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THE CHALLENGE OF HORIZONTAL INTERGOVERNMENTAL  
COORDINATION - EVIDENCE FROM ESTONIA

Bachelor Thesis

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I have written this Bachelor Thesis independently. Any ideas or data taken from other authors or other sources have been fully referenced.

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## Introduction

During unexpected crises, socio-economic and political structures of government tend to experience both external and internal changes (Jüptner & Klimovský, 2021). To address issues effectively, coordination of the political system is crucial to the government's well-being as it delivers the response to the public. Thus, intergovernmental coordination assembles the principal executive politicians and senior civil servants from various or all governments within a state (Behnke & Mueller, 2017).

Researchers such as Bolleyer (2011) distinguish vertical (hierarchical structure) and horizontal (a collaboration between actors that operate at the same hierarchical level) types. Even though entities try to reach the same goal, work on problem-solving, and generate a surplus from coordinated actions, there is a possibility of adverse outcomes such as obstacles to policy coordination, including insufficient coordination, variations in county size, discord regarding economic conditions and cross-border impacts, neglect of trade-offs, and the mismatch between policy capacities and actual problems (Wulf, Voets & Molenveld, 2023).

The central concept that contributes to the topicality is an economy of scale. In theory, economies of scale indicate that as a company grows, its average costs decrease. In contrast, diseconomies of scale arise when expansion leads to rising average costs. (Carey, 2014) This idea can be linked not only to businesses but to the politics as well.

Southwick (2012) indicates that bureaucrats aiming to maximise their budgets can introduce organisational inefficiencies. Firstly, this often leads to allocating more resources to an activity rather than necessity, assuming bureaucrats have some discretion in budget allocation. Secondly, funds may be squandered on technically optimal activities but executed wastefully. These factors could involve a disproportionate allocation of labour over capital to garner more support, especially for elected officials, or an overemphasis on capital by certain bureaucrats. Thirdly, there may be outright waste where output falls short of potential given the inputs. While both private sector firms and governments may exhibit these tendencies, private firms have more robust incentives for efficiency due to profit maximisation goals. In contrast, government entities may persist despite inefficiencies, as their survival is not directly tied to profitability.

However, improved horizontal intergovernmental cooperation can be considered as the solution for the previously described issues. This choice is justified by Goldschmidt, Darulova, Niculescu, and Stemberger (2005), who distinguished three levels of necessity for horizontal coordination. Firstly, at the national level, the aim is to coordinate sectoral policies. Secondly, at the EU level, policy-making coordination is essential to establish a

unified stance and effectively navigate European negotiation processes. Thirdly, horizontal coordination becomes mandatory for the national implementation of community legislation. The last point proves that improved horizontal intergovernmental coordination leads to positive effects such as improved quality of services through collaborative, innovative solutions, transparency of activities, and diminished information asymmetry on the municipality level.

Another concept highly related to HIC is inter-municipal cooperation (IMC). IMC is two or more municipalities collaborating on tasks within their purview, aiming to achieve mutual advantages through shared efforts (Council of Europe, 2010). While HIC typically refers to the collaboration between different levels of government at the same hierarchical level, IMC focuses explicitly on collaboration between municipalities or local government entities. It applies to the Estonian administrative system, as only these entities exist legally.

This thesis contributes by fulfilling several research gaps. Currently, available literature covers different aspects of HIC: for example, forms of cooperation and their generalised effect have been extensively discussed (Bolleyer, 2011), as well as multidimensional interests of actors (Schnabel & Hegele, 2021), and the generalised impact of bureaucracy on HIC (Hegele, 2018). However, few studies and cases concentrate on obstacles and opportunities for inter-governmental cooperation in Estonia, and this thesis covers this research gap. Additionally, most researchers like Niedobitek (2018) and Hegele (2017) use a quantitative approach, while this work focuses on getting results using qualitative methods: legislation analysis and the conduction of interviews.

The thesis aims to determine the obstacles and opportunities for horizontal intergovernmental coordination in Estonia.

The author formulated the following research tasks, and completing them is crucial to achieving the aim of the thesis:

- To give an overview of the literature that defines horizontal intergovernmental coordination.
- To study forms of horizontal intergovernmental coordination and analyse related empirical studies on features of this concept.
- To describe and justify the choice of methodology.
- To examine Estonian legislations regarding local governments, their rights, and constraints.
- To interview local authorities and collect data about the current state of horizontal intergovernmental coordination.

- To analyse and interpret the interview results into a SWOT (Strengths, Weaknesses, Opportunities, Threats) model.

The definition of horizontal intergovernmental coordination will be drawn to start the comprehensive explanation of the political system in subchapter 1.1. Subchapter 1.2 will define forms of horizontal intergovernmental coordination and give an overview of previously conducted studies on the topic. Additionally, subchapter 2.1 provides an overview and justifies the chosen methodology that will be used for further analysis. Subchapter 2.2 analyses Estonian legal documents, presents interview questions, and analyses interview results, while the last subchapter 2.3, discusses the findings and interprets them into a SWOT model.

**Keywords:** intergovernmental horizontal coordination, political systems, governmental communication, Estonia.

## 1. Theoretical framework of horizontal intergovernmental coordination

### 1.1. Definition of horizontal intergovernmental coordination in relation to the tiers of government

Heslop (2023) defines the political system as the composition of formal and legal institutions that shape a government. It is essential to understand the components and their characteristics that determine the polity's components and their generalised effect. Easton (1957) suggests identifying the political system by characteristics such as a form of government, a system of government, and a political regime. In Table 1, the author of the thesis provides a brief description of the tiers of the government with examples.

Table 1

#### *Components of the political system*

Component	Definition	Examples
Form of government	<ul style="list-style-type: none"> <li>Monarchy features a leadership role passed down through generations, occupied by a sole person (Gerring et al., 2020).</li> </ul>	<ul style="list-style-type: none"> <li>United Kingdom, Morocco, Spain (Singh, 2019).</li> </ul>
	<ul style="list-style-type: none"> <li>Republics are designed to be ruled by laws rather than royalty (Pettit, 1993).</li> </ul>	<ul style="list-style-type: none"> <li>Russia, the United States of America, Ireland (World Population Review, 2024).</li> </ul>
System of government	<ul style="list-style-type: none"> <li>The federation distributes governmental powers between a central authority and constituent political units (Watts, 1998).</li> </ul>	<ul style="list-style-type: none"> <li>The United States of America, Canada, Russia (The Global Network on Federalism and Developed Governance, 2022).</li> </ul>
	<ul style="list-style-type: none"> <li>A unitary state's central government possesses all powers and retains the authority to reclaim them at its discretion (Breton &amp; Fraschini, 2003).</li> </ul>	<ul style="list-style-type: none"> <li>Italy, France, and the United Kingdom (World Population Review, 2023)</li> </ul>
Political regime	<ul style="list-style-type: none"> <li>Democracy is a durable institutional framework that achieves the freedom and equality of citizens through the lawful and effective operation of its mechanisms (Morlino, 2004).</li> </ul>	<ul style="list-style-type: none"> <li>Canada, the United States of America, and Norway (Our World in Data, 2023).</li> </ul>
	<ul style="list-style-type: none"> <li>Non-democracy (authoritarianism) implies limited political freedom, firm information control and manipulation, and a high level of repression (Guriev and Treisman, 2020).</li> </ul>	<ul style="list-style-type: none"> <li>Afghanistan, Syria, and China (Our World in Data, 2023).</li> </ul>

