dependent on some certain person and huge problems may arise when this person is leaving from the job. Raagmaa (2001) studied the role of public leaders in regional economic development from a community-building point of view and claimed that when public and civic structures are weak, then the leader's role in defining goals, raising popular activity as a paragon, initiating activities via organisation and raising funds will be crucial. Therefore, in certain cases, due to the lack of single active and enthusiastic leader-type persons in the

municipality, several funding possibilities from the Structural Funds may be left unused. According to the empirical study, at the current moment just 11 per cent of the respondents had created the position in the organisation, which main task was initiating development projects and preparing them for funding as well as managing projects afterwards (figure 2 in Annex). From the meetings with the heads of the municipalities from Jõgeva County (22.02.2006) appeared that frequently all the work is on the shoulders of one person (mainly the head of the municipality or special project manager) and in case of his/her leave, the opinion was mostly that this will seriously halter the development activities related to Structural Funds in the municipality. In some cases (Jõgeva County 22.02.2006; Pärnu County 08.02.2006) active non-governmental organisations representatives had been triggers for almost all the Structural Funds and other regional development projects without even being financially rewarded for their efforts, letting to assume that the role of “leaders” remains relevant in economic peripheries.

The fact that the Estonian municipalities face very huge problems with the lack of (qualified) human resources is also strongly related to the financial absorption capacity, as one of the most important reason behind this is the lack of appropriate financial resources (besides the lack of appropriate persons). It is not possible to hire a competent person with the financial possibilities the municipalities have – good people ask more money and if they do not see challenges for personal development and self-affirmation, they start to seek these possibilities from the bigger city centres (see also Ulst 2000, Wrobel 2003). In smaller municipalities, where the need to apply for funds may be short-time and chaotic, the decision to hire a full-time person may even not be the best solution. As is stated by Randma (2001a, 46), small states need most of the basic types of specialist personnel required in large states, but they need them in smaller numbers. On one hand, a small number of people have to cope with a large number of tasks. On the other hand, a specialist area can be so narrow that it is not enough for a full time job (Ibid.). The solution can be project based employees or consultants, who are competent and with necessary experiences and who have skills to apply for the EU funds’ money.

The same tendency came out from the study conducted by Zerbinati (2004, 1006) in England and Italy. In English cases most of the studied local governments had employed a new type of professional manager, who had expertise in the EU funding (a clear

understanding of the rules). These managers had usually run an EU office and supervised a team dedicated to improving the absorption and use of the EU funding in the local area. The Italian local councils, instead, since they were smaller in size, relied on training the existing staff and employing professionals on a consultancy basis. There was no clear understanding of the rules of applying for EU funds and the managers often referred to an element of “luck” in justifying their successful bids. Also a research done in Czech in order to explore Czech capacity to absorb the EU Structural Funds found that regarding to the municipalities, there was significant distinction between the approach of small municipalities and big cities (Šumpíková, Pavel and Klazar 2004, 10). While big cities have often highly experienced staff, the small municipalities rely on the external consultancy (Ibid.). This seems to be also so in Estonia, as additional meetings with the heads of the municipalities (Jõgeva County 22.02.2006; Lääne-Viru County 13.12.2005; Pärnu County 08.02.2006; Tartu City 01.03.2006) indicated that those in the cities and bigger municipalities have units in their organisational structures, which every day are dealing with the development projects and are competent in the EU funding process. In some cases the units were developed, but mainly the local government was focused in using consultants as professionals in preparing applications and later project management and the unit was mainly co-ordinating this work from the side of the municipality. Vice versa, smaller and more peripheral municipalities indicated, that the head of the local government or some other active person has to do everything; from planning to implementation of projects which means that often he or she even writes the applications. Consultants cannot be used because of the lack of resources and units cannot be created for the same reasons. Like is seen from the figure 2 in Annex, only 11 per cent of the respondents among Estonian local authorities have used consultancy in order to solve the problem with the lack of human resources. When the Ministry of Finance was visiting counties in Estonia in autumn 2005 in order to find out the main problems and experiences with applying for the Structural Funds at regional and local levels, the same problems arose by the representatives of counties and local governments as in the current paper (see also <http://www.struktuurifondid.ee/?id=3979>). Very many municipalities are not able to hire consultants but the good quality of applications is currently the main competition factor when evaluating bids for the Structural Funds money and in many instances it has been the case that good projects without strong form and quality do not get funding, but well formed applications of municipalities who are not necessarily in need of urgent help, ultimately receive the money

(<http://www.struktuurifondid.ee/?id=3979>). Oppi and Moora (2004) who investigated the EU regional policy in Estonia in the light of pre-accession assistance also indicated that the decision-making procedure focuses mainly on the writing quality of the applications and decision-makers clearly lack the administrative capacity to evaluate the real need for assistance. The formal congruity is over-valued and the real situation in applicant local government is under-valued. Although, the current study is still a very vague proof of the critical appraisals expressed e.g. by Bouvet (2) who found that even though funds are distributed according to the objectives set by the EC, aid mainly flows to regions with lower incomes per capita, higher unemployment rates and larger agricultural sectors, the main national recipients in each country are not always the regions with the least favourable economic conditions (see also Glen 2000, 16). It, however, indicates that this consideration may partly be true in Estonia (see also Oppi and Moora 2004). However, the real impact of EU Structural Funds on regional development needs more overwhelming approach than is this study.

Therefore, one of the biggest problems hindering the participation of local governments in the financial aid programs is their administrative capacity to compose eligible projects and implement both national and EU regulations and legislations related to these new opportunities. The requirements concerning applying for the different EU programs for financial aid are strict: projects have to meet clearly the expressed purpose of the program, precise description of activities and budget has to be provided, etc. Certainly, already writing a successful project requires special knowledge of the EU programs, further also good project management skills are of use (see also Oppi and Moora 2004). As is evident from the Estonian study, meetings with the municipalities and also some other examples from other member states (e.g. de Rooij 2002; Zerbinati 2004), smaller, more periphery and less developed local governments face difficulties in hiring qualified people to prepare and manage projects as most of the competent people look for challenges in bigger development centres and private or state firms. Moreover, local governments do not have appropriate resources in order to fill this gap by hiring competent and one-time consultants no matter from which part of Estonia or even Europe. Therefore, it seems that the “organisational adaptation” investigated in local governments by de Rooij and also Zerbinati has still quite weak evidence among Estonian local governments, at least according to the empirical study. It is evident that accession to the EU and availability of

Structural Funds money has been a case for new items and issues in local government agenda, as only three per cent from the respondents admitted that they do not need to apply for Structural Funds for their development activities (figure 3 in Annex). Obviously, it is the issue for local governments, especially at the current moment where new measures for regional development are under the planning process for the years 2007-2013. In spite of the latter, the impact of the EU Structural Funds on the organisational structures and hiring specific officials to work in the municipalities with EU matters is not so evident, mainly due to the lack of proper human resources as well as for weak financial situation.

#### ***4.2.2 Influence of central government's "administrative capacity"***

In order to soften previously discussed problem and provide local authorities as well as other potential Structural Funds beneficiaries with advice and support in applying for the Structural Funds money, Estonian government has established County Development Centres (CDC) in every county in Estonia. This has been done in most of the CEEC and mainly they are called regional development agencies. CDCs are non-governmental and non-profit organisations, partners of public authorities, but autonomous in decision-making, created with the support of or at the initiative of public authority. They implement regional development projects, support foreign investment in the region, and promote entrepreneurship and business parks. Their status, funding and real level of activity vary greatly among CEEC, but they are expected to work with public funds and contributions from the private sector; however a number of CDCs are dependent on public funding, including foreign grants or loans (see also Marcou 2002, 18-19; [www.eas.ee](http://www.eas.ee)). Even though CDCs provide more easily and with less expenses advice services there are serious doubts among Estonian local governments about their usefulness and effectiveness. It appeared that CDCs were considered to be rather unprofessional and incompetent. For instance, one respondent of the empirical study stated: *"We agree with the dominant part of our private sector representatives and enterprises that CDCs in Southeast-Estonia are incompetent and unprofessional and at the current state just meaningless source of spending the state's money"*. Similar statements were pointed out about several other CDCs in the empirical study as well as in meetings with the heads of the municipalities in Jõgeva (22.02.2006) and Pärnu County (08.02.2006). Therefore, the logic may actually be, that while these organisations are subsidised from the national budget they may lack the incentive to pursue

for the professional services that is dominant in private consultancy (see also Tatar 2004). As the Estonian government seems to support the further existence of the CDC system, measures in order to improve their quality and effectiveness are needed. As according to some respondents of the empirical study they have not been and showed the expected influence on local government absorption capacity improvement, therefore local governments themselves are yet not very positivistic about their influence in increasing the administrative absorption capacity of the local authorities as well.

Figure 3 in Annex gives quite an interesting picture while analysing what are the main reasons why the Estonian local authorities do not apply or have yet not applied for the Structural Funds money. As the biggest problems according to the results were related to the financial side, this will be analysed more under the financial absorption capacity. In the administrative capacity side, it is relevant to point out another important factor – the fact that applying for funds is related to the high bureaucracy and administrative work has been the reason in 19 per cent of the cases among the respondents why they have not succeeded in applying for the funds. This is also strongly related to the previous discussion about the lack of competent officials in the municipalities. In the local government development measures they have to face rigid rules and preparation work has to be thorough to the details. Also the project accountancy done afterwards is still very complicated for the local authorities. It was claimed in the empirical study that while there is problems with the human resources who would have sufficient time and skills to deal with EU affairs, the overwhelming bureaucracy surrounding the bidding process and project managing from the state side hinders the process even more.

Another factor from the empirical study supporting this argument was also evident. Local governments were asked how they were satisfied with the information about the Structural Funds' possibilities. Even though most of them (84 per cent) were satisfied with the access to the information, 16 per cent were unhappy or wanted more suitable access to the information about the funds. These 16 per cent of respondents did not actually mean that they are not satisfied with the first information about the Structural Funds, however, the flow of information in the process of application formulation by the Implementing Agency was considered to be insufficient and frequently incompetent. It was indicated that the information is frequently late and inaccurate – different officials indicate different things.

The requirements are not realistic and frequently even overestimated compared to the laws (especially in infrastructure projects). The fact that the deadlines are declared to the public and applicants too late, will not let them prepare qualitative projects according to the human resource problems and expensive pre-work indicated before, which does not let prepare qualitative applications due this time.

These investigations lead us further, signalling that there are still problems in the administrative capacity from the state side and therefore it may even be too optimistic to hope that the local level will have the necessary capacity to be effective applying and using the new opportunities in the name of Structural Funds. For the next Structural Funds programming period the member states have even more freedom to implement Structural Funds (see also Mändmets 2006; EC regional policy) therefore this should be the important factor for deeper consideration in central government level.

#### ***4.2.3 Proactive attempts***

De Rooij (2002) also related the term “proactive attempts” to the absorption capacity of local governments. At this point it is interesting to scan also the “proactive attempts” of Estonian local authorities in order to influence EU policy and promote their local interests. The Structural Funds money for the period 2004–2006 has been transferred almost completely from the EC to the Estonian government, which will subsequently distribute the money to sub-national authorities which meet the criteria (eligibility, procedural criteria and co-financing). It is a political decision of the national government as to which projects in which municipalities are granted the money. Currently, therefore, applicants have to deal with two instead of one decision-making authority. It may be said that the Commission decides whether municipalities are eligible and meet the procedural criteria, while the Estonian government makes the more political decision as to which projects ultimately receive the money, and how much. This makes opportunities for influencing and lobby processes between sub-national and national government. A political game may develop in which some regions and municipalities are more successful than others (see also de Rooij 2002, 455). Peter John (2000, 879) states that regional policy is a classic example of rent seeking whereby interest-groups seek to create a monopoly and thereby benefit from public funds. Of course, these selective benefits can be “competed away” if every public authority

engages in lobbying, in which case the benefits do not exceed the costs of lobbying, making it not productive to engage in these activities. Inevitably, whenever there are public/government/EU financial flows involved, some forms of rent-seeking appear, since several actors want to obtain a share of it. In the EU context one level where the rent-seeking can appear is between central and local governments, since the national government is the mediator (if not allocator) of Structural Funds, the local governments engage in lobbying in obtaining the funds or the necessary co-financing parts (Kålman 2002, 5-6).

