

## **Regional policy in Estonia**

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### **Introduction**

The transformation period, which started with reforms in Central and Eastern Europe in the early 1990s, has led to changes of political, social and economical realities. Estonia has been described as a small, developing and dynamic state. In 1987 Estonian economists published a declaration on economic autonomy that gained popular support and led to a series of economic reforms. Market reforms accelerated after the country had become an independent state in August 1991. A national currency that became stable and convertible was introduced in June 1992 and the government implemented economic reforms including a rapid liberalisation of prices, open trade policies and privatisation. Estonian foreign policy aims at reintegrating the country into European structures as fast as possible. The rapid transition process has entailed increasing regional differences. Since 1998 the Estonian Government has reacted to this trend and has made regional policy one of its political priorities.

This study gives an overview on current regional policy approaches, the legacies of regional policy and the mobilisation of economic, social and political capacities of particular regions in Estonia. This study consists of three sections:

1. Regional policy approaches in Estonia;
2. Legacies of regional policy making;
3. Evaluation of regional policy (example of successful and unsuccessful capacity building).

### **1. Current regional policy approaches in Estonia**

Different governments, political parties and groups have agreed on the necessity of regional policy. Their main ideas have been a geographical dispersal of investments, a regional stimulation of business and a reduction of the development differences between Tallinn and the other regions of Estonia (Kliimask, 1998).

The history of regional policy in Estonia can be considered as quite brief. The need to handle regional problems was recognised in Estonia in 1987 and principles of regional policy were first formulated in the „concept of an economically autonomous Estonia“ in 1989. The reason of limited interest in regional problems was the socialist system, where regional problems in their present form (major regional differences in income, standard of living, unemployment, etc.) did not exist and consequently there was no need for a

region-specific approach. Nevertheless there was a “socialist-type” regional policy which consisted mainly of central direct investments in „problem areas“.

The „concept of an economically autonomous Estonia“ was not implemented mainly due to ideological opposition but the regional policy principles of the document had some influence as a principal basis of various branch policies and also of general economic, social and regional policies.

In order to analyse socio-economic differences among regions, a first zoning was completed in 1991. The zoning index was calculated from four sub-indexes broken down by local self-governments: demographic and employment structure indicators, unemployment indicators, income indicators, SME creation. These indicators of economic development were used for a scheme of regionally differentiated corporate income tax reductions (Kliimask, 1998; Ristkok, 1998; Raig, 1998).

### **1.1 Formulation of national regional policy, principles and objectives**

A concept of regional policy was approved by the Government on 13 December 1994. However, these guidelines are rather general (see appendix „Chronology of Regional Policy in Estonia 1989-98“). Regional policy was defined as follows: „Regional policy is a determined activity of the public government aimed at creating premises for development for all the regions of the state and the balancing of social-economic development proceeding from the interests of the regions and the state as a whole.“

One of the principles of regional policy was to promote the manifestations of local initiative and to support local initiatives solving the tasks of national regional policy. The other important principle in the realisation of regional policy was the achievement of economic results by measures which influence the economy and infrastructure as well as social and ecological processes. A Regional Policy Council consisting of the representatives of ministries, county governments and local governments was to be formed in order to co-ordinate sectoral policies. According to the 1994 guidelines the main principles of national regional policy include:

- fostering local self-reliance rather than reliance on redistribution of resources by the central government. A vigorous economy not reliant on constant subsidies should be created;
- avoiding permanent subsidies except in cases such as island-mainland ferry traffic. As a rule, the use of regional economic incentives is only justified in order to facilitate structural changes;
- requiring local initiatives, participation and support. Local initiative is the primary force in the development of a region. The role of the state government is to support those initiatives, which fit the aims of regional policy. Normally, the state can not compensate for the absence of local initiative;
- basing regional assistance on existing regional development and assistance programmes. Additional institutional structures and administrative mechanisms should be created only to a minimum extent;

- co-ordinating sectoral policies in order to achieve development objectives. Regional development is a combination of the most diverse factors and is thus affected by all national sectoral and macro policies. Hence the preferred method of influencing regional development is through the co-ordination of different sectoral policies on the basis of regional policy objectives;
- applying regional policy to the whole territory of the country, although most of the support is concentrated on special target areas. Each locality and region has its own problems. The task of the State is to help them overcome these problems themselves and to avoid crisis situations (Ristkok, 1998).