Source: compiled by the author

Each of the tiers contains its significant elements, which, in sum, define directions for both domestic and foreign policies. For instance, empirical evidence has shown that leaders in democratic nations are significantly more inclined to engage in hostilities with a nondemocratic opponent than with another democracy (Mintz & DeRouen, 2012). This example shows how only a political regime can determine an essential decision for the state. Nevertheless, other real-life examples support the viewpoint of components' influence on politics. In the past, the British Empire colonised approximately a quarter of the world's land (Khilnani, 2022). Now, after the Empire's fall, the UK is a Constitutional Monarchy (GlobalEDGE, n.d), and its foreign policy is oriented towards maintaining historical ties and interests, including within the Commonwealth of Nations, and pursuing global strategic goals through diplomacy, trade, and military alliances.

Additionally, the British Monarch maintains a symbolic power in fifteen countries (McBride, 2022). Besides sharing the same ruler and structure, these 15 countries are involved in economic and social relations. As for the influence on domestic policies, the author of the thesis continues by describing the concept of intergovernmental relations and coordination as the focus of this chapter.

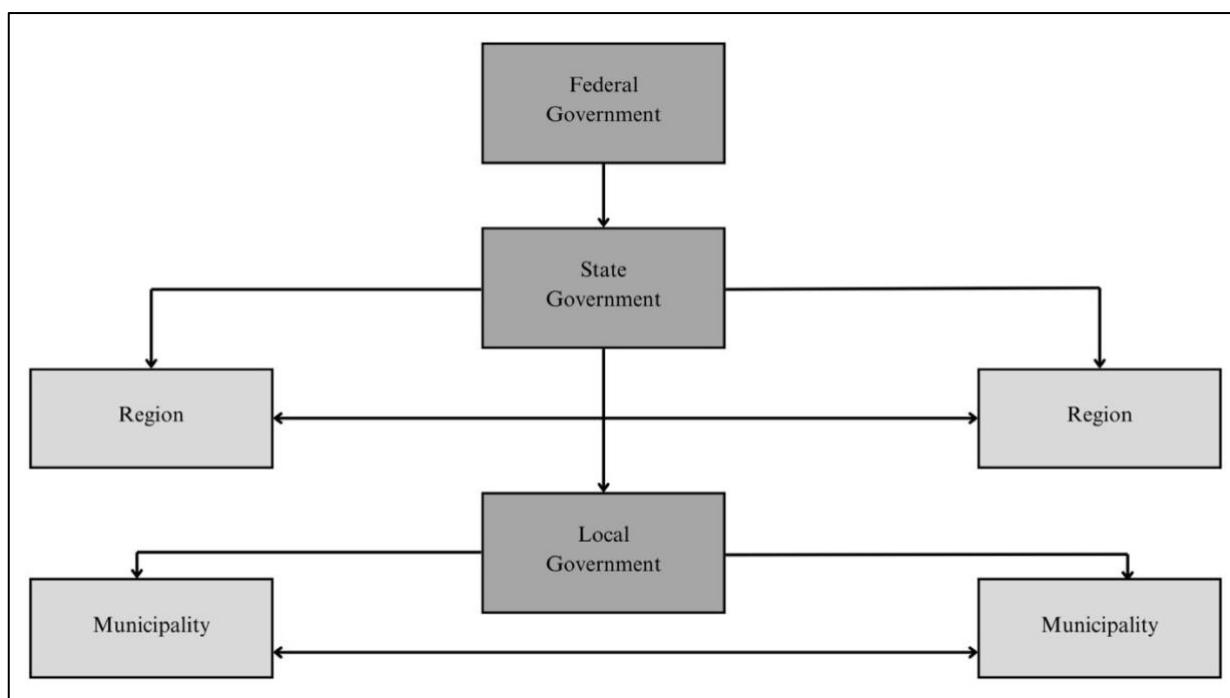
Intergovernmental coordination is a feature of a broader theoretical concept of intergovernmental relations. Intergovernmental relations play a vital role in every system of government, irrespective of variations in history, geography, constitutional framework, legal culture, distribution of competencies or resources, and federal design, as they encompass a spectrum of formal and informal mechanisms strategically instituted to ensure coordination and collaboration among disparate tiers of governance in decentralised and federal political systems (Bühler, Luther, & Siegner 2017; Poirier & Saunders, 2011). The focus of the definition lies in acknowledging the various methods through which coordination is accomplished in political systems characterised by multiple tiers of government.

Hence, the correlation between the two is evident: the more transformations intergovernmental relations are experiencing, the more changes are made to its components. Chanchal Kumar (2016) proves this point by emphasising how specific institutional mechanisms become essential to facilitate exchanges among political leaders and refers to these mechanisms as coordination mechanisms. The author underscores the significance of coordination mechanisms in fostering effective communication and collaboration.

There is a unique approach to precisely determining intergovernmental coordination. Researchers such as Lindbolm (1965) suggest defining each word of the term separately to get more precise results. While "intergovernmental" is defined as coordination that primarily

occurs among the executives of the central government and the constituent units (Behnke & Mueller, 2017), “coordination” should be examined seriously and applied to the context in which it is given. In the case of a political framework, a collection of decisions is considered coordinated when modifications have been implemented to mitigate, diminish, counteract, or outweigh the negative impacts of any individual decision on others within the set to a certain extent and with some regularity (Peters, 2018; Lindblom, 1965). It can be concluded from both terms that intergovernmental coordination is a collaborative process to achieve common goals and implement improvements among governmental entities.

To provide a better overview of types of intergovernmental coordination, the author of this work has developed a scheme that depicts the essence of two types of intergovernmental coordination (Figure 1).



*Figure 1.* Types of Intergovernmental Coordination

Source: Compiled by the author based on Bolleyer (2011); Schnabel & Hegele (2021)

Schnabel and Hegele (2021) described that the orientation of this process could be either vertical, involving communication between the federal government and the constituent units, or horizontal, occurring among the constituent units themselves. It is worth mentioning that horizontal intergovernmental coordination occurs on state (e.g., communication between regions) and local (e.g., communication between municipalities) levels. This dual dimension highlights the complexity and flexibility required for effective coordination in diverse political systems. Other researchers, such as Bolleyer (2011), tend to agree with this typology and emphasise the nature of coordination as hierarchical (vertical), command-and-control

authority, and non-hierarchical (horizontal), where the influence of party linkages becomes evident with particular clarity.

Behnke and Mueller (2017) examined that assigning various powers and functions to distinct levels of government necessitates coordination in both vertical and horizontal dimensions: political decisions in one region frequently impact the citizens of another, and administrative actions by the central government may have repercussions on the citizens across all areas. Both authors explained the necessity of these types of coordination since navigating the complexities and interdependencies inherent in such governance structures became essential.