According to the current paper and empirical study, some indicators supporting the fact that some local governments are more proactive in lobbying for EU funds than others, are also evident in Estonia. Related to the figure 4 in Annex, where respondents were asked to evaluate the satisfaction with the application and further project management procedures of Structural Funds programs and projects was the place where respondents could also mark their feelings about this process. It became evident, that the evaluation process of the applications seems to be unfair for the local governments (point four on the figure 4). 39 per cent of the respondents think that the process is unfair and 30 per cent have not enough knowledge of this matter. These numbers were explained by several respondents who indicated that in distributing funds, acquaintances matter the most and mostly those with heavy lobby work and right contacts ultimately receive the money. The fact that 30 per cent cannot answer this question may indicate that they do not know the process and are not very proactive themselves. Still, from the several comments indicated in the empirical study as well as in the meetings with the heads of the municipalities (Jõgeva County 22.02.2006; Lääne-Viru County 13.12.2006; Pärnu County 08.02.2006; Tartu City 01.03.2006) appeared, that overall agreement exists that bigger and stronger municipalities with better various resources are better off when applying for EU funds. Unorganised actors in the region will often be unable to come on to the policy scene. And this gives a natural advantage to the strongly organised groups within the regions, which tend to be better informed and linked to the relevant networks (De Rynck and McAleavey 2001, 544-545). Also Zerbinati and Soutaris (2005, 48) in their research found that from previous professional involvement with local governments, the competitive bidding for European funds, initiated and driven by key individuals within the councils, represented a solution to their major funding problem. Success in initiating and driving the European funding

process involved proactiveness, innovation, risk-taking, leadership and creativity, a combination of attributes associated with entrepreneurial behaviour (Ibid.). This kind of behaviour seems to be missing in a quite remarkable amount of municipalities in Estonia (see also Tönnisson 2004, 2006), although the evidence for this statement should be handled more deeply, apparently with specific study. Among the current study, also the attempts to influence the EU legislation, attempts to influence the distribution of EU funds, an orga-lobbyist, and contacts with European politicians were not investigated, as the focus has been mostly on the suitable development measures for local governments as well as the capacity to actually use these measures.

Overall, it appears that the administrative capacity of the Estonian local governments to absorb EU Structural Funds seems to be quite problematic. The lack of the qualified human resources seems to be the central reason for this. On one hand, the current personnel, especially of many rural municipalities, lack the qualification for dealing with the EU Structural Funds issues. On the other hand, the small size of the country as well as a great number of rural municipalities acts as a restriction in hiring the needed officials. Therefore, not much evidence of organisational adaptation as well as ability to lobby for the funds can be indicated according to this qualitative research. Even though, assumptions for weak proactive actions for absorbing EU Funds seem to be relevant, some rent-seeking behaviour still seems to be present on local level for competing EU funds and apparently smaller and weaker local governments are not able to compete here with the larger ones that possess more necessary resources (people, skills, money, contacts etc.). It also appears from the empirical study that very many and most urgent development needs are not eligible from the Structural Funds at the current moment – the aspect that will be analysed later in this paper.

### **4.3 Financial absorption capacity of Estonian local governments**

Financial absorption capacity stands for the capacity of central and local authorities to co-finance programs and projects assisted by the EU, to plan and guarantee these domestic contributions in multi-annual budgets and to collect them from the various partners involved in a project or program (Horvat 2004, 7; Šumpíková, Pavel and Klazar 2004, 2). Most probably financial absorption capacity of local governments comprises the central

position when looking at their Structural Funds absorption capacity as one of the major obstacles hindering the development of regional policies in the CEEC including Estonia in integration to EU has obviously been the lack of finances (see also Bollen 1997, 3; Davey 2003, 163). One of the criteria to absorb the Structural Funds have been the ability to match funds as a significant amount of co-financing to projects (at least 20-25 per cent) from regional, local or national budgets is required according to the current Structural Funds regulations. Nevertheless, it is in CEEC and Estonia's best interest to prepare as much as they can institutionally and financially to optimise their own absorption capacities in order to be able to fully take advantage of their EU membership. As will be presented below, regional and infrastructure development is one such important area, since, as in the light of EU accession all CEEC have faced significant infrastructure investment needs in order to comply with EU standards. They had to determine how to integrate Structural Funds into their public investment system, as well as how to link them with other funds. In addition, in order to fully benefit from EU financial support for these needs, they need to be able to raise substantial matching funds (Kálmán 2002, 41). The ability to do that from the sub-national level has received much less attention than the acceptance of additionality principle by the state as a whole. Therefore, the issue of co-financing of local governments in Estonia is significant and needs to be addressed.

#### ***4.3.1 Matching funds from local level***

Local governments have a power of general competence in most European countries, meaning that they have general powers to undertake any activities (unless specifically forbidden or already undertaken by other bodies), which they consider to be in the local public interest (Bailey 1999, 3). Local self-governance is essential if public services are to reflect local requirements and adjust to changing needs. The ability of local governments to provide local services is, however, crucially dependent on their ability to finance the costs (Kriz, Paulus and Staehr 2004). Therefore, according to Article 9, no. 1 of the European Charter of Local Self Government, local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers. The latter issue is important also in applying for regional aid funds as in absorbing the EU Structural Funds facilities, the necessary factor is the ability to co-finance the projects from the local level. Therefore, ability to

apply for funds is determined by the size of the local budgets in the Estonian local governments. Although the local governments in Estonia carry a crucial role in regional development and most of the resources for this should come from the local budgets or from international funds, actually, the financial dependence on the state determines on what scale can the development projects be planned besides necessary operational costs of the municipalities and so far there is no much room for these investments among Estonian sub-national level as already introduced previously.

The inter-governmental system therefore confers substantial *de jure* autonomy to local governments but the autonomy is *de facto* restricted, partly because of financial and other constraints. Most local governments in Estonia remain heavily dependent on the central government for revenue (Hoag and Kasoff 1999, 923, quoted Kriz, Paulus and Staehr 2004; Kriz 2006). In many CEEC the financial dependence on the state of local authorities is bigger than can be expected by the laws (Banner 2002, 219) among others also in Estonia (Reiljan and Tipmann 2001, 29). Estonian local governments are financially so dependent on the state that it is hard to expect them to act really independently. When in Western-Europe the public sector budget is in big terms divided between the state and the municipalities 50:50, then in Estonia it is 75:25. Additionally most of this 25 per cent comes directly from the state (see also Hughes, Sasse and Gordon 2001; Jõgi and Sannik 2005; Tõnnisson 2004, Ulst 2001). From one hand the state gives to the municipalities freedom leaving them more or less alone with no resources; on the other hand the state is expecting municipalities to be active, independent and efficient. The central government does not accept them as equal partners, at the same time requiring and expecting them to act like the ones (Tõnnisson 2004, 6). Altogether, local governments in Estonia have much of responsibilities and many of them put by central government but no resources to implement them. Grants for local regional development by Estonian government are minimal and can be calculated mostly by the national co-financing to regional development programs that are coming from Structural Funds (see also Kungla 1999; Tõnnisson 2004). In order to find a solution to financial problems in local authorities from Structural Funds, limited revenues and dependence on the state budget illustrates a strong restriction by making the requirement to match funds from local budget almost impossible for many local authorities. This was also seen from the empirical study, as the most important reason why local governments in Estonia have not been able to take advantage of the EU Structural

Funds money, has been the absence of necessary co-financing of the projects (28 per cent of the respondents, see figure 3 in Annex). The low ability to co-finance the projects was also mentioned in the meetings with the local authorities as well as it is heavily emphasised in the summary of the county visits organised by the Ministry of Finance (<http://www.strukturifondid.ee/?id=3979>). Moreover, as the second most evident restriction has been too expensive preparation process of the projects (21 per cent of the respondents have indicated that) it reflects the low financial ability of the Estonian local authorities even more. Therefore, one of the main problems for most of the local governments is meeting the requirements of the additionality principle of the EU financial aid programs.

In addition to the lack of ability to co-finance the projects, very many respondents indicated that the minimal rate of the projects is too high, especially in projects contributing to local infrastructure and tourism (measure under which the minimal amount of the project should be 0.5 million kroons). As this measure (SPD measure 4.6.2: Developing the Competitiveness of the Regions, financed from the ERDF) has been the most popular for the respondents and local governments in general (according to the respondents of the local governments), the problem is quite serious. Also 21 per cent of the respondents indicated that the work that needs to be done before submitting the application and in the situation, where the grant is not guaranteed is not worth taking the action. As we see below, the most popular projects for the local government have been infrastructure projects, then it is understandable that these areas require careful planning, feasibility studies, projects for construction, etc. which are very expensive works and require specialist knowledge which is very difficult to find in smaller municipalities (see also Kun-Buzcko 2004). Positive is that the Estonian government have tried to fill this gap by providing two additional regional development measures for the local governments: The Program for Planning Regional Development that is financing preparations for the infrastructure projects and Program for Small Projects for Developing Regional Competitiveness which lets to apply for lesser amount than 0.5 million kroons. Although these programs have already helped to reduce the problem of minimal rate of the projects, they have still been criticised for the overwhelming bureaucracy in the implementation process.

### *4.3.2 Possibilities for increasing financial capacity*

The responsible fulfilling of tasks by lower administration levels implies that they have some degree of fiscal autonomy. This means that local authorities should be able to raise revenue to finance the costs for a proposed service from the beneficiaries of the respective service (Kungla 1999, 15). Possible revenue sources for local government include grants from the central government, shared taxes, local taxes, and fees and user charges. Local taxes, fees and user charges comprise own-source revenue (revenue each local government can influence in substantial ways). Thus, fees and user charges are essential sources of own-source revenue enabling local governments to provide adequate levels of public services. Fees and user charges are also a potential way for local governments to reduce reliance on central governments for revenue, however, the share of these truly autonomous local government revenue sources is very small in Estonia. (Kriz, Paulus and Staehr 2004; Kungla 1999, 21) Revenue from local taxes and from state fees allocated to the local governments has contributed one or two per cent of the total revenues since the mid-1990s. The local governments' own-source revenue, i.e. revenues over which the local governments have a high degree of autonomy, accounts for only 15-20 per cent of total revenues for local governments in Estonia (Kriz 2006; Kungla 1999; Tönnisson 2006; Wrobel 2003). Currently not enough revenue for the tax autonomy of local governments is guaranteed and this is restricting also the absorption capacity of Structural Funds. On the other hand, independence in raising local taxes may also hinder the development of the municipalities in some cases as Wrobel (2003, 283) argues that mobile capital can leave a municipality when conditions there become unfavorable, e.g. when taxes are raised. Taxation drives capital out of the jurisdiction, whereas infrastructure attracts capital (Ibid.). In Estonia currently both these observation seem to be important. On the one hand, the ultimate goal is attracting more inhabitants and mobile capital to municipalities to help socio-economic developments, mainly infrastructure creation as seen from the empirical study. On the other hand, bigger independence and need for higher own source revenue is needed in order to implement development activities. Thus, it can be assumed that firstly still an emphasis should be put on bigger financial decentralisation in Estonia.

Local governments can also use loans to finance their projects. In investments, given high priority by local government units, loans are seen as an important financial instrument.

Loans are used for both funding investments not supported by the government and for providing the financial contribution required for obtaining national investment support. An interesting fact appeared from the empirical study that while until now most of the local governments have ensured the necessary co-financing to the projects from the local budget (52 per cent, figure 5 in Annex), in the coming years already 64 per cent of them are planning to use loans in order to cover the co-financing requirement (figure 6 in Annex). Only 20 per cent are confident that they are able to use local budget in order to cover the co-financing of the projects. This fact is actually quite worrying. Local governments can take loans strictly on the condition that the total amount of loans and other factors with loan associated costs (interest, etc.) do not exceed 75 percent of the last budget's revenue, excluding loans and block grants from the state budget, and if the sums for paying back loans and loan interest in all financial years do not exceed 20 percent of the revenue of the last accepted budget, loans excluded (Law of Parish and City Budget, art. 8, section 1; Kungla 1999, 28). Therefore, this limit to take loans is restricted, letting to assume that the lack of necessary financial resources will be one of the strongest problems in absorbing the EU Structural Funds facilities also in the future, as most of the local governments already face these limits when taking loans imposed by the law.

It was asked in the study if local governments have used other possibilities for co-financing projects in the light of the lack of financial resources. For instance, frequently the co-financing may come from the partners who usually face the same eligibility criteria as the applicant, therefore, in some cases common provision of services or projects may be the solution to financial problems. Although, according to the study it has not been very common among local authorities in Estonia. Péteri and Simek (2000, 24) claim this problem to be common to CEEC in general. They state that the real problem for local governments in the new member states is the inability to make efficient use of information acquired. The EU information is often very fragmented (by topic), making it difficult for local governments to design complex initiatives and this got evidence from the current empirical study also as discussed previously. Additionally, information is dispersed among local governments, which may lead to parallel actions and inefficient use of their limited resources (Ibid.).

Besides, investing together with some other local government into some kind infrastructure project (e.g. sports hall, stadium etc.), local governments in Estonia have the right to establish unions and joint institutions to fulfil common tasks. This right is given to the local authorities by the Constitution and the Local Government Organisation Act (Kungla 1999, 12). However, a lot of local authorities have not been eager to use these possibilities. Some of the respondents of the empirical study and participants in additional meetings in the municipalities (Jõgeva County 22.02.2006; Lääne-Viru County 13.12.2006; Pärnu County 08.02.2006) indicated that common provision of services is difficult to realise while every municipality wants to own these investments. Therefore, when applying for funds, municipalities are mostly competitors to each other rather than co-operation partners. As explained by Wrobel (2003, 283) cities, municipalities or counties compete with each other for the mobile production factors in factor markets, i.e. for mobile capital, mobile technical know-how and mobile highly qualified labour. Counties or municipalities compete with their taxes, their infrastructure, and all of their institutional set-ups (Ibid.). This can be rendered also from the empirical study (see figure 5 and 6 in Annex) as only five per cent of the respondents indicated that they have used partner's co-financing in the projects in case of the lack of their own resources, and only seven per cent is planning to use this possibility in the future. As stated by Kungla (1999, 12) in Estonia there are no special laws regulating the possible ways to co-operate. A legal framework should be established to enable local governments to choose between more or less organised or independent institutions for co-operation. The second step should be to encourage the municipalities to use these possibilities because the ability to achieve co-ordination is rather complicated when experience in this field is limited.

One way to improve the provision of services and physical living environment for the people may be contracting out service delivery which presumably leads to an increased efficiency, meaning that privately operated services save taxpayers' money and retain the quality of the service. Therefore, this can be one important possibility for local development aside from regional aid and Structural Funds. Transforming services to the private sector has already increased competition and decreased administrative costs in the practice of the Estonian local governments (World Bank 1995, quoted Kungla, 1999, 12). If the service would be of the same or better quality and cheaper if provided by private firms, then the provision of the service should be given to the private firm (horizontal application

of the subsidiarity principle) (Ibid.). However, contracting out public service delivery requires critical consideration. Although there have been very many positive experiences with the use of contracting out in Europe, there are however also adverse effects and the attitudes of public sector institutions towards the use of contracting out vary a lot, reflecting actual multidimensional character of this instrument (Nemec 2001). For instance, among other things contracting may introduce even larger administration costs of contracts which may overrule the savings and therefore may not offer the best solution for municipalities who are already facing financial restrictions (see also Bailey 1999, 290-292). Several shortcomings with contracting out have been identified also in Estonia. For instance, contracting out to the lowest bidder from the private sector is widely practiced (Ministry of Interior 2005, quoted Tõnnisson 2006, 16). At the same time, there is evidence that public organisations in Estonia are not able to act as a “smart buyer” because of institutional settings which are too weak to control and steer complex contracting relationships (Lember 2004, 431). Overall, the Estonian experience seems to support the observation of Nemec (2001), who has emphasised, in addition to the lack of a proper policy and legal framework, the role of uncompetitive markets, hidden internal costs and confusion of the public as the main reasons why the contracting out approach fails in transition countries (Lember 2004, 428).

Another possibility to overcome the problem of financial resources is involving private capital to the projects. However, according to the current regulations of Structural Funds measures the involvement of private sector money to the co-financing in local government projects is not allowed. Still, some authorities have used it and as seen from the figure 7 in Annex, 44 per cent of the cases when co-financing has been incorporated to the projects has been private capital. As stated by Helen Saar and Ants Nõmper (09.12.2005) the challenges of public and private partnership for the local governments in Estonia should get more attention. Partnership refers to a working relationship with a high level of trust and close co-operation between two parties that contract with each other to accomplish mutually beneficial outcomes (Domberger, Farago and Fernandez 1997, 777). According to Ants Nõmper and Helen Saar, there is quite amount of doubts and distrust among local authorities when thinking about public-private-partnership projects and very often these are coming into consideration on the back burners. Important is that this kind of co-operation may be very challenging for the development of local socio-economic situation and this

should be the first choice to be considered when planning great investments in the local authorities, as not all the types of projects are attractive for the private sector. Ants Nõmper stated that actually the pure public-private-partnership is still missing in Estonia. Although the complete and pure partnering is not always appropriate, and traditional contracts are capable of achieving better results in many situations, it may be possible to incorporate many of the positive attributes of partnering into traditional contracts, as good management practice (Domberger, Farago and Fernandez 1997, 778). Even though the topic definitely requires more overwhelming and specific approach, this can be also highlighted here, as according to Renaldo Mändmets (2006) in the next period of Structural Funds absorption local authorities can also incorporate private sector money in order to co-finance their projects.

In sum, conducted empirical study among Estonian local governments indicates once again that Estonian local authorities face huge financial difficulties, which is the main reason for restricting them to implement development activities and provide local residents qualitative services and living conditions. Even though the Structural Funds introduced new financial possibilities for local governments (as seen from the figure 8 in Annex, 35 per cent of the municipalities are very dependent on the Structural Funds money) the actual ability to absorb these possibilities is very limited among Estonian sub-national level due to the weak financial absorption capacity. Even though there exist possibilities, which implementation presumably should enhance the ability to absorb the Structural Funds or increase the financial capacity of the local governments in general, most of them are not practised commonly in Estonia, and also may face some specific difficulties due to Estonia being a transition country with relatively weak institutional and administrative capacity.

#### **4.4 The “eligibility” and the lack of appropriate measures**

When evaluating the absorption capacity of EU Structural Funds among local governments, it is important to look at the eligibility of actions taken by local authorities under EU structural funding. De Rooij (2002) related this to the overall absorption of Structural Funds. In the light of the current paper this was also investigated, mainly by asking from local governments if there are proper measures co-financed by Structural Funds and which kind of measures are most needed. 19 per cent of the respondents (see figure 3 in Annex)

indicated that there are no appropriate measures for their development activities meaning that very often their needs do not meet the eligibility criteria of Structural Funds (mostly related to infrastructure projects). Therefore, the “absorption” of EU policy or EU funds defined by de Rooij in name of meeting the criteria for money from the EU funds, and receiving money from the EU funds also seems to be loosely practised among the Estonian local governments (see also <http://www.struktuurifondid.ee/?id=3979>). Very many and most urgent development needs are not eligible from the Structural Funds at the current moment. As most urgent needs are related to infrastructure investments, the following will take into account only this field.

The fact that the most important subsidies are waited to the infrastructure that is under the local government economics is not surprising. According to the Local Government Organisation Act (1993, cf. § 6) the task of local governments is to ensure immediate physical and social living environments for people, as well as the business environment and technical infrastructures required for supporting such environments (see also Estonian National Development Plan 2004-2006, 150). It is evident that Estonian local governments have to fulfil a large array of tasks and some of them, like education, are very costly. Although the costs of tasks which are imposed on local governments by the state via laws are covered from the state budget (Kungla 1999, 13), there are still huge gaps mainly in the infrastructure investments. Besides the operation of these public services, the heavy infrastructure reconstruction and investment needs associated with them are also to a great extent the responsibility of local governments. The financing of municipal infrastructure investments and the attendant problems are thus indeed crucial for understanding and carrying out effective regional development or regionalisation policies. Moreover, it is essential to recognise that the efficiency and effectiveness of the funding policies in turn depend to a great extent on the efficiency of the local government system (Kålmån 2002, 42). The availability of capital investment grants from the central budget and from the EU accession funds are dependent upon local governments providing their share of co-financing, which they are often not able to do, as was also seen from the discussion above. Therefore, considering the situation of local budgets (and the contributions necessary for obtaining state support), the capacity for making investments into basic infrastructures as well as investments related to development (setting up the necessary environments for tourism and business) are very limited. Even though already pre-accession funds (mainly

Ispa) were transferred to the transport and technical infrastructure in Estonia (where also several municipalities have been partners) in terms of over 1.9 billion kroons it is apparently still not enough. Already 35 per cent of Estonian local authorities (according to the respondents of the empirical study) claim that the importance and needs of infrastructure investments is three times greater than has been the support from the pre-accession and other state funds in previous four years (Innopolis Consulting Ltd. and SEB Eesti Ühispank 2005, 45).

At the current moment only seven measures out of 47 official ones are available to the local governments in Estonia (from Structural Funds).<sup>9</sup> According to the current empirical study, the most important for the local governments have been infrastructure funds financed under the SPD priority four: Infrastructure and Local Development. Actually only two measures have been most important for the local governments (SPD measure 4.6.1 Development Program for Local Physical Living Environment and 4.6.2 Regional Competitiveness Improvement Program). Here also the environment protection support under SPD measure 4.2 Environment Infrastructure may be added. It is evident that the current measures are not enough for the development of local conditions in most of the Estonian municipalities. For instance, for the period 2004-2006 150 million kroons were separated for the environmental protection projects from ERDF ([www.strukturifondid.ee](http://www.strukturifondid.ee)), in spite of that, this has been the sphere where the expected amounts are one of the highest at all. Of course, Cohesion Fund facilities are also directed to the environment but as is seen from the empirical study, the biggest problem for the Estonian local governments has been and probably will be also in the future the required co-financing, whereas huge Cohesion Fund projects and appropriate requirements will most evidently distort these development ideas of smaller municipalities. Infrastructure measures are therefore one of the most important for Estonian local authorities and at the same time one of the most problematic. Besides the lack of appropriate measures, another huge problem is the preparation of these projects, as existing programs require effective and thorough preparations, which is very costly for the municipalities. As apparent from the empirical study, 35 per cent of the municipalities can undertake development projects only with the help of the Structural Funds money (see

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<sup>9</sup> By now most of these seven programs have already been closed due to the end of the separated financial resources and only three of them will have additional application rounds. The facilities of mere regional aid programs have been closed down ([www.strukturifondid.ee](http://www.strukturifondid.ee)).

figure 8 in Annex), the risk of these preparations is very high as all these works have limited time-scale for being valid. Therefore, this is also the reason why development projects are not undertaken at all.

Among overall infrastructure investment needs, it is relevant to point out also business infrastructure projects. Industry subsidies have been a useful instrument of regional policy in several European economies in recent decades (Temple, 1994, 229). However, their extent and form has been subject to tighter controls in recent years, because such subsidies now have to be designed to avoid conflict with the EU's competition policies (Ibid.). Although the Estonian SPD for 2004-2006 saw quite comprehensive possibilities for the business environment and for enhancing the competitiveness of the private sector, the development of investment conditions and business development in Estonian different regions is still very unbalanced and as it appeared from the empirical study local authorities consider these public sector funds very important (see figure 9 in Annex). According to Jürgenson, Kalvet and Kattel (2005) business support measures in Estonia need considerable improvement and renegotiations. For example, Tallinn has 80–90 per cent of all foreign investment in Estonia (Estonian Statistical Office). One challenge of regional policy is therefore to create conditions to attract foreign direct investment to other regions. As came evident from the current study, as well as from the study conducted by the Ministry of Internal Affairs together with the University of Tartu (Evaluating the effectiveness of regional development projects, 2001), it is often up to the local government to stimulate and indicate the business development in smaller places where socio-economic situation is not very good. One of the basic conditions for improving the situation is upgrading economic infrastructure, in order to create a suitable environment for foreign investment. Nevertheless, this objective has to overcome two kinds of difficulties (see also Marcou 2002). The first one is obviously the lack of resources, especially in the light of the failure of attempts to mobilise private investment capital to develop new infrastructure. This means that there is no alternative to public-sector involvement, although this is limited by a shortage of tax revenue. The second difficulty results from the inherited administrative structures and practices. Investment planning is usually carried out by ministries, with little concern for the local impact and even less for a spatial development strategy. Its harmful effects can be limited by planning instruments that favour regional planning policies and by local or regional governments capable of promoting their interests before central

government administrations. This is just what is lacking in most CEEC (Marcou 2002, 18) and can be seen in Estonian case as well (see also <http://www.strukturifondid.ee/?id=3979>).

Nevertheless, it came out from the empirical study that among the respondents there was a heavy interest towards business support measures for local authorities – business network creation, organising training and schooling among local entrepreneurs and workforce, creating job rooms and most of all, creating appropriate business infrastructure. If measured all together, actual supporting of local entrepreneurship mainly through the infrastructure provision, was on the second position from all the needed support measures – 19 per cent, transmitted only by overall infrastructure development needs (44 per cent) – roads, street lighting, social infrastructure etc. (see figure 9 in Annex). Committee of the Regions (2004) has also stated that the EC do not suffice to attain the “convergence” objective in the weakest and most problem-ridden EU regions. This applies in particular to the deployment of the “classical” instruments for providing regional economic support such as targeted measures to promote business start-ups and investment outside the small and medium-sized enterprises (SME) and the establishment and development of infrastructure to serve industry. For instance, small businesses provide many advantages in regional development: they are capable of creating a relatively high number of job opportunities, improve industrial environment and industrial relations, create a diversified and flexible industrial base etc (Pamfil 2003, 82). Although, there seems to be huge problems in promoting the development of this sector in many local governments in Estonia this can be mainly due to the fact that the first investments for promoting business are to be made most evidently by the public sector. Necessary resources for that are missing in a huge number of local governments in Estonia.