There is another typology of coordination which coexists with the previously described one. Goldschmidt, Darulova, Niculescu, and Stemberger (2005) highlight the outcome-based cooperation in their study. The essence of each type is presented and described in Table 2.

Table 2

*Outcome-based types of cooperation*

Form	Explanation
Positive cooperation	It entails players collaborating to achieve a shared benefit, integrating the preferences of individual actors, and culminating in an innovative agreement. This process can be intricate, expensive, and time-intensive, requiring the identification of various players' interests and determining which alternative solutions are most suitable for the current circumstances. Conversely, these systems can be optimised for efficiency by implementing extensive automation at all levels, facilitating early notification of new initiatives, and identifying potentially conflicting interests promptly.
Negative cooperation	It necessitates that players focus on preventing harm to the protected interests of other participants. It is the most common approach, wherein the entity tasked with resolving a particular issue focuses on ensuring that other units or areas are not adversely affected by the proposed solution. In legislative proceedings, inter-ministerial coordination through circulars and co-signatures is a typical method of negative coordination. Negative coordination typically leans towards conservatism, as participants tend to agree on the least controversial option.

Source: compiled by the author based on Goldschmidt, Darulova, Niculescu, & Stemberger (2005); Scharpf (1997)

It is assumed that outcome-based typology is the final step in cooperation. Serving its purpose as an analysis of work, it benefits by revealing bottlenecks or positive elements of coordination.

To summarise theoretical findings, the author of the thesis defines horizontal intergovernmental coordination as the collaboration and cooperation between different levels of government or agencies at the same hierarchical level, such as between municipalities, to address common issues, share resources, and achieve mutual goals.

### **1.2. Classification and forms of horizontal intergovernmental coordination**

Bowman (2004) states the need for horizontal intergovernmental coordination as polities frequently encounter shared challenges or aspire to pursue a mutual agenda, leading them to form alliances and networks with other states. He adds that cooperative behaviours typically entail states collaborating towards a shared goal, such as the collective pursuit of a specific objective. Thus, horizontal intergovernmental coordination can enforce collaboration among political actors to address mutual challenges and work on solutions.

As the relation of IMC and HIC was mentioned before, the author of the thesis distinguished forms of IMC (Table 3).

Table 3

#### *Forms of Inter-Municipal Cooperation*

Form	Explanation
Informal IMC	Cooperation often requires no specific legal foundation as they lack binding legal decisions.
Weakly Formalised IMC	Cooperation is based on a legal agreement contract.
IMC in Legitimised Entities	Focuses on overseeing public utility services, infrastructure, and amenities.
IMC as a territorial integration cooperation	Possession of legal identity and broad competencies in strategic areas allows one to exhibit robust political structures.

Source: compiled by the author based on IMC Toolkit Manual (2010)

The discussion on the universality of IMC forms is worth mentioning before continuing the research. While the IMC Toolkit Manual (2010) primarily provides an overview of legal forms, Swianiewicz and Teles (2019) argue that the extensive diversification within and between countries poses a significant challenge for conducting comparative studies due to the complexity introduced by this variety of forms. The author of this thesis tends to disagree with this idea for several reasons. Firstly, the IMC Toolkit Manual does not differentiate subtypes of informal IMC, yet it recognises this form since its

typology might vary from country to country. Secondly, Swianiewicz and Teles (2019) focus primarily on creating new legal entities rather than focusing on cooperation as a process in the first place.

Even though the IMC Toolkit Manual offers an overview of forms, it looks generalised. To get more precise details on the implementation of HIC, the thesis author suggests comparing and contrasting available information on existing forms of formal and informal coordination in two different government systems: federal and unitarian (Table 3).

Table 3

*Existing forms of IMC in European countries*

Country	System of the government	Existing forms of HIC	Sources
Estonia	Unitary state	Formal: public entities ( <i>kohalik omavalitsus</i> ); associations; non-profit organisations; non-government organisations; formation of local rural municipalities or city districts.	Pesti, Randma-Liiv, Hammerschmid & Thijs (2018), Rahandusministeerium (2021), World Population Review (2024)
Finland	Unitary state	Formal: public entities ( <i>municipalities</i> ); public-private partnerships.	The European Committee (2007), World Population Review (2024)
France	Unitary state	Formal: public entities ( <i>communes</i> ); private management bodies governed by private law; public inter-municipal associations; special purpose associations; inter-municipal arrangements; public-private partnerships.  Informal: inter-municipal conferences, cross-municipal collaborations, regional development initiatives.	The European Committee (2007), World Population Review (2024)

Germany	Federative state	<p>Formal: HIC management varies based on distinct policies tailored to each federal component, considering its geography (<i>kommunen</i>), legal form of cooperation with legal personality, special-purpose associations, limited liability companies, inter-municipal arrangements, inter-municipal agreements, public-private partnerships.</p> <p>Informal: intermunicipal conferences.</p>	Forum of Federations (2024), The European Committee (2007)
Latvia	Unitary state	<p>Formal: public, local and regional bodies; inter-municipal agreements; public-private partnerships.</p> <p>Informal: regional development initiatives.</p>	Monitoring Committee (2011), World Population Review (2024).
Lithuania	Unitary state	<p>Formal: associations.</p> <p>Informal: an entity without a specific classification, cooperation is characterised by informality and flexibility.</p>	The European Committee (2007), World Population Review (2024)
Norway	Unitary state	<p>Formal: public bodies (county governments, municipalities); inter-municipal agreements; public-private partnerships.</p> <p>Informal: interpersonal relationships (no institutional structure in terms of communication).</p>	OECD (2017), The European Committee (2007), World Population Review (2024),
Poland	Unitary state	<p>Formal: public entities; a special legal form of cooperation with a legal personality; inter-municipal union; limited liabilities companies; associations of municipalities; public-private partnership.</p> <p>Informal: local action groups.</p>	IMC Toolkit Manual (2010), The European Committee (2007), World Population Review (2024)
Spain*	Federative state	<p>Formal: <i>Consortia</i> involves public authorities from various governmental levels, with some being exclusively inter-municipal; <i>Mancomunidad</i>: a public body that offers diverse public services and serves multiple functions.</p> <p>Informal: cross-municipal cooperation.</p>	Forum of Federations (2024), The European Committee (2007)

Sweden	Unitary state	Formal: public entities ( <i>kommun</i> ); private management bodies governed by private law.  Informal: joint volunteer committees, informal agreements.	Sandberg (2024), The European Committee (2007), World Population Review (2024)
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*Notes.* \* Despite being structured as a federal government with 17 Autonomous Communities and two autonomous cities on the North African coast, Spain operates under a system of asymmetrical federalism where the central government maintains full sovereignty despite variations in regional power (Forum of Federations, n.d.)

Source: compiled by the author

In terms of the selection of countries for the analysis (see Table 4), the author of the thesis investigated available practices and academic literature and chose standardised (countries which can set an example and have a long history of HIC development) and outstanding (countries with unique approaches) examples. Division of countries by their system also might explain the choice of particular forms of IMC.