Nevertheless, it appeared that among Estonian governments general and similar problems exist. It is interesting that areas where the aid is most needed (infrastructure investment, business support and preparing big infrastructure investments) the support is quite minimal or missing at all. Therefore, it is evident from the empirical study that the absence of necessary measures for regional development is a huge problem and 19 per cent of the respondents considered this as the main problem hindering the application for Structural Funds. Local basic infrastructure and living conditions are very important in the vitality of

local governments. If smaller and more periphery local governments are not able to provide their inhabitants with elementary qualitative services, the regional balancing can not be under investigation. These municipalities also have stuck in the vicious circle, where young and entrepreneurial people leave to search more possibilities and challenges elsewhere, taking also additional income tax with them and reducing therefore even more the possibilities to improve the local infrastructure and living environment. Therefore, without additional regional development support it may not be possible to solve the situation. This may be the serious thinking spot for planning the next structural funding period measures as well.

#### **4.5 Factors influencing Estonian local governments' absorption capacity**

As noted earlier and also studied by de Rooij (2002) in the Netherlands European integration has different consequences for municipalities in different member states. But within member states there are also differences between municipalities in the use of opportunities (see also Benz and Eberlein 1999; Börzel 1999; Jeffery, 2000, 2001). National constraints can hamper the use of opportunities by one municipality but not hamper another. When investigating the impact of EU Structural Funds on local government in the Netherlands de Rooij (2002, 449) found that generally there appears to be agreement about the EU impact on the local government in the face of new opportunities and political lobby chances. If, and to what extent, the new opportunities are actually taken, depends on the national constraints with which municipalities are confronted (Ibid.). The differences in national constraints with which municipalities within one member state are confronted, may be deduced from differences in municipalities' resources. These resources may be, for example, money, personnel, location or access to politicians or officials (Ibid.). This statement seems to be true also in Estonia as in the current study it appeared that frequently the successful absorption of the Structural Funds is related to the financial dependence on the state being also dependent on the resources available in the local governments (personnel, money). Even though opportunities for municipalities to influence policy and promote their interests were not specifically investigated in this paper, still, the relevance of partnership principle which is emphasising mainly the same thing, was analysed and found that this is not working satisfactory in Estonia. Therefore, it seems to be quite likely that better organised groups can influence the decision-making system

and benefit from the Structural Funds money, while those who need the aid most, cannot benefit from it due to the lack of necessary absorption of these funds.

#### *4.5.1 Size of Estonian local governments*

De Rooij (2002) found that the size of the local authorities influenced strongly the ability to successfully absorb the funds in the Netherlands. Thus, probably this can be a reason for weak absorption capacity of Estonian local governments as well as Ulst (2000) indicates that it has already been identified that local governments' capacity to successfully implement tasks imposed on them by laws and other regulations is considerably more apparent in local authorities with bigger number of residents. However, in order to investigate the importance of municipalities' size in absorption capacity of Structural Funds it should be determined what is actually meant by the size. Firstly, size of the municipality can be determined by a number of population as indicated in Ulst's statement. Secondly, surface area has been also regarded as an appropriate indicator, however, the population size is usually taken as the main criterion in analysing the issues related to the size of the units (Randma 2002, 374). As indicated by Oppi and Moora (2004) the population size of the authority ultimately influences its financial capacity as most of the revenues of the local governments form the part of personal income tax assigned for the local governments (56 per cent of the personal income tax). Considering the fact that local governments in Estonia are mostly small rural municipalities, it is clear that they cannot be well off regarding their financial situation (Ibid.; Wrobel 2003).

The importance of the size of local government as one of the major factors that determine the functioning of local government, has been well acknowledged by the academics as well. Norton (1991, quoted Ignatov 2004, 4) suggests that the size of local authorities (mainly referred in terms of population size) determines their conditions and abilities more than any other factor. Larger size may improve territorial justice by allowing combination of rich and poor populations, so reducing local disparities in resources and expenditure needs per head. The smaller are local governments, the greater disparities in per capita local taxable resources and expenditure needs and so the greater the need for central government intervention in the form of intergovernmental grants (Bailey 1999, 32). The size of the local governments in Estonia varies widely, from approximately 70 inhabitants in the smallest to

approximately 400,000 inhabitants in the largest. The majority of Estonian municipalities are small, with 70 per cent of municipalities having less than 3,000 inhabitants and also remain heavily dependent on the central government for revenue (Kriz, Paulus and Staehr 2004).

The main argument behind the assumption that smaller municipalities are worse off when competing with larger ones for the Structural Funds money, comes from the argumentation that large municipalities are in better position to take advantage of new opportunities. They have more financial resources and therefore more scope to appoint extra employees, seek more information from the EU or lobby the main EU institutions. This argument found proof in de Rooij' Netherlands study (2002) and also in Zerbinaty's (2004) study in Italy and England. It is common to assume that large municipalities have broader revenue base and usually have more heterogeneous population both in terms of age and income structure, which positively affects stability of revenues from taxation and facilitates financial forecasting. Moreover, having more financial resources in possession, they are more flexible in deciding about distribution of these resources. Due to a greater financial resources being in their disposal, large municipalities are also more flexible in allocating resources for development tasks, whereas for small local governments, which are likely to use up most of their meagre resources in fixed administrative costs, this often comes as a problem. This factor seriously limits the ability of small local government to access additional funds for development from external resources, national and international donor agencies and aid schemes such as European Structural Funds, which normally require a municipality to provide matching financing for particular projects (Ignatov 2004, 10). Another advantage of large local authority units, which is common to be acknowledged in academic literature, is that as a rule they have better quality of staff, and this affects the overall performance of executive government (Ibid., 8). Under administrative capacity Ignatov studied the level of education of public officers of Estonian local governments. Ignatov admits that it can notably influence local government's performance in such important areas as development planning and other areas which involve non-routine tasks and require sophisticated approach. As discussed previously (see point 3.1 in this paper) the exact same areas are still critical and weak in Estonian municipalities. In addition, the empirical study for this paper highlighted that very many local authorities face problems in absorbing EU Structural Funds due to the lack of special knowledge and sophisticated

approach. Despite the fact that administrative and financial capacity of large municipalities can be undermined by a number of factors, it is generally acknowledged that both greater flexibility in using financial resources and advanced possibilities to hire skilled specialists make large administrative units more viable for promoting development (Swianiewicz, 2002, quoted Ignatov 2004, 9).

Overall, the results of the empirical analysis of Ignatov in Estonia indicated that in the Estonian case local government's size positively correlates with such dimensions of their performance as financial and administrative viability. Also the study carried out by Aivo Hirmo (2003) indicated some proof for the correlation of the size of the municipality and its economic development attempts. Hirmo states that a great amount of local governments in Estonia are not capable of fulfilling the tasks imposed for them by law and ensure the sustainable development of the region. Municipalities with larger amount of inhabitants as well as greater density of population indicated in his study generally better results in financial resources terms as well as the socio-economic situation. As approximately 80 per cent of the respondents of the empirical study for this paper have less than 5,000 inhabitants, the problems and restrictions identified in this study presumably can be related to the small size of the local authorities in Estonia. Although, in order to be confident in this, a comparative and more overwhelming study among bigger municipalities should be conducted.

#### ***4.5.2 Local government administrative territorial reform***

In the light of the absorption capacity problems and empirical results on this matter not to mention the situation where currently many municipal units are not able fully and in effective way to exercise their tasks there has been an ongoing discussion about a further rationalisation and reduction in the number of counties and local governments. In addition to some domestic pressure for restructuring, further reform of administrative arrangements is seen as essential to create the more powerful regional and local administrative capacity demanded by the EU (Hughes, Sasse and Gordon 2001, 16). Ignatov (46, 53) found also that consolidation offers major promise in increasing both administrative and financial capacity of local governments.

However, administrative unit reform in Estonia (in the sense of reducing number of municipalities) should be based on a careful and professional analysis of tasks and environment as the solution might not actually achieve the expected results. Many scholars have criticised the administrative reform ideas, indicating that actually there is no ideal size of the territorial unit, consequently there can not be correlation between the “large” and “better” (Drechsler 2000a). The size itself does not mean automatic efficiency or inefficiency. Moreover, in Estonia sources of income have been distributed to local governments as less as the functions (as was discussed before), because both are coming from the legislator. This means that actually the size of the municipality is changeable as easily as the tasks or the revenue base and therefore it is not right to describe municipalities as inefficient and with low-capability to effectively fulfil their tasks while the tasks are financed from the state budget (Ibid.). In addition, bigger units probably will not actually solve the problems as too large units are difficult to manage on the personnel level, to coordinate, and to communicate in. They actually cause the need for a greater hierarchical and less horizontal structure (Drechsler 2000a, 2000b) and movement towards centralisation which in turn will interfere with the overall idea of democratic local government. Reducing the number of local government units generally results in less responsive public administration; the offices are physically more difficult to reach, the bureaucrats, less informed about and less interested in local matters (Ibid.). It can especially be the case for Estonia, where actual territory and surface area of the municipalities, as well as relatively low population density can have dramatic effects in this scenario. Districts with small populations in Estonia can have territories of three thousand square kilometres on average (Mäeltsemees 2000, 94). As indicated previously, 70 per cent of the Estonian municipalities have less than 3,000 inhabitants and Ulst (2000) adds that in these municipalities less than 20 per cent of the total population is situated, even though they cover approximately 70 per cent of the total surface area of Estonia. Therefore, there is a danger that due to the low density of population in Estonia, setting the target size of the population of local governments as the only criteria for consolidation, may result in the situation when the area of amalgamated local authority units becomes so large, that local inhabitants especially in peripheral settlements will not identify them with a municipality they live in (Ignatov 2004, 51). Small and compact territory favours networking in municipalities (Raagmaa 2002, 73) which is ultimately needed for the total development of the unit, not to mention that small unit is also more responsive to local needs.

In sum, local administration reforms are discussed intensively in Estonia. Combining and enlarging counties and municipalities in order to establish an efficiently working system of local governments has been in the centre of such debates. However, in theory there is no ideal size for a municipality and that is the point that should be taken into account whatever reform plans are made (Tõnnisson 2004, 7). Although according to the current study it seems that smaller municipalities in Estonia are worse off when applying for the EU Structural Funds, at least according to their own responses, it may well be that actually other problems determine the overall absorption capacity of Structural Funds as well as their overall performance, which cannot be overcome simply by reducing the number of municipalities and creating therefore bigger units. One of such problems is sharp core-periphery differences in Estonia.

#### ***4.5.3 Core-periphery problem***

The overall regional policy in Estonia is built around the core-periphery problem. As discussed earlier this has been indicated as a common problem in CEEC. Such great regional disparities in a small area like Estonia are remarkable in the EU context. One municipality, the city of Tallinn, contains round about one-third of the Estonian population and the capital region in northern Estonia has a GDP per capita which is more than twice the level of any other region. The result is an intensification of unequal spatial allocation of capital and investment. Such regional problems can be solved only if local administration everywhere in the country, including in the countryside, is working well (Wrobel 2003, 280). As seen, the solution may not just be the amalgamation of administrative units in hope that bigger entities will be more efficient.

One important survey similar to current empirical study was conducted by Oppi and Moora (2004). Recently they investigated the Estonian local government's ability to apply for finances from the different financial instruments, mainly EU pre-accession instruments. Their analysis shows that the socio-economic status of a local government can be considered to be one of the central factors in its participation in the regional aid programs. This in turn is related to the central core-periphery problem calling for strong regional policy. Although the logic of regional policy would suggest allocating funds to regions or local governments that are more lagged behind, the experience of the selected cases in their

study (programs) showed the opposite. Oppi and Moora (2004) therefore claim that European funds, to this day, have been distributed mainly to those local governments that have higher socio-economic potential and that belong to the more developed part of Estonia. The research has demonstrated convincingly that mainly towns (instead of poorer rural municipalities), larger local government units (instead of more lagged-behind smaller ones), and those municipalities with higher level of socio-economic potential (instead of the more stagnant and vulnerable ones) have managed to obtain most of the resources available (Ibid., 12-13). They also indicate the significance of size in these findings and claim that local governments with higher socio-economic capacity to manage their problems are bigger than those with lower living standard and lower ability to deal with their problems which supports the discussion given above in this chapter. Therefore, the analysis suggests that regional policy programs should focus mainly on smaller municipalities, if they served the purpose of balancing intra-state disparities (Ibid., 7) as well as mostly to rural areas. Oppi and Moora therefore claim that so far experience in Estonia shows that most of the regional funds is allocated among the municipalities that are relatively successful and well off. Those with the sharpest social problems are often unable to participate in these programs due to the administrative and financial capacity problems discussed thoroughly before. These findings actually support the current paper, as the respondents from the empirical study were mainly from peripheral and smaller municipalities and mostly the study indicates quite huge absorption capacity problems by local governments in Estonia.