Since Estonia gained their independence only at the beginning of the 20th century (Bater & Misiunas, 2024), there is little data available on some of the forms of IMC. For example, there is no evidence of informal intergovernmental coordination in Estonia. It is evident from the findings that Estonia and Latvia have legally established public bodies that operate locally and provide public services. However, Lithuania can be labelled as an exception: there are only formal associations but no entities representing municipalities' interests (The European Committee, 2007). It can be concluded that HIC is only in the development stage for the Baltic countries.

Nevertheless, the Nordic countries represent functional formal bodies that are also allowed to cooperate with private companies, and their communication and agreements are regulated by corresponding laws. Additionally, informal coordination is acceptable and appreciated in Norway and Sweden, while HIC exists solely in formal form in Finland.

Previously mentioned countries share a crucial similarity: all of them are unitary states where municipalities have autonomy in their decision-making process on the local level. On the contrary, Germany and Spain, both federal systems, implement unique approaches to the IMC process.

The German federal system provides separate policies for each component based on location. *Bundesrat* serves as a place for horizontal intergovernmental relations, where *Länder* governments engage in coordination and negotiation to articulate their positions on federal motions (Hegele, 2017). Some studies (Niedobitek 2018, Hegele 2017) suggest that

sectoral, political compositions and territorial characteristics affect the body's structure and might affect the decision-making process as the actors who share similarities are most likely to coordinate to achieve the same goal in their favour. Consequently, even though federal units have autonomy and cooperate according to the laws passed by the component state, informal coordination is frequently used by the authorities and is not regulated.

As mentioned, Spain is considered a federative system, but it shows signs of asymmetrical federalism (Forum of Federations, n.d.). To understand this phenomenon, studies suggest that the only similarity with actual federalism is that decentralisation is intended for all territorial subunits, not just a select few (Requejo, 2017). Therefore, Spain could be labelled as a system of regional autonomies, where units have a certain level of self-government. Requejo (2017) confirms this thought by explaining that autonomous communities have governments, parliaments, and executive bodies and control areas such as education, healthcare, and transportation. It can be concluded both from Table 4 and studies that informal cooperation frequently occurs between autonomies.

Unitarian and federative countries have separate practices and tools to manage HIC. Secondly, there are no default lists of formal and informal types of cooperation: usually, it is formed historically through incidents and specific legislations of each country. This analysis of empirical studies proved the gap in articles regarding HIC in Estonia, especially since there is no data on informal coordination, challenges, and opportunities.

## **2. Empirical analysis of current challenges in Estonian horizontal intergovernmental coordination**

### **2.1. Methodology of the empirical study**

The thesis suggests addressing the bottlenecks and possibilities for horizontal intergovernmental coordination in Estonia by combining several methods. Consequently, the author created a schematic interpretation of steps that should be taken to achieve the thesis's aim (see Figure 2).

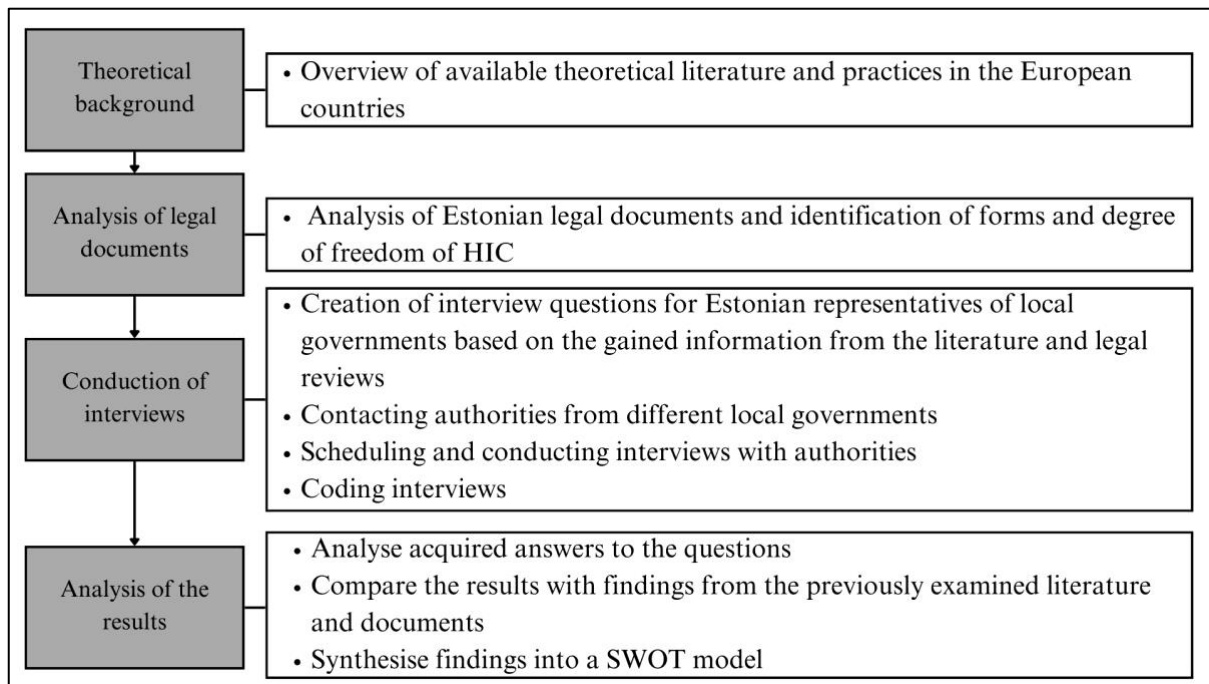


Figure 2. Methodology of the analysis

Source: Compiled by the author

The methodology of the study consists of 4 parts: “Theoretical background”, “Analysis of legal documents”, “Conduction of interviews”, and “Analysis of the results”. Theoretical knowledge, assumptions, and common tendencies were set by overviewing available theoretical literature and standard practices across European countries. Additionally, the analysis of legal documents includes the following acts: the Constitution of the Republic of Estonia, the Local Government Organisation Act and the Administrative Reform Act. These acts are the only ones that regulate the question of HIC in Estonia; consequently, they help to identify constraints, functions, and rights the country’s municipalities currently obtain. Semi-interview questions are compiled based on the gathered information to compare and contrast the state of HIC in Estonia. During this step, the author invited representatives from different municipalities to be interviewed. The final step focuses on the analysis of the interview results. By detecting the saturation point in answers from respondents, it would be possible to compare the state of HIC in Estonia with previously studied cases. The final product, which fulfils the aim of the thesis, is to create a SWOT figure that shows the obstacles and opportunities of HIC.

The author of the thesis assumes that the SWOT model is an appropriate and beneficial tool for this study. The SWOT analysis focuses on evaluating both the internal (Strengths, Weaknesses) and external factors (Opportunities, Threats) of an organisation to recognise its internal strengths, leverage external opportunities, mitigate external threats, and

address weaknesses. (Wang, 2007) The broader and more detailed picture of HIC in Estonia will be uncovered by identifying current Strengths, Weaknesses, Opportunities and Threats. As the result of the identified strengths and weaknesses, the author of the thesis describes the obstacles and opportunities of HIC in Estonia. The final model also benefits future researchers, individuals, and authorities interested in the current situation.

## 2.2.The analysis of the legal framework

As mentioned in the previous subchapter, the author analysed three documents that clarify the local government's role and its rights regarding inter-municipal cooperation. Thus, Table 4 represents takeaways from the Constitution of the Republic of Estonia, the Local Government Organisation Act, and the Administrative Reform Act.

Table 4

### *Legal analysis*

Document Title	Issue Date	Article(s)	Regulation of IMC
The Constitution of the Republic of Estonia	08.06.1922	Chapter XIV (§154-§160).	The objective of the Constitution of Estonia is to establish and safeguard the fundamental principles of the state, including the protection of human rights, the organisation of state authority, and the promotion of democratic governance. Local authorities in Estonia autonomously determine and administer local matters according to the law, with rural municipalities and cities serving as local self-government entities. Councils, elected for a four-year term through general, uniform, and direct elections, represent themons. Local authorities possess an independent budget, tax establishment rights, and the ability to form associations and joint agencies with other local authorities, with changes to administrative areas requiring the authority's opinion and their organisation and oversight being regulated by law.
Local Government Organisation Act	02.06.1993	Chapter 1 (§12, §13), Chapter 5 (§35), Chapter 6 (§40, §41, §46, §47, §48), Chapter 6 <sup>1</sup> (§53),	The Act outlines local government functions, responsibilities, and structure and the relationships between local governments and state bodies. Local governments in Estonia have the authority to engage in

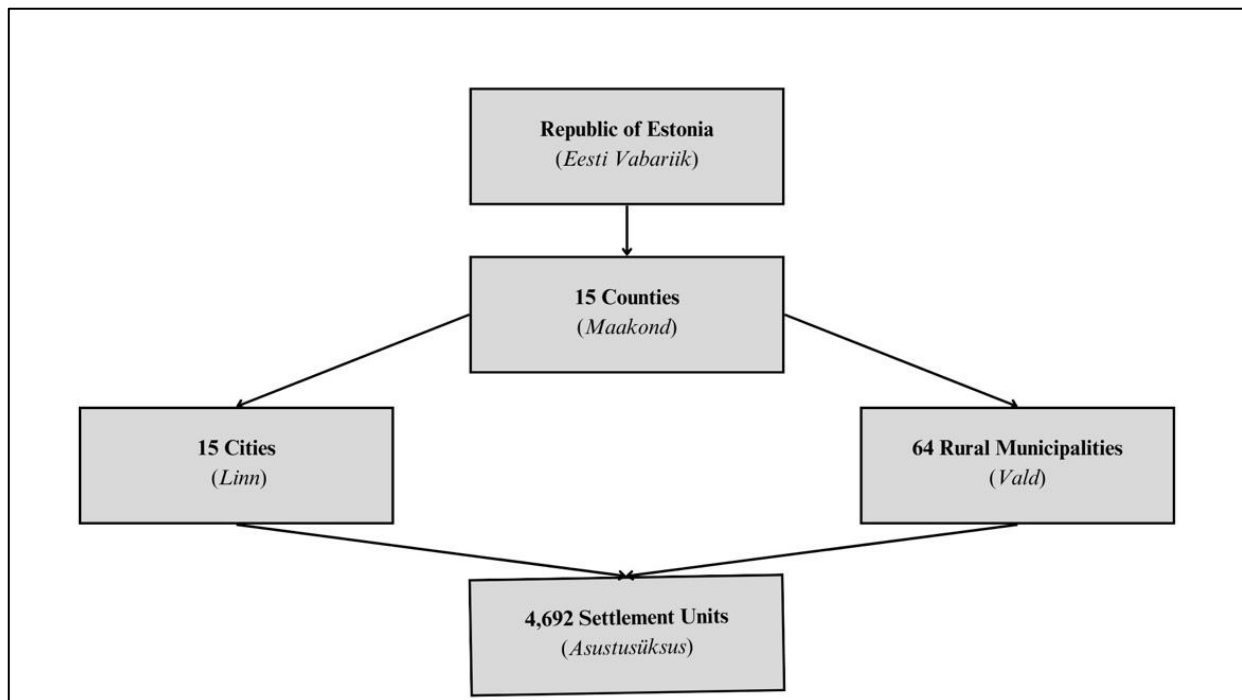
		Chapter 10 (§62, §63), Chapter 11 (§65, §66, §66 <sup>1</sup> ).	intergovernmental cooperation through forming associations, joint agencies, and partnerships, conducting sessions and committee meetings, expressing no confidence in officials, establishing law enforcement units, and engaging in supervisory control, all per legislative provisions.
Administrative Reform Act	07.06.2016	Chapter 1 (§1, §2), Chapter 2 (§4, §5, §6, §7, §8).	This Act enables local governments to independently organise and manage local life while providing the basis and procedure for altering administrative-territorial organisation, including deadlines, criteria, exemptions, and rights and obligations.

Source: compiled by the author

According to the Constitution of the Republic of Estonia (1992), Estonia is a democratic, unitary parliamentary republic where the president holds a representative role, while the prime minister forms the government and makes decisions on domestic and foreign policies. The *Riigikogu*, Estonia's Parliament, undergoes elections every four years and consists of 101 members with legislative jurisdiction. Equipped with a range of tools and mechanisms, it possesses the authority to enact a vote of no confidence in the government, prime minister, or specific ministers. (Pesti, Randma-Liiv, Hammerschmid & Thijs, 2018) Additionally, the core components of the Estonian political framework include the following institutions: 1) the populace; 2) the *Riigikogu* (Parliament); 3) the president; and 4) the government. Matters about local affairs are governed and resolved by local authorities. (European Commission, 2023)

According to the Ministry of Finance (2021), Estonia comprises 79 local administrations, 15 urban centres and 64 rural municipalities. These entities autonomously address and manage local affairs. Irrespective of their size, municipalities must undertake uniform responsibilities nationwide and provide identical services to the populace. As it can be concluded from this information, local administrations are democratically elected and have autonomy in making decisions, organising all local matters, and providing necessary services. The state can delegate responsibilities to them solely based on the law or through mutual agreement with the local government.

To understand the hierarchy of the administrative structure in Estonia, the author created Figure 3, which includes all the components and the chain of command.



*Figure 3.* Administrative structure of Estonia

Source: Compiled by the author based on the Administrative Reform Act (2017); the Constitution of the Republic of Estonia (1992); Statistics Estonia (2021)

Additionally, OECD (2023) published Key Data on Local and Regional Governments in the European Union, mentioning that the municipal count decreased from 213 to 79 due to the administrative reform concluded in October 2017. There are several reasons behind it. According to the Foresight Centre (2019), a decrease in population growth and relatively high urbanisation levels are the main ones. Authors examined that the sustained rapid growth in the urban centres of Tallinn and Tartu has consistently outpaced that of other regions in Estonia, leading to widening socio-economic disparities, with regional development gaps in the country ranking among the largest in Europe despite the common occurrence of divergent urbanisation patterns. Hence, this reform was needed to merge smaller municipalities, creating more prominent and sustainable local governments.