Even though the current paper is yet insufficient to explore the overall effectiveness of the EU Structural Funds in fostering regional development in Estonia, in the light of these findings it can be assumed that actually Structural Funds have been even a source of even greater disparities in Estonia. Observation in this paper supports the arguments that municipalities with stronger and better socio-economic situation are better off when applying for Structural Funds money. Further research is needed in order to indicate disparities in the absorption of Structural Funds caused by regional location, size of the units, size of the budgets of local governments and other possible indicators where the sampling should cover approximately all the municipalities in Estonia. The research would be of great value for Estonian as well as the EU regional policy presumably helping to find causes and solutions to problems that have been actually indicated in the EU member countries already in previous years.

To conclude, the absorptive capacities of local governments play a crucial role in assessing the effectiveness of the EU regional policy and Structural Funds programs, although it is evident that in Estonia we cannot talk about effective absorption of funds at the local level due to several reasons discussed previously. To overcome these problems, most probably a strong and participative regional policy is needed together with more intense attention to local government institution building from central level in which also the role of local governments associations as a analyser of the local situation, planner of regional development, mobiliser of the resources, advisor, activator, informant and leader should be increased and enhanced (Ulst 2000). To search for solutions merely from administrative units structural reform may bring along new problems and should therefore regarded with caution.

## **5. IMPLICATIONS AND CONCLUSIONS**

Since the Treaty of Maastricht, economic and social cohesion of regions in Europe has been one of the justifications of the EU. Considering the fact that one third of the Community's budget is allocated for the purpose of elimination of disparities between regions within the EU and also within the member states, economic and social cohesion can be regarded as one of the main goals of the EU as a whole. The regional policy of the EU aims at reducing economic disparities between regions across Europe and is based on solidarity among richer and poorer member states. Besides, EU cohesion and regional policy is important as due to the core Structural Funds principle "partnership" introduced by 1988 Structural Fund reform, it is claimed to be establishing partnership relations between national governments, local and regional bodies, economic and social actors and supranational institutions. Therefore, the partnership principle is of particular interest for sub-national authorities as it potentially enables them to contribute to the preparation and subsequent implementation and management of the Structural Funds. However, many studies have shown that the regional mobilisation effect induced by the EU is differentiated, depending on the power resources of regions in the different national contexts of federal/regionalised or unitarian member states, or on the existence of regional policy communities advocating an entrepreneurial approach of regional development.

The accession of ten new member states on 1<sup>st</sup> May 2004 enlarged the disparities between the EU regions even more as differences in "old" and "new" member states are huge, and even within the new member states the differences are remarkable. Estonia, being one of the new member states is acquainted with these regional problems as there are considerable income disparities within the country, the differences are growing over time and the capital region in northern Estonia has a GDP per capita which is more than twice the level of any other region. In overcoming these problems, the Structural Funds and Cohesion Fund as main instruments of EU regional and cohesion policy play a central role.

Eligibility for financing under Structural Funds might suggest that new opportunities have emerged for a partnership between local and regional authorities and the European Commission, via a form of multilevel governance also in new member states and their sub-national levels. However, having in mind the success of the Structural Funds and the

regional policy so far, the main question is whether new member states are capable to absorb the potential finances provided via different financial instruments. Therefore, the purpose of the current paper was to find out the role and impact of the EU regional policy on regional policy and local governments in Estonia and to evaluate the Estonian local governments' "absorption capacity" of EU Structural Funds and the factors influencing it. In this respect the paper tried to find out the relevance and implementation of partnership principle in Estonia as effective partnership is considered to be related to the overall absorption capacity of local governments. Another purpose was to find out what are the main problems in local governments restricting the absorption of Structural Funds and indicate the factors in Estonia which might be restricting their absorption capacity in EU Structural Funds and other regional aid programs.

In this respect the paper was mainly based on the empirical study conducted in spring-autumn 2005 among the Estonian local governments. The purpose of the empirical study was to find out what have been the main problems in applying for Structural Funds as well as to emphasise the real need for specific regional aid programs among the Estonian local governments and to give them the opportunity to be part of the decision-making process in national regional policy formulation that is highly relevant from the Structural Funds context. The empirical study was also supported by additional meetings in three Estonian counties and in one bigger city. The study and the paper indicate that still huge administrative and financial absorption capacity problems exist among Estonian municipalities, which is also empowered by the low implementation of partnership principle in planning regional aid measures as well as lack of appropriate measures due to this problem.

More precise conclusions can be made and answers to research questions indicated due to the current thesis. Firstly, Estonian regional policy has been in congruence with the EU regional policy until the pre-accession period. As many other new member states, Estonia has also faced critiques and been emphasised with the need to improve the co-ordination of sector policies and to strengthen administrative and budgetary capabilities, both at regional and local level. This is evidently related to the effective implementation of partnership principle. As found in some previous studies among CEEC (e.g. Bailey and De Propriis 2002b) despite being an important step forward in policy-making, partnership and

subsidiarity only seem to have provided regions with an entitlement to access EU funding, and overestimated their capacity to activate such entitlement through effective participation. The evidence to the lack of participation in planning regional aid measures was also seen in the meetings with local governments in Estonia in December 2005 and March 2006. At these meetings it became evident that sub-national level knows quite little about the composing of regional development measures that will be co-financed by the Structural Funds in 2007-2013 as well as there was heavy critics to the current measures and their composition for the period 2004-2006 (Jõgeva County 22.02.2006; Lääne-Virumaa 13.12.2006; Pärnu County 08.02.2006). The empirical accounts in EU show that European policies have a different impact on member-state policies and administrative structures, depending on the given policy mismatch and member-state willingness and capacity to adjust. Therefore, also the implementation of the partnership principle in each member state, however, depends on the institutional and structural edifice, central-local relations and state-society relations, local/regional embeddedness, social capital and the political culture in each country (as was claimed by Getimis 2003, 78). Estonia, being a small unitary state with long history with centralised decision-making system under soviet regime<sup>10</sup> seems to have followed the centralised regional policy decision-making system which so far only has formal participative elements due to the EU requirements. On the other side the willingness and capacity from the local level seems to be too weak in order to be active partners in this process. EU regional policy likely shows constant positive effect on the territorial structures, their administrative capacity and regional policy making and hopefully the need to involve local partners will also be noticed and enhanced currently when the financial period for the years 2007-2013 under structural financing will be planned in Estonia as well as in Europe as a whole. As CEEC have had to face rapid changes in their territorial systems it may be too positive to hope that changes are rapid and effective at the same time.

Secondly, the paper also showed that besides ineffective partnership between local and central level of government in regional development planning process, also absorption

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<sup>10</sup> While regional and local governance under communism was relatively uniformly structured, it was heavily de-politicized and strictly functionalist, with sub-national units acting as an organisational pillar of the one-party state and central planning (Hughes, Sasse and Gordon 2001,7).

capacity from the demand side may be an important factor in the overall absorption of Structural Funds in the country. It was claimed that absorption problems can arise due to macroeconomic, administrative and budgetary problems and that therefore three variables are relevant for analysis: the statutory, functional and financial dependence of local authorities. It was seen from the study that Estonian local governments face huge financial absorption capacity problems being the most important reason why funds cannot be used effectively. As noticed by several authors in Estonia, in the condition where functional and financial dependence on the state is so strong as in Estonia, it cannot be possible to expect local governments to be capable of being ahead the development process. Differences in local governments' administrative and budgetary situation are worrying and huge. The absorption capacity of most of the respondents to the research can be evaluated to be quite low. Most of the problems seem to concern the competent staff and skills for preparing projects, and the organisational adaptation identified by some other researchers in the EU member states due to the new possibilities that have come to municipalities with the EU funding, have not been very evident among Estonian local governments, as most of them have to cope with these issues with the stuff they already have at place. In many cases, mostly in more periphery local authorities, the officials at place are unaware of most of the rigid EU requirements and unable to use these new funding possibilities. On one hand, such municipalities in many cases depend on just one or few active people and in case of their absence, development process may be hampered for a long time. After all, the decision-making power of the Estonian local authorities is weak and little evidence of the existence of regional identities or strong elite support for meso-government can be seen, as the other aspect related to administrative capacity – proactive attempts – seemed also to be weak, even though it was recognised that municipalities who use lobby are also successful in receiving funds.

Thirdly, all these problems with weak administrative and financial capacity may be related partly to the small size of the local governments in Estonia. Most of the respondents to the current study were small, and the study mainly indicated problems with absorption capacity. Several other studies in Estonia have found positive correlation between the small size and weak capacity of local governments. Most important of them may be the study conducted by Oppi and Moora, which found that so far most of the regional funds have been allocated among the municipalities that are relatively big, successful and well off.

Those with the sharpest social problems are often unable to participate in these programs and these local authorities are often small. The solutions may not be easy to find. As mostly weak administrative and financial capacity of the local government is related to the small size of the Estonian local authorities, the administrative unit reform may not be the best solution, as indicating only the size of the population may not be appropriate in Estonian condition due to the low density of population and relatively large surface area of local governments, which may disturb the democratic values and initial idea of local government. Instead, in more careful analysing, most of the problems lie in core-periphery dichotomy and this is the place where regional policy plays a crucial role. Besides mere regional aid programs, more emphasis should be placed on institutional capacity building of local governments in more periphery regions. The lack of appropriate human resources play a crucial role in absorbing funds, which was evident also from the empirical study and additional meetings with the municipalities.

The current study also introduced an intriguing assumption that it may be the case that Structural Funds and their absorption from local level has actually widened the regional disparities in Estonia (as was discredited also in the study conducted by Oppi and Moora and by several researchers in evaluating the overall effectiveness of EU Structural Funds). This can be an important research question for future studies in Estonia, which still cannot be answered in the help of the current empirical search for related questions.

Are Structural Funds the backbone of the EU regional policy? The fact is that their role in the EU regional policy is the greatest and over 90 per cent of all the structural spending has been directed to these funds. Are they achieving their supreme objective – to decrease the disparities between the richest and poorest regions – is an important question to which the current study cannot answer. Still, the fact that 35 per cent of the respondents (among relatively worse off municipalities of Estonia) claim that they are certainly not able to implement the needed development activities in the local government without the help of the Structural Funds, and that the biggest problem in absorbing the funds have been the lack of necessary co-financing, should be serious food for thought for the regional policy implementers in Estonia. Municipalities here are very dependent on the EU funds and even with the help of these funds problems may not be overcome in the light of financial problems. Measures to support poorer and therefore also smaller municipalities in the light

of huge absorption capacity problems of the EU Structural Funds should be carefully analysed in order to mitigate problems in preparing successful bids and project applications and overall, in order to create measures that are suitable and actually needed at local levels. Therefore, hopefully, the current thesis will be relevant and important for planning and implementing the future regional policy measures in Estonia and their administration as well as creating a platform in order to evaluate also the effectiveness of the regional policy facilities and instruments up to now.

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Jõgeva County, meetings with the representatives of Põltsamaa, Mustvee, Saare municipalities and Põltsamaa and Jõgeva City, 22 February 2006.

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## RESÜMEE

Struktuurifondid on Euroopa Liidu (EL) regionaalpoliitika peamised instrumendid, läbi mille peaksid arengus ühtlustuma Euroopa rikkaimad ning vaeseimad piirkonnad. Kui 1975. aastal moodustasid struktuurifondid vähem kui 5% EL kogueelarvest, siis tänaseks on see osakaal tõusnud ühe kolmandikuni sellest. Lisaks majandusliku ja sotsiaalse ühtekuuluvuse edendamisele peetakse EL regionaalpoliitika rakendamise oluliseks tagajärjeks ka selle mõju liikmesriikide territoriaalstruktuuridele ning regionaalpoliitikale. Väga ulatuslikult on argumenteeritud, et EL regionaalpoliitika on olnud peamine faktor poliitilise detsentraliseerimise ja regionalismi edendamisel liikmesriikides ning seda tulenevalt struktuurifondide ühest tuumikprintsibist – partnerlus - mis nõuab kompetentsete regionaalsete ja kohalike omavalitsuste eksisteerimist liikmesriikides ning nende kaasamist regionaalarengu meetmete planeerimisse.

2004. aastal liitus EL-ga 10 uut liikmesriiki (nn Idabloki liitumine), mis tulenevalt uute liikmete madalast SKPst võrreldes EL keskmisega ning viimaste nõrgema majandusliku ja sotsiaalse arengu tõttu on olnud EL regionaalpoliitikale üsna palju väljakutseid pakkuv protsess. EL regionaalpoliitika efektiivne rakendamine eeldab, et kõikide liikmesriikide riiklikud, regionaalsed ja kohalikud valitsemisinstitutsioonid oleksid võimelised rakendama EL praktikaid ja norme. Kuna aga liitunud Kesk- ja Ida-Euroopa (KIE) riigid seisavad siiani silmitsi suurte regionaalarengu probleemidega ning on majanduslikult ja sotsiaalselt vanadest liikmesriikidest maas, tekitab see raskusi kogu liidule, saavutamaks üleüldisi regionaal- ja ühtekuuluvuspoliitika eesmärgi. Seetõttu on ka partnerlusprintsibi rakendamine KIE-s pälvinud seni üsna kriitilisi hinnanguid, mistõttu muutub küsitavaks ilmselt ka EL struktuurifondide mõju nendes riikides, kuigi pärast kahe-aastast liikmestaatust, mil struktuurifondide vahendid on uutele liikmesriikidele kättesaadavad olnud, on selle kohta ilmselt veel liiga vara hinnanguid anda.