As it was mentioned by Statistics Estonia (2021), since 1991, Estonia has maintained 15 counties. However, as of 2018, county governments ceased to exist. Instead, counties function as territorial entities composed of municipalities. The relevant minister, alongside government agencies, oversees state administration within counties. Additionally, the 79 municipalities, comprising 15 cities and 64 rural municipalities, were subdivided into 4,692 smaller units like cities, villages, towns, or small towns, which organise life within rural areas and cities. Estonia's land territory is divided into these settlement or administrative units.

In cities serving as administrative units, settlements exist within the same jurisdiction, rendering separate settlement units unnecessary. Therefore, the municipality represents the lowest administrative level within these cities, such as Tallinn and Narva. Conversely, intra-urban cities encompass various settlements within their administrative boundaries. For instance, Tartu City’s municipality comprises the urban area of Tartu, one small town, and twelve villages. Estonia encompasses 32 cities functioning as settlement units within rural municipalities, albeit without municipal status. (Statistics Estonia, 2021 & Ministry of Finance, 2021) Thus, there are 47 cities in Estonia, and only 15 are administrative units.

Pesti, Randma-Liiv, Hammerschmid, & Thijs (2018) examined how municipalities coordinate their cooperation through the efforts of national and local government associations, such as the Association of Estonian Cities and the Association of Estonian Rural Municipalities. Despite being non-profit and non-governmental, these associations continue to maintain a relatively low status. It can be concluded that HIC in Estonia exists, but its benefits might be unclear to the public and some authorities.

Another intake can be seen from tax distribution. The Estonian tax system comprises state and local taxes, which impose monetary obligations on taxpayers according to legal regulations, with taxpayers obligated to pay only those specified by law (Estonian Tax and Customs Board, 2024). Table 5 indicates the distribution of state and local taxes and their components.

Table 5

*The Estonian tax system*

Tax type	Distribution	Components
State Tax	The state budget receives state taxes.	Income tax*, social tax, land tax*, gambling tax, value added tax, customs duty, excise duties, heavy goods vehicle duty.
Local Tax	Local taxes are instituted through a regulation passed by the rural municipality or city council, adhering to the stipulations outlined in the Local Taxes Act and received in local governments’ budgets.	Advertisement tax, road and street closure tax, motor vehicle tax, animal tax, entertainment tax, and parking charge.

*Notes.* \*Local governments receive a portion of personal income tax and the total amount of land tax in their budgets

Source: Estonian Tax and Customs Board (2024)

As it can be concluded from Table 5, local municipalities require financial support from the state since they gain revenue from a smaller number of taxes rather than the state. This point is proven by the financial aid to the local governments by the Ministry of Finance (2021):

1. The equalisation fund is designed to bolster smaller-revenue localities. Entirely sourced from the state budget, it supplements their income.
2. The support fund includes sector-specific aid such as teacher salaries, community programs, social services, and infrastructure maintenance.
3. Project-based support is available, such as investments from entities like the European Union’s structural funds.

### 2.3. Interview and the result analysis

The author of the thesis compiled a set of questions. A complete list of questions can be found in Appendix A. The list of interview questions is compiled in 2 languages (English and Estonian) and consists of 11 questions that focus on the current strong sides of inter-municipal cooperation, its obstacles, and the future. The author invited representatives of local governments, associations, and authorities in charge of the Spatial Planning Act to be interviewed, and 5 respondents agreed. Interviewees’ background information can be found in Table 6.

Table 6

#### *Interviewees’ background information*

Participant’s number	Gender	Years of experience	Date of the interview	Form	Language	Length
P1	M	3-4	02.05.2024	Written response	Estonian	4 pages
P2	M	7+	02.05.2024	Online	English	95 min
P3	F	3+	30.04.2024	Written response	Estonian	5 pages
P4	M	4+	29.04.2024	Written response	Estonian	4.5 pages
P5	F	6+	28.04.2024	Online	English	60 min

Source: compiled by the author

All of the agreed respondents are representatives of municipalities. The author of the thesis contacted them via e-mail (see Appendix B), which was found on the municipalities’ webpages, attached questions in 2 languages and suggested available interview forms: either send back a written response or online via Zoom.

After conducting interviews with the public authorities, the author would like to discuss in depth the results by dividing the analysis into four parts, which correspond to the SWOT analysis' components.

All respondents refer to the Local Government Organisation Act, which starts with strengths. Respondent 1 emphasises that the *Riigikogu* supports horizontal cooperation, as Chapter 6 (§1) of the Act calls for the task of local government units to jointly plan county developments, meaning that counties are obligated by the law to communicate and develop together. Respondent 5 mentions: *“When providing services, local governments cooperate. For example, children in need of help in Valga parish are placed in the Tartu shelter if necessary or, for instance, in SA Taheva Sanatorium in Valga parish, where services are offered to children and adults from outside Valga parish”*. Respondents 1, 2 and 3 also appreciate the variety of formal cooperation (creation of associations, non-governmental and non-profitable organisations). For example, the Association of Estonian Cities and Municipalities (AECM) represents the interests of all 79 local governments and takes part in communication with the Estonian Parliament. Respondent 3 recalls when the AECM participated in negotiations to improve teachers' salaries.

All of the 5 respondents confirm the existence of informal cooperation between municipalities. According to Respondent 1, it includes mutual visits of local governments and their familiarisation with the organisation of various fields: *“For example, in 2019, Valga Vald visited Pärnu City to learn about the organisation of tourism, and later there was a joint seminar with dinner, or Valga and Valka communicate with each other by organising joint events, which is informal communication, but which develops both local governments”*. Additionally, there are the summer days of the Union of Estonian Towns and Municipalities members, where together with joint seminars and performances, the so-called informal resolution of issues of interest takes place (Respondent 1,4).

Unexpectedly, when it came to discussion of the negative HIC experience, all of the respondents denied its occurrence. Considering only 5 people responded to the interview, a small sample size might have shown a simple lack of information. However, it is possible to assume that either HIC occurrence is not widely discussed to notice adverse outcomes, or they have never occurred due to the standardised procedures. However, Respondent 2 discussed one of the issues: *“For example, the plan of the Government to redistribute the revenue of local governments from the wealthier to the poorer local governments.”* A news article by Mõttus (2024) states that the present allocation system in Estonia distributes funds according to individuals' registered residences, resulting in situations like Värskaa, Setomaa,

where the departure of working-age residents for educational or professional pursuits elsewhere reduces local tax revenue, exacerbating challenges for rural municipalities to sustain adequate services amidst an ageing population. Since the tax distribution from ‘the wealthier to the poor’ began in 2023 (Tooming & Hindre, 2023), Respondent 2 admits the existing tension between municipalities now, which might escalate. This discussion concludes that the unitarian government system ties the hands of local governments and requires them to follow the laws that have been passed. As the tension between municipalities’ authorities grows, more conflicts and debates might appear.