Pidades silmas, et praegusel hetkel valmistatakse nii EL-s tervikuna kui ka liikmesriikide tasandil uueks EL finantsperspektiiviks aastatel 2007-2013, mis on eriti oluline just uutele liikmesriikidele, kuna sellel perioodil on neil oodata eraldatavate struktuurivahendite ulatuslikku kasvu, on valminud ka käesolev magistritöö koos selle aluseks oleva empiirilise uuringuga Eesti kohalike omavalitsuste seas. Magistritöö eesmärgiks on uurida EL

regionaalpoliitika rolli ja mõju Eesti kohalikele omavalitsustele ning hinnata, milline on omavalitsuste suutlikkus kaasata struktuurivahendeid kohalikku arendustegevusse ja millised faktorid võivad seda suutlikkust mõjutada. Kuna autor leiab, et struktuurifondide partnerluspõhimõtte rakendamine selle algselt mõeldud kujul liikmesriikides on tegelikult üliolulise tähtsusega ka kohaliku omavalitsuse võimel struktuurivahendeid efektiivselt ära kasutada ja õigesse kohta suunata, keskendub magistritöö peamiselt alljärgnevatele küsimustele:

- Ø Milline on „partnerlusprintsipi” rakendamine struktuurivahendite jaotamise planeerimisel Eestis ja kohalike omavalitsuste kaasamine regionaalpoliitiliste otsuste tegemisse?
- Ø Milline on kohalike omavalitsuste suutlikkus kaasata arendustegevusse struktuurifondide vahendeid ning mis on olnud peamised probleemid nende vahendite kasutamisel?
- Ø Kas ja kuidas on praegused struktuurifondidest kaasrahastatavad meetmed täitnud kohalike omavalitsuste ootusi (sobivate meetmete olemasolu mõistes)?
- Ø Millised faktorid võivad mõjutada Eesti kohalike omavalitsuste suutlikkust struktuurivahendite kaasamisel kohalikku arendustegevusse?

Magistritöö põhineb uuringul, mille autor viis läbi Eesti kohalike omavalitsuste seas kevadel-sügisel 2005 koostöös Innopolis Konsultatsioonid AS ja SEB Eesti Ühispannaga ning mis on käesoleva magistritöö lahutamatu osa. Uuringu eesmärgiks oli saada tagasisidet Eesti omavalitsuste kogemuste kohta seoses struktuurivahendite taotlemisega ning arendusprojektide teostamisega ning selgitada, millised on omavalitsuste peamised ootused ja vajadused järgmisel struktuurivahendite jaotamise programmiperioodil. Samuti oli uuringu eesmärgiks täita lünk partnerluspõhimõtte rakendamisel Eestis ja anda omavalitsustele võimalus regionaalarengu meetmete planeerimisel kaasa rääkida ja kuulda võetud olla. Lisaks läbiviidud uuringule viis autor magistritöö koostamise raames läbi ka täiendavad kohtumised omavalitsusjuhtidega kolmes erinevas maakonnas (Jõgeva, Pärnu ja Lääne-Viru) ja Tartu linnas, eesmärgiga saada täiendavat tagasisidet empiirilise uuringu küsimustikule ning hinnanguid kaasatuse kohta struktuurivahendite meetmete planeerimisse.

Kuna partnerluspõhimõtte rakendamine selle algselt mõeldud kujul liikmesriikides on tegelikult üliolulise tähtsusega ka kohalike omavalitsuste võimel struktuurivahendeid efektiivselt ära kasutada ja õigesse kohta suunata, keskendub magistritöö esimene osa otsustetegemise protsessile EL regionaalpoliitikas, partnerlusprintsipi olemusele ning olulisusele regionaalpoliitika arengus ning mitmetasandilise valitsemise fenomenile. Samuti keskendub töö esimene osa EL regionaalpoliitika mõjule liikmesriikide regionaalpoliitikale ning toob välja ka ülevaate Eesti administratiivsest süsteemist, kohalike omavalitsuste kujunemisest ja rollist selles, Eesti regionaalpoliitika arengust ning EL mõjust sellele.

Partnerluse põhimõtte, millega seondub ka mitmetasandilise valitsemise dimensioon (tutvustatud algselt Gary Marksi poolt), rõhutab supranatsionaalsete, rahvuslike, regionaalsete ja kohalike valitsustasandite tiheda suhtluse olulisust EL poliitikate väljatöötamisel ja otsustusprotsessis ning selle kohaselt ei ole liikmesriikide valitsused enam nõ väravahid EL regionaalpoliitiliste otsuste tegemisel, vaid arvestataval kohal on just kohalike tasandite seisukohad regionaalmeetmete väljatöötamisel. Seega oli partnerluse põhimõtte tutvustamine EL struktuurifondide 1988 aasta reformiga katse muuta EL regionaalpoliitika efektiivsemaks, kaasates kohalikke ja regionaalseid tasandeid, kes on kõige paremini kursis regioonide ja omavalitsuste tegelike probleemide ja vajadustega. Seetõttu võib oletada, et liitumisel EL-ga on omavalitsustele avanenud uued võimalused struktuurifondide ning lisaks ka suuremate võimaluste näol teha *lobby*-tööd selleks, et nende huvid struktuurivahendite jaotamisel arvestatud saaksid.

Üldiselt aga on erinevad empiirilised uuringud Euroopas näidanud, et EL-l on olnud üsna väike mõju partnerluspõhimõtte elluviimisele. Ka Eesti juhtum tundub seda väidet toetavat. Paljud omavalitsused, kes osalesid empiirilises uuringus ning kellega toimusid täiendavad kohtumised, tõid välja, et nad ei ole kursis riigi poolse tegevusega struktuurifondide vahendite planeerimisel ja et nad ootavad riigi poolt rohkem kaasamist. Samuti toodi välja, et kuigi formaalselt on antud võimalus oma arvamus esitada, siis kohalike omavalitsuste nägemuses prevaleerivad regionaalarengu meetmete rakendamisel ikkagi riiklikud prioriteedid ja kohalike tasandite eelistused jäävad sageli seetõttu tagaplaanile. Sellest tulenevalt selgub ka käesolevas magistritöös, et väga suures osas ei ole olemasolevate meetmete abil võimalik siiski hädavajalikke arendustegevusi kohalikes omavalitsustes ellu

viia, mis takistab kogu riigi regionaalset arengut. Ka eelnevad KIE riikides tehtud teemakohased uuringud on välja toonud, et enamikus neist, k.a Eestis toimub otsustamine üsna tsentraliseeritult ja kaasamine toimub pigem formaalselt kui sisuliselt. Kuna aga mitmed uurijad toovad välja, et struktuurifondide rakendamine ja kasutamine liikmesriikides sõltub väga suures osas nende riikide ajaloolisest taustast, välja kujunenud administratiivsest süsteemist, vastuvõtlikkuse astmest, institutsionaalsest võimekusest jpm, siis võib oletada, et tulenevalt unitaariigi staatusele (tsentraliseerituse probleemi on välja toodud ka teiste unitaariikide puhul vanadest liikmesriikidest, nt Iirimaa kogemusi struktuurifondide rakendamisega uurides), riigi väiksusele, Eesti ajaloolisele taustale kui ka Nõukogude Liidu mõjule, kus otsustamine oli äärmiselt tsentraliseeritud, on paratamatu, et struktuurivahendite planeerimine käib suhteliselt tsentraliseeritult. Teisalt takistab partnerluse põhimõtte efektiivset ja eesmärgipärast kasutamist ka omavalitsuste nõrk institutsionaalne, administratiivne ja finantsiline suutlikkus ise siinkohal aktiivsust üles näidata.

Lisaks partnerluspõhimõtte efektiivsele rakendamisele liikmesriikides, on samuti oluline kasusaajate tegelik suutlikkus struktuurivahendeid arendustegevusse kaasata, mis nagu juba mainitud, on ühelt poolt mõjutatud just kaasaráäkimisvõimest toetusmeetmete kavandamisel. Käesoleva magistr töö teine pool vaatlebki seega Eesti kohalike omavalitsuste võimet struktuurifonde oma arendustegevuse toetamiseks efektiivselt kaasata. Vaatluse all on eelkõige kohalike omavalitsuste administratiivne ja finantsiline suutlikkus struktuurivahendite kaasamiseks.

Tegelikult ei olegi väga palju teoreetilisi definitsioone absorbeerimisvõimele struktuurivahendite kasutamisel, eriti veel kohandatuna kohaliku omavalitsuse tasandile. Käesolevas magistr töö on aluseks võetud definitsioon(id), mida on kasutatud ka enamikes KIE riikides läbi viidud uuringutes. Definitsiooni kohaselt on absorbeerimisvõime liikmesriigi suutlikkus efektiivselt ära kasutada struktuurifondide vahendeid. Omakorda jaguneb absorbeerimisvõime kolmeks – makroökonomiline absorbeerimisvõime, administratiivne ning finantsiline suutlikkus struktuurivahendite kasutamiseks. Käesolevas magistr töö on vaadeldi lähemalt Eesti kohalike omavalitsuste administratiivset ja finantsilist absorbeerimisvõimet ning hinnati sobivate regionaalabi meetmete olemasolu empiirilise uuringu küsimustikule vastanud kohalike omavalitsuste hinnangute kohaselt. Kohalike

omavalitsuste administratiivse suutlikkuse analüüsimiseks on töös aluseks võetud ka de Rooij 2002. aasta uurimus Hollandi kohalike omavalitsuste seas, millest selgub, et üldiselt eksisteerib ühtne arusaam struktuurifondide mõjust kohalikele omavalitsustele: esiteks, kohalikud omavalitsused on seetõttu pidevalt vastandatud EL seadusandlusega (kindlad reeglid, mida tuleb täita, et struktuurifondide vahendeid oleks võimalik kasutada, nn „abikõlblikkus”), teiseks, sellega seoses on omavalitsuste jaoks avanenud uus võimaluste struktuur ning kasvanud omavalitsuste võime poliitilistes otsustes kaasa rääkida ning kolmandaks, mitmetes omavalitsustes on toimunud nn organisatsiooniline adaptatsioon, ehk loodud uued struktuurid ja ametikohad EL asjadega tegelemiseks.

Üldiselt võib Eesti kohalike omavalitsuste võimet struktuurivahendite kasutamisel pidada suhteliselt madalaks. Nõrk on nii omavalitsuste administratiivne kui finantsiline suutlikkus struktuurifondide projektide kavandamisel ja elluviimisel. Sageli takerdub arendusprojektide teostamine piiratud inimressursi taha – ei ole võimalik palgata piisava kvalifikatsiooniga projektijuhti. Enamik (44%) vastanud omavalitsusi tõi välja, et nende töötajad tegelevad arendusprojektidega teiste kohustuste kõrvalt, mistõttu võib tulenevalt tööga ülekoormatusest ning ka spetsiifiliste oskuste puudumisest sageli kannatada projektide ettevalmistamise kvaliteet. Seega ei ole Eesti omavalitsustes veel ilmne de Rooij poolt identifitseeritud organisatsiooniline adaptatsioon, kui üks struktuurifondide absorbeerimisvõime näitajaid. Nõrk administratiivne suutlikkus on põhjendatud seega inimressursi puudulikkusega, mis võimendub eriti väiksemates ja perifeersemates omavalitsustes (kuna empiirilise uuringu küsimustikule vastanud omavalitsused olid üldiselt väikese elanike arvuga ning enim esindatud olid maakonnad, mis Eesti Statistikaameti info põhjal sotsiaal-majanduslike näitajate poolest suhteliselt tagaplaanil. Põhjusti võimendab Eesti kui väikeriigi sündroom ning keskvalitsuse tasandi administratiivne suutlikkus struktuurifondide rakendamisel, mis siiani tekitab üleliigset bürokraatiat, takistades omavalitsustel toetuste taotlemisel aktiivsemad olla.

Nõrka finantsilist suutlikkust näitab omavalitsuste vähene võime panustada projektides nõutud omafinantseeringut, mis üldjuhul jääb 20-25% vahele projekti kogumaksumusest. Fakt, et projektidele ei suudeta tagada vajalik omafinantseering, tundub muutuvat veelgi suuremaks probleemiks tulevikus. Kui seni on enamike projektide omafinantseering tagatud valdavalt siiski omavalitsuse eelarvest (54%), siis järgnevate aastate jooksul plaanib juba

64% omavalitsusi katta selle laenuvahenditest ning vaid 20% omavalitsuse eelarvest. Kuna aga kohalike omavalitsuste laenukoormus on seadusega piiratud, siis võib ennustada, et omafinantseering on ka tulevikus jätkuvalt üks peamisi põhjuseid, miks arendusprojekte ei ole võimalik ette võtta. Finantsiline absorbeerimisvõime on tugevalt mõjutatud üleüldisest kohalike omavalitsuste rahastamis- ja finantssüsteemist Eestis, mida iseloomustab äärmiselt nõrk finantsautonoomia, kohalike maksude ja eelarveallikate üliväike osatähtsus kohalike omavalitsuste eelarvetes ning alternatiivsete rahastamisvõimaluste vähene rakendamine (mis omakorda on seotud vähese administratiivse võimekusega). Seega ei ole paljud kohalikud omavalitsused Eestis uute arendusideede kavandamisel ja veel vähem elluviimisel eriti võimekad ning eesrindlikud.