Additionally, social and economic factors have a double effect: Respondents 1 and 3 confirm that the well-being of municipalities depends on how many non-disabled residents there are in the territory and how active business is in the region. If the economic situation worsens, there will be fewer jobs, which will force residents to move to another local government. In other words, residents will move to centres of attraction in Estonia, such as Tartu, Tallinn, Pärnu, Narva or Jõhvi. This leads to changes in horizontal cooperation, for example, the closing of some joint ventures or the abandonment of some cooperation methods. However, Respondent 1 mentions a positive example: *“At the same time, after the reform of 2017, local governments merged and created autonomous unit-governments such as Võru city and Võru municipality or Tartu city and Tartu municipality. On the one hand, this development creates competition between residents and businesses; on the other hand, it is natural. Therefore, mergers could still occur, for example, Võru City and Võru municipality, which already work in cooperation, and residents move from the city to the municipality and vice versa.”*

While discussing opportunities, Respondent 4 referred to the tax distribution, which was discussed previously. In their opinion, even though it is a debatable topic, it might help to develop socially and economically poor municipalities and attract a labour force. It will take time, but infrastructural improvement of undeveloped units is supposed to help with the over-populated regions like Tallinn or Tartu. Respondent 1 suggests an opportunity to obligate local governments by law to be leaders of innovative solutions in the area, either by itself or in cooperation with partners. Respondents 1,2, 3, 5 add the opportunity of *“continuing good and structured cooperation between local governments and associations”* in the future since multiple legislations control and enhance this process. The author of this thesis would also discuss the opportunity for future studies to be conducted since the HIC in Estonia has not yet been widely researched.

Several examples of potential threats were discussed previously: tax distribution tensions and social and economic competition between municipalities. The author of the thesis previously mentioned the unitary system in Estonia. While it might provide authorities with opportunities, it can also worsen their situation by passing legislation such as tax reform.

To summarise findings from the legal analysis and interview results, the author presents Figure 4.



<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Effective practices of formal and informal cooperation of local governments.</li> <li>• Flexible arrangements.</li> <li>• Various legal acts explain and control IMC.</li> <li>• Enhanced capacity.</li> <li>• Democratic governance.</li> <li>• An ability to voice matters on the national level.</li> </ul>	<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Unequally developed municipalities.</li> <li>• Over-populated and moderately high urbanised regions.</li> <li>• Resource constraints.</li> <li>• Migration of labour force.</li> <li>• Tension between authorities caused by the new tax reform.</li> </ul>
<b>HIC in Estonia</b>	
<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• To resume existing positive cooperation practices.</li> <li>• To promote efficient service delivery.</li> <li>• To allocate resources to the poorer local governments.</li> <li>• To boost economic benefits.</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Loss of autonomy.</li> <li>• Power imbalance</li> <li>• Unequal resource distribution.</li> <li>• Dismantling municipalities.</li> </ul>
 <b>Opportunities of HIC in Estonia</b>	 <b>Obstacles of HIC in Estonia</b>

Figure 4. SWOT analysis of HIC in Estonia

Source: Compiled by the author

To generalise, HIC in Estonia exists in formal and informal forms and is supported by the law. The interview respondents proved the existence of informal cooperation among local governments.

HIC in Estonia is structuralised and exists in the form of public bodies opposite to one of the Baltic States (Lithuania). Compared to the results from Table 3, Estonia's intergovernmental coordination is not different from the types implemented in other unitary states (e.g., France, Poland, Norway, and Sweden). However, compared to its neighbour Finland, it allows informal cooperation and allocates resources to it.

Some countries (Finland, France, Latvia, Poland) allow local governments to cooperate with publicly owned companies. Capps (2017) states that in various fields, partnerships between the public and private sectors have silently powered enduring and well-received government initiatives for many years. Additionally, private companies might offer local governments opportunities to implement solutions beyond their capacity, as they can

leverage new technology in research and development to enhance and modernise urban areas. Estonian governments also have these abilities. For example, “Visit Tartu”, also called the “Tartu County Tourism Foundation”, oversees tourism development in Tartu and the surrounding area. Its responsibilities include marketing the region, creating tourism products, managing branding, analysing and sharing tourism data, and supporting business and conference tourism (*Tartumaa Omavalitsuste Liit*, n.d.). As mentioned in the interviews, this type of cooperation has a positive history, and it is an opportunity for local governments to continue it that way. Another opportunity that leads from this conclusion is that local governments can become innovation leaders in the future due to the variety of their cooperated partners.

Even though it is hard to predict the future, there is tension caused by the tax reform. Predictably, the wealthier local governments might not appraise any upcoming legislation concentrating on budget distribution in favour of poorer municipalities. Hence, there is a fear of power imbalance and unequal financial distributions. However, if poorer local governments do not receive help, they are expected to be dismantled.

### **Conclusion**

Hegele (2018) states that intergovernmental relations encompass the collaborative interactions among executive entities operating at various tiers within a federal or multilevel system. This involves the engagement of federal and sub-state government actors, driven by multiple objectives, including sharing best practices and information, synchronising policies, and resolving conflicts. Despite variations in historical background, geographical features, constitutional structure, legal traditions, and allocation of powers or resources, interactions between different levels of government are essential in every system (Poirier & Saunders, 2011).

The author of the thesis explored horizontal intergovernmental coordination in Estonia and discussed current challenges, possible threats, and opportunities through the combination of analysis of legal documents and conduction of interviews with 5 representatives of Estonian local governments. It is evident from the results that the Parliament supports HIC and encourages the parties to cooperate and grow together.

The research had some limitations. One of them is a small sample size (n=5), which affected the discussion on negative experiences of such cooperation.

Estonian local governments enjoy a relatively high degree of autonomy and decentralisation despite being a part of the unitarian country. This point is proven by local governments' abilities to collaborate in various legal forms, provide their territory with multiple services (e.g., education, healthcare) and generate revenue (with the help of local tax and businesses). Additionally, they perform common-joint activities with other municipalities and share their experiences during informal meetings. However, unequally developed local governments, the decline in population growth, and over-populated urbanised municipalities are some of the obstacles to HIC in Estonia.

The author determined several opportunities for HIC in Estonia. For example, since interview analysis shows positive and effective practice of inter-municipal cooperation, local governments could carry this tradition into the future. While providing services independently or in collaboration with other municipalities, administrative units could enhance this process by increasing cooperation with local businesses. As a result, this will positively reflect local governments' economies and make them innovative leaders in specialised sectors. While part of the taxes from the economic activity is allocated to the state budget, recently accepted tax reform will help poorer municipalities get the financing they desperately need.

As for the obstacles, current tax reform creates suspicion that the Parliament might even decide to cease local governments' autonomy. While it is difficult to predict future legislations, other issues are apparent. Power imbalance suggests that more affluent municipalities will influence decision-making with the IMC framework, even marginalising the interests of smaller local governments. To add, right now, poorer municipalities suffer from unequal resource distribution. This issue will remain in the future if other methods besides tax distribution are not done. As a result, the labour force will continue to migrate to overpopulated and highly urbanised administrative units. In the end, less wealthier municipalities will be dismantled.

One aspect not fully covered in this thesis is Digital Governance and its impact on the local governments. While local municipalities use it to improve efficiency, transparency and citizen engagement, there is still room for development. Hence, local governments can become innovation leaders and cooperate with organisations that focus on it to get better results.

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## Appendices

### APPENDIX A.

#### Questions for the interview

*(In English)*

1. Do local governments cooperate in the provision of any social services? If yes, please bring up any examples.
2. According to the Local Government Organisation Act, Estonia has 3 types of formal intergovernmental cooperation. Can you name them?
3. Do you use these cooperation types in practice? If no, what practices do you apply?
4. Is informal cooperation (a handshake agreement, common-joint activity, no legal documentation of the cooperation) allowed between representatives of local governments? If so, do you know any examples?
5. Can you name any examples of successful practices of horizontal intergovernmental coordination in Estonia?
6. How do local government associations, such as the Association of Estonian Cities and the Association of Estonian Rural Municipalities, contribute/support horizontal intergovernmental coordination in Estonia, and what are the significant limitations they encounter?
7. What role does the national government play in facilitating horizontal intergovernmental cooperation among municipalities in Estonia, and how effective are the current mechanisms?
8. What kind of changes in legislation should be made to allow you better cooperation with non-profit and non-governmental organisations?
9. Do you have any negative experiences with horizontal intergovernmental coordination? If yes, could you describe examples?
10. Do you think that social and economic factors influence the state of cooperation?
11. In your opinion, how inter-municipal coordination can be improved?

*(In Estonian)*

1. Kas kohalikud omavalitsused teevad mingite sotsiaalteenuste osutamisel koostööd? Kui jah, palun tooge näiteid.
2. Kohaliku omavalitsuse korralduse seaduse järgi on Eestis 3 liiki horisontaalne valitsustevaheline koostöö. Kas oskate tuua näiteid?
3. Kas kasutate neid koostööliike praktikas? Kui ei, siis milliseid tavasid te rakendate?
4. Kas mitteametlik koostöö (kätlemisleping (suuline kokkulepe), ühistegevus, kirjalikud koostöö kokkulepped ilma sellest tulenevate kohustuseta) lubatud kohalike esindajate vahel valitsused? Kui jah, siis kas teate mõnda näidet?
5. Kas oskate nimetada näiteid edukatest horisontaalse valitsustevahelise koostöö praktikatest Eestis?
6. Kuidas omavalitsusliidud, näiteks Eesti Linnade ja Valdade Liit, panustavad/toetavad horisontaalsesse valitsustevahelistesse koostöösse Eestis ja milliste oluliste piirangutega nad puutuvad kokku?
7. Millist rolli mängib valitsus omavalitsuste horisontaalse koostöö hõlbustamisel? Kui tõhusad on praegused mehhanismid?
8. Milliseid muudatusi seadusandluses tuleks teha, et saaksite paremat koostööd teha mittetulunduslike ja valitsusväliste organisatsioonidega?
9. Kas teil on horisontaalse valitsustevahelise koostööga negatiivseid kogemusi? Kui jah, kas saaksite tuua näiteid?
10. Kas arvate, et sotsiaalsed ja majanduslikud tegurid mõjutavad koostöö seisu?

11. Kuidas saaks Teie hinnangul parandada omavalitsustevahelist koostööd?

## APPENDIX B

## Informal letter

**Topic:** Invitation to the interview (Horizontal Intergovernmental Coordination in Estonia)

Dear XX [Recipient's name],

I hope this message finds you well.

My name is Sofia Samoilova, and I am a student in the Bachelor of Business Administration program at the University of Tartu. Currently, I am conducting research for my thesis on the topic "The Challenge of Horizontal Intergovernmental Coordination - Evidence from Estonia," where I aim to detect opportunities and obstacles in this process.

Given Your expertise in this field, I would be honored to invite You to participate in a short interview. Your insights would be invaluable in helping me achieve a more comprehensive understanding of this subject.

I have attached the interview questions to this e-mail. The interview can be conducted online, or You may choose to reply to the questions via e-mail, whichever format is more convenient for You.

Thank you in advance for considering my request. Your time and expertise are greatly appreciated.

Yours faithfully,

Sofia Samoilova

## Resümee

### HORISONTAALSE OMAVALITSUSTE KOORDINEERIMISE VÄLJAKUTSE - EESTI NÄITEL

Sofia Samoilova

Käesoleva bakalaureusetöö eesmärk on selgitada välja takistused ja võimalused horisontaalseks omavalitsuste koordineerimiseks (HOK) Eesti Vabariigis. Praegu käsitletakse olemasolevas kirjanduses HOK erinevaid aspekte: näiteks on palju käsitletud koostöövorme ja nende üldist mõju, aga ka osalejate mitmemõõtmelisi huve ning bürokraatia mõju HOK-le. Kuid vähesed uuringud ja juhtumid keskenduvad omavalitsuste koostöö takistustele ja võimalustele Eestis ning käesolev lõputöö katab selle uurimislünga.

Autor andis võtmeterminele oma definitsioonid. Horisontaalne omavalitsuste koordineerimine on koostöö erinevate valitsustasandite või samal hierarhilisel tasandil asuvate asutuste vahel, näiteks omavalitsuste vahel, mille eesmärk on lahendada ühiseid probleeme, jagada ressursse ja koos saavutada soovitud tulemust. KOV-vaheline koostöö on määratletud kui tegevus, mil kaks või enam omavalitsust teevad koostööd oma pädevusse kuuluvate ülesannete täitmisel, eesmärgiga saavutada kohalikul tasandil ühiste jõupingutuste kaudu vastastikust kasu. Autori järelalusel on need kaks mõistet omavahel seotud, kuna Eesti haldussüsteem koosneb parlamendi ja kohaliku omavalitsuse tasandist.

Teoreetilise tausta ülevaate raames kirjeldas autor poliitiliste komponentide süsteemi üldist mõju HOK-le ning vaatles omavalitsustevahelise koostöö praktikaid Euroopa riikides. Ülevaade näitas, et unitaar- ja föderaalvalitsused kasutavad omavalitsustevahelise koostöö koordineerimiseks erinevaid lähenemisi.

Uuringu läbiviimiseks kasutati kvalitatiivset lähenemist. Autor ühendas kaks meetodit: Eesti Vabariigi juriidiliste dokumentide analüüsi ja poolstruktureeritud intervjuud. Küsitleti viit kohalike omavalitsuste esindajat.

Käesolevas uuringus on leitud, et Eestis toetab HOKi vabariik ning see julgustab kohalikke omavalitsusi tegema koostööd ja arenema koos. Lisaks kasutab HOK Eestis sarnaseid Euroopa unitaarriikide tavasid.

Kohalikud omavalitsused saavad Eestis luua mittetulundus- ja valitsusväliseid organisatsioone, aga ka ühendusi, mis esindavad nende huve riiklikul tasandil.

Autor selgitas välja järgmised HOK takistused Eestis: autonoomia kaotus, võimude tasakaalustamatus, ressursside ebavõrdne jaotus ja omavalitsuste lagunemine.

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THE CHALLENGE HORIZONTAL INTERGOVERNMENTAL COORDINATION –  
EVIDENCE FROM ESTONIA,  
(*title of thesis*)

supervised by

Diana Eerma and Mariia Chebotareva  
(*supervisor's name*)

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*Sofia Samoilova*

**09/05/2024**