Lisaks on omavalitsuste absorbeerimisvõime analüüsil oluline vaadata ka olemasolevate toetusmeetmete sobivust (de Rooij „*eligibility*” kriteerium). Magistritöös selgub, et enamik omavalitsusi ei pea praegusi struktuurifondidest kaasrahastatavaid meetmeid piisavaks ning eelkõige on puudu just baasinfrastruktuuri toetavatest meetmetest. Infrastruktuuri toetusmeetmed Eestis on kohalike omavalitsuste jaoks nii praegu kui ka tulevikus ilmselt ühed olulisemad, kuid kindlasti ka problemaatilisemad. Lisaks sobivate toetusmeetmete vähesusele, on sageli probleemiks ka selliste investeeringuprojektide ettevalmistamise kulukus – erinevad programmid nõuavad eeldokumentatsiooni, mis võimaldaks toetusotsuse saabumisel koheselt investeeringuga alustada, kuid see võib kohalikele omavalitsustele tähendada kümneid või isegi sadu tuhandeid kroone, mis tuleb investeerida eeltööks – ehitusprojektid, tasuvusanalüüsid, projektitaotlused jne. Sobivate meetmete vähesust saab siduda omavalitsuste vähese kaasamisega nende meetmete planeerimisprotsessi, mida on Eesti regionaalpoliitika nõrkusena välja toonud ka mitmed aktiivsemad maakondade esindajad kui ka regionaalminister Jaan Õunapuu. Siinkohal peaks mõtlemisainet tekitama asjaolu, et lausa 35% vastanud omavalitsustest väidab, et nad kindlasti ei teostaks prioriteetseid projekte, kui selleks pole võimalik toetust saada ehk Eesti kohalikud omavalitsused on oma arendustegevuses siiski väga palju sõltuvad toetusrahadest.

Lõpuks vaatleb magistritöö faktoreid, mis võivad mõjutada Eesti omavalitsuste struktuurifondide absorbeerimisvõimet. Nagu toodud välja ka erinevate autorite poolt on Euroopa integratsioonil erinev mõju omavalitsustele erinevates liikmesriikides nagu ka

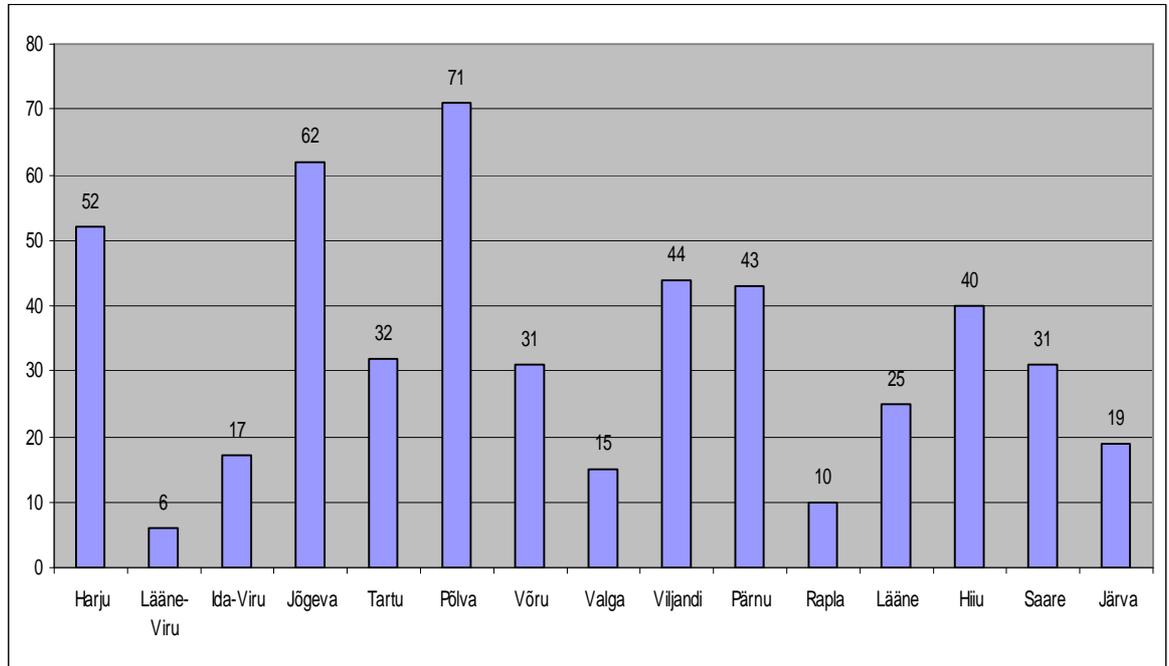
liikmesriikide siseselt on nende uute võimaluste kasutamisel suured erinevused omavalitsuste vahel (selgub ka käesolevas empiirilises uuringus ja magistritöös). Riiklikud piirangud võivad takistada näiteks selliste võimaluste kasutamist ühes omavalitsuses, kuid mitte teises ning sellised erinevused võivad olla põhjustatud omavalitsuse ressursidest, nagu näiteks inimesed, raha, asukoht, ligipääs poliitikutele või teistele otsustamisele lähedalseisvatele ametnikele. Ka käesolevas magistritöös selgub, et sageli sõltub toetuste kasutamine omavalitsustes olemasolevatest ressursidest, mis aga Eesti väiksemates ja perifeersemates omavalitsustes jätab paljuski soovida. Seetõttu kipub ka siin kehtima põhimõte, et paremini organiseerunud ja otsustamisprotsessi mõjutada suutvad grupid on need, kes tegelikult struktuurirahast kasu lõikavad ning sinna, kuhu abi eelkõige vaja oleks, ei pruugi see üleüldse jõuda, kuna puudub suutlikkus seda sinna toimetada. Kuigi Eestis on palju spekuleeritud administratiiv-territoriaalse reformi läbiviimise üle, et lahendada probleem väikeste ja liiga suure arvu omavalitsuste nõrga institutsionaalse suutlikkusega, siis leitakse magistritöös, et mitmetel põhjustel ei ole selline reform lahenduseks, deformeerides pigem demokraatliku omavalitsuse põhimõtteid, kui lahendades probleemi. Pigem leitakse töös, et vajalik on tugevdada omavalitsusliitude rolli kohalike omavalitsuste häälekandja ja arengu edendajana, samuti *lobby*-töö tegijatena ning teadvustada probleemi tugevamalt keskvalitsuse tasandil ning regionaalpoliitika planeerimisel.

Kokkuvõttes, käesolev magistritöö ei analüüsi otseselt, kas saab teha lõplikke järeldusi EL regionaalpoliitika mõjust Eesti regionaalarengu edendamisele esmase kahe-aastase EL liikmeks olemise kogemuse järel ja anda konkreetseid hinnanguid EL regionaalpoliitika tulemuslikkuse kohta Eestis. Selge on, et Eestis esinevad suured regionaalsed erinevused, ääremaastumise ja linnakeskuste probleem ning struktuurifondid võiksid olla üks vahend nende erinevuste kõrvaldamisel. Ometi tundub ka käesoleva uuringu taustal, et esimeste kogemuste põhjal ei ole neid regionaalseid probleeme võimalik veel lahendada.

Väiksematel, perifeersemates ning suuremates probleemides vaevlevatel omavalitsustel puudub piisav võimekus struktuurivahendite kasutamiseks. Samuti ei ole regionaalseid erinevusi efektiivselt võimalik kaotada ilma kaasamiseta, tugevate regionaalsete üksuste ning võimekate institutsioonideta, mistõttu on regionaalpoliitika läbi struktuurifondide edukas ja elujõuline vaid siis, kui eksisteerivad tugevad regionaalsed üksused, osalemismehhanismid planeerimises ja elluviimises ning erinevate osapoolte integratsioon. Eesti vajab siinkohal ilmselgelt hulgaliselt arenguruumi.

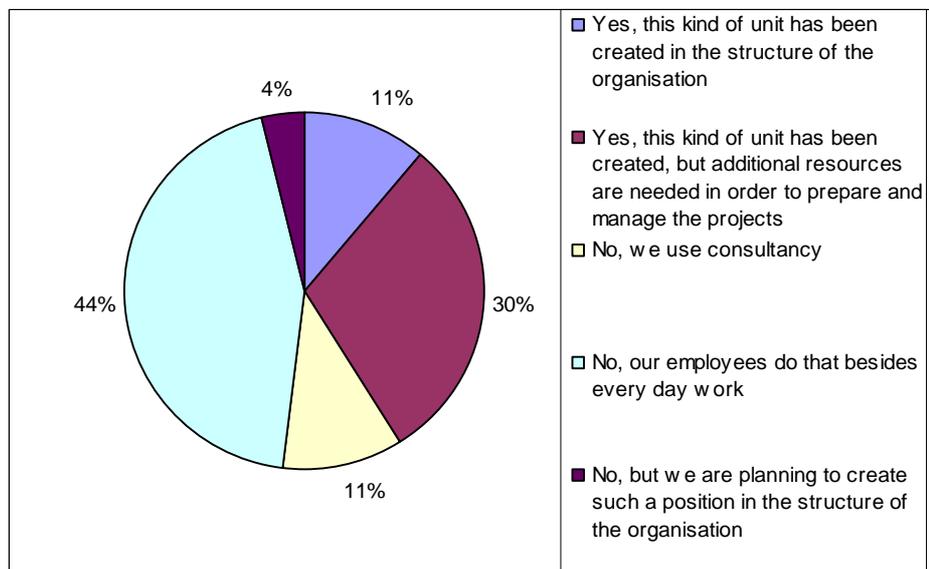
## ANNEX

**Figure 1. Respondents from the counties (%)**



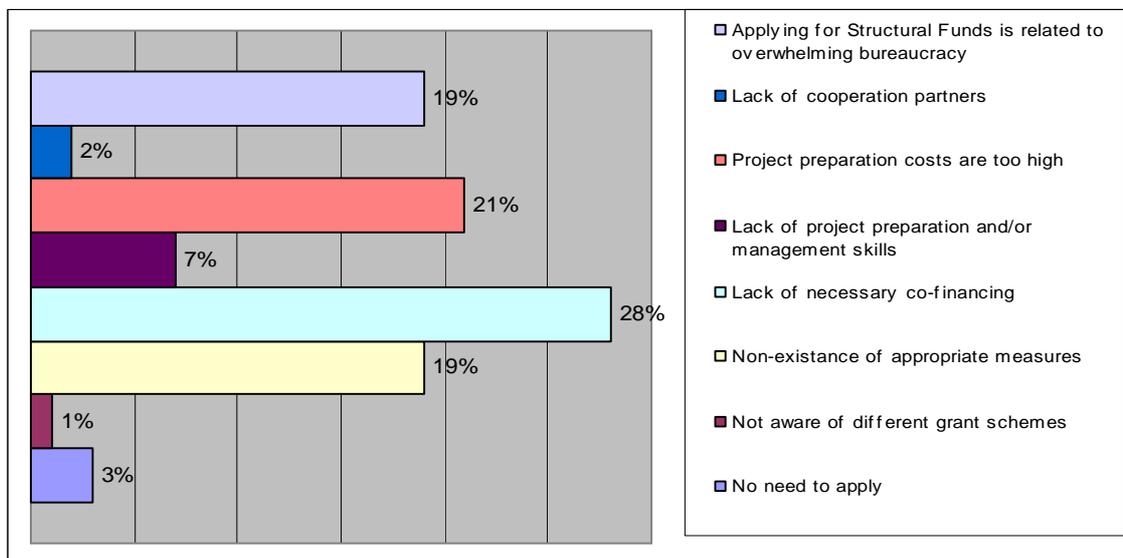
*Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Struktuurifondide jaotamise programmiperioodil 2007-2013 (Full version): pp. 13.*

**Figure 2. An unit/official dealing with EU issues and projects in the municipality**



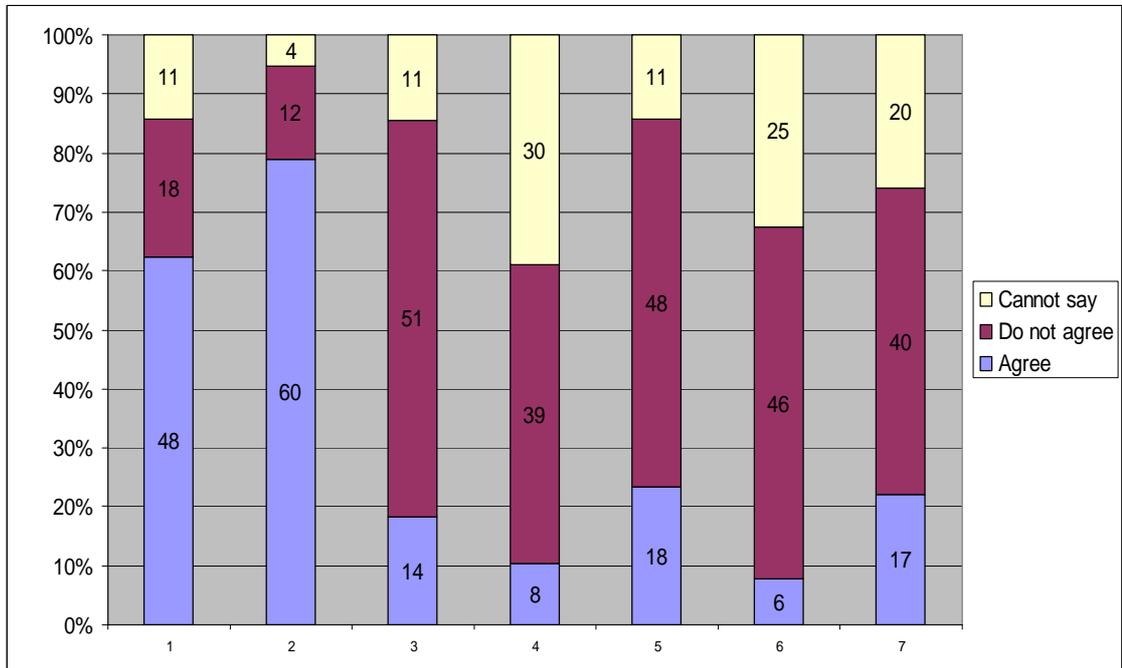
*Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Struktuurifondide jaotamise programperiodil 2007-2013 (Full version): pp. 15.*

**Figure 3. Reasons for not applying for Structural Funds grants**



Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. *Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Strukturfondide jaotamise programmiperioodil 2007-2013 (Full version): pp. 24.*

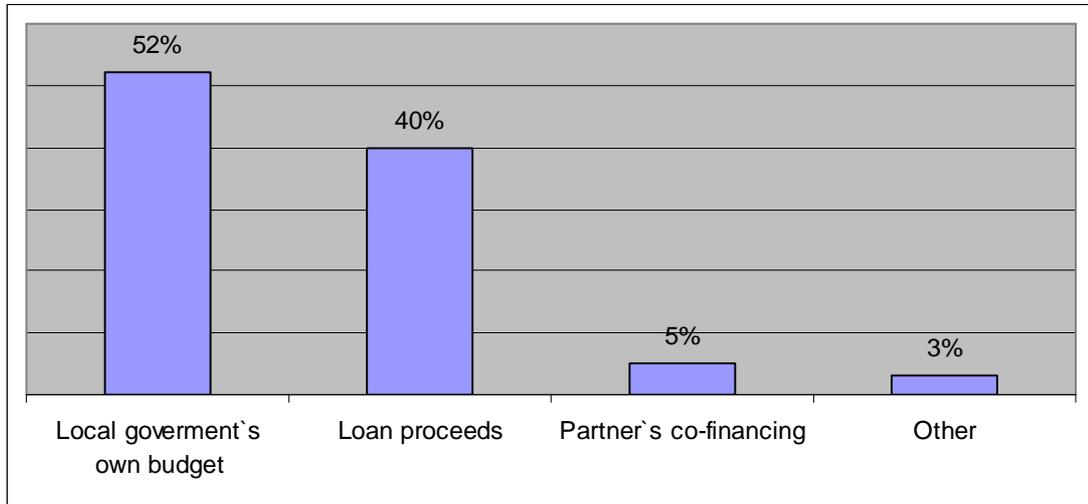
**Figure 4. Previous experiences with project application and implementation procedures (% of respondents)**



Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. *Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Struktuurifondide jaotamise programperiodil 2007-2013 (Full version): pp. 27-28.*

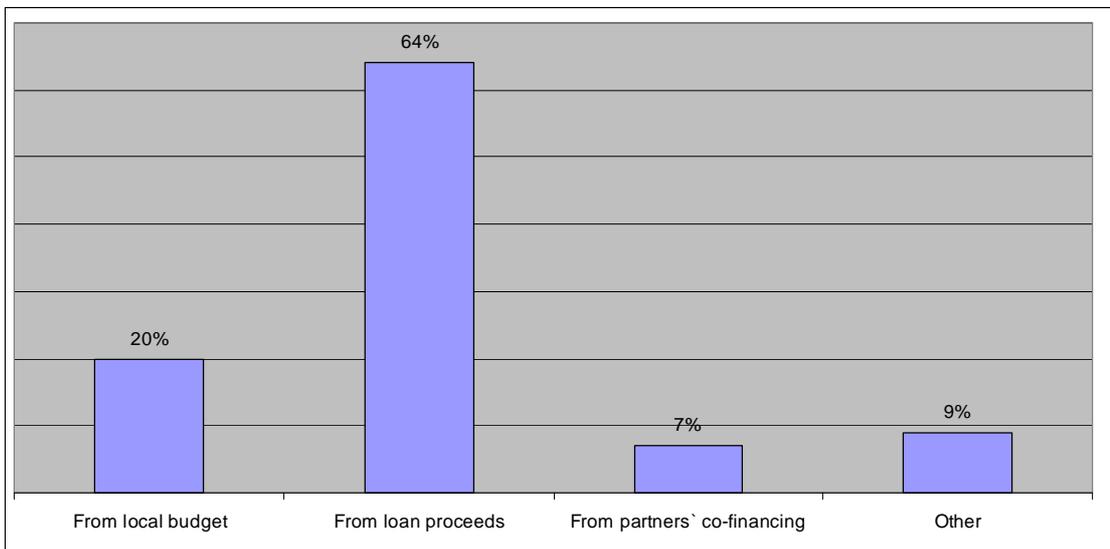
1. Administrative requirements for applications are well presented and clear.
2. Regulations and guidelines of different programs are of good help in preparing applications.
3. Imposed requirements on application procedures are logical and easily implemented.
4. Evaluation and assessment procedure of the applications is transparent and fair.
5. Feedback to applicants is sufficient and justified.
6. Making changes to projects in their implementation process is easy.
7. Project accounting for Implementing Agency is easy.

**Figure 5. Sources of co-financing in the local government**



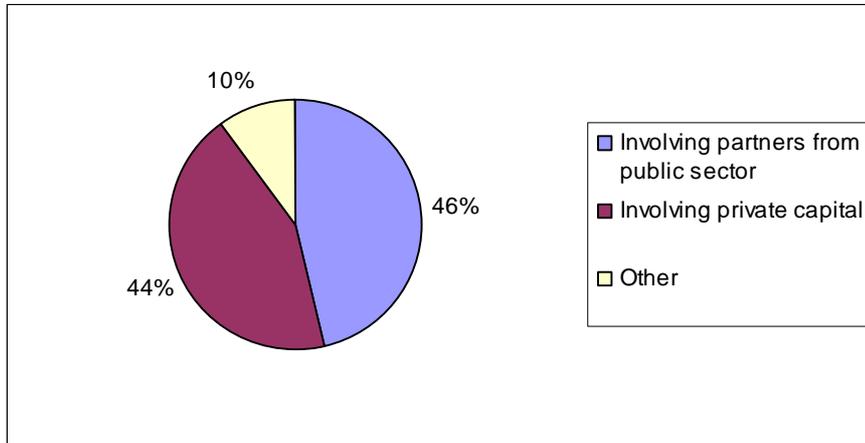
Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. *Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Strukturiifondide jaotamise programmiperioodil 2007-2013 (Full version): pp. 29.*

**Figure 6. Planned sources of co-financing in local governments in the future**



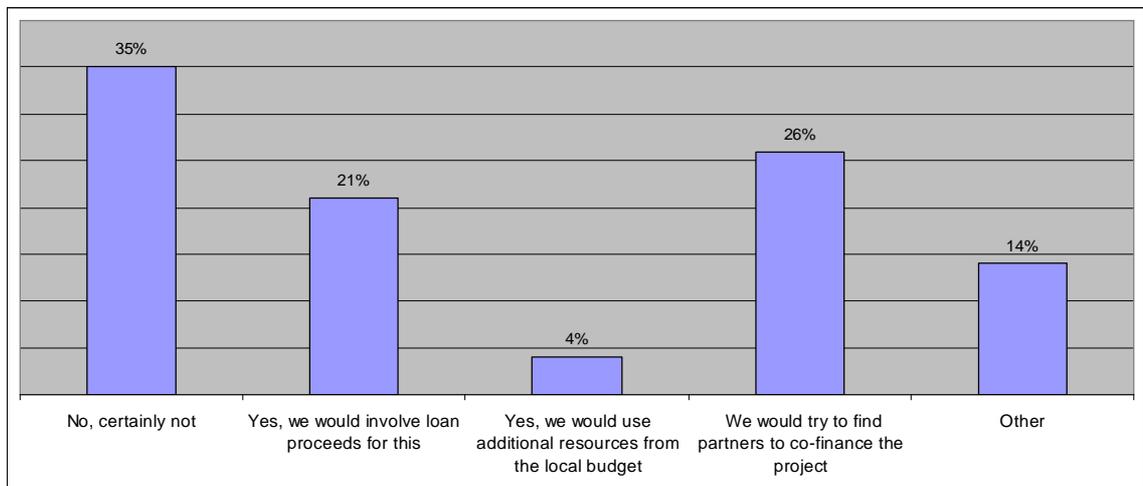
Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. *Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Strukturiifondide jaotamise programmiperioodil 2007-2013 (Full version): pp. 31.*

**Figure 7. Other possibilities for co-financing projects**



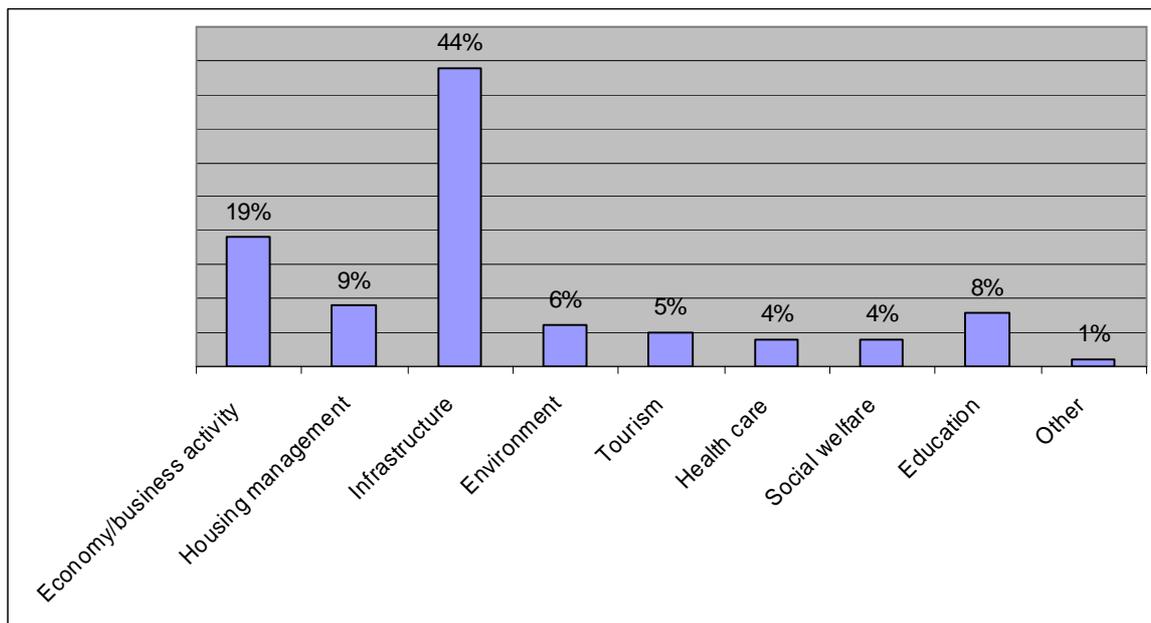
Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. *Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Struktuurifondide jaotamise programmiperioodil 2007-2013 (Full version): pp. 30.*

**Figure 8. Readiness to implement development projects without Structural Funds contribution**



Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. *Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Struktuurifondide jaotamise programmiperioodil 2007-2013 (Full version): pp. 40.*

**Figure 9. Areas where the Structural Funds grants are most needed**



*Source: Innopolis Consulting Ltd. and SEB Eesti Ühispank. 2005. Kohalike omavalitsuste ootused ja vajadused Euroopa Liidu Struktuurifondide jaotamise programmiperioodil 2007-2013 (Full version): pp. 32.*