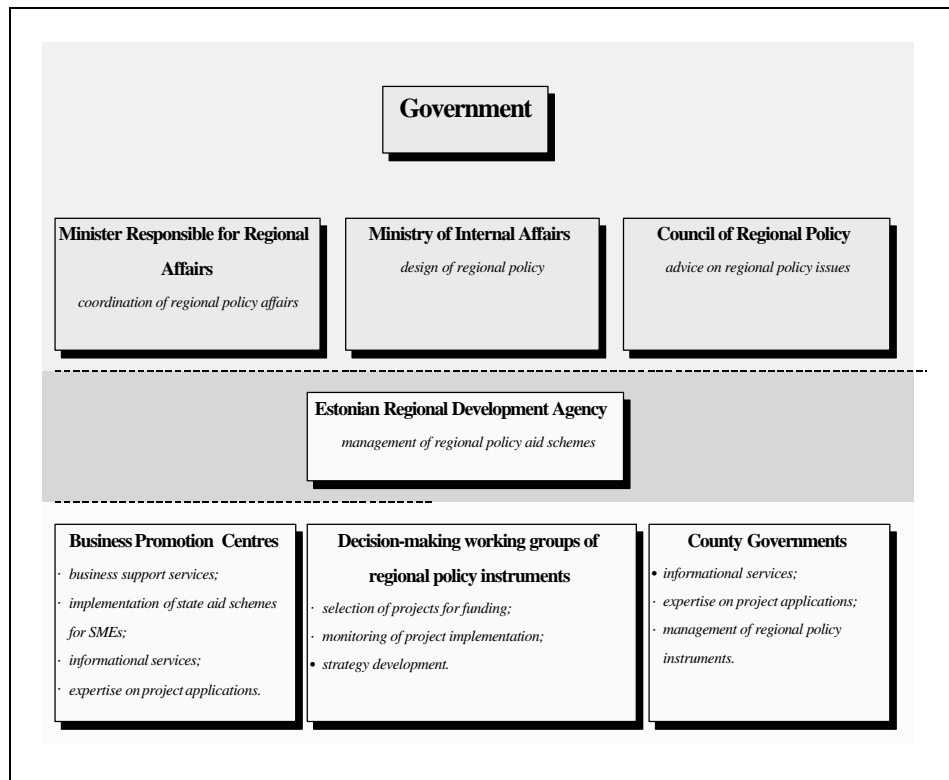
The guidelines aimed at creating secure living standards in all regions, a regionally balanced development of settlement structures, and improving the economic capacity of all regions. Regional policy was targeted at the whole territory but the government could grant the status of a development zone to particular regions. In order to overcome the main difficulties of the existing problem areas and to ensure their ability to develop, eight regional policy programmes were formulated at the end of 1995. The goal was to avoid a further polarisation of the national economy and the appearance of accompanying macro-economic problems (inflation, ineffective use of resources, emigration from peripheries, etc.).

## **1.2 Administration**

The ministry responsible for regional policy in general is the Ministry of Internal Affairs. The Ministry of Economic Affairs is also actively involved in national regional policy, as is it responsible for supporting small and medium-sized enterprises. The Ministry of Agriculture is responsible for rural policy and the Ministry of Environment is responsible for spatial and physical planning. The minister without portfolio for regional affairs is responsible for co-ordination of the activities of the Central Government affecting regional development. These ministries are the main partners as far as regional policy is concerned (see Figure 1).

The Regional Policy Council represents all ministries as well as representatives of the county governments and local self-governments. The main tasks of the Council are to increase co-ordination of sectoral policies and to give advice to the Cabinet as well as to different Ministries on regional development issues.

The Estonian Regional Development Agency (ERDA) acts as a fund manager for a majority of instruments of national regional policy. ERDA is governed by a board consisting of representatives of the four keys ministries mentioned above, the county governments, the local self-governments and the business associations. The main tasks of the Agency are the management of the regional development fund, the development and co-ordination of activities carried out through the business support system and technical support to other regional policy instruments. ERDA does not have regional offices in counties.

**Figure 1: Institutional structure of regional policy**

Currently there are eight different regional development programmes and a regional policy loan scheme which are managed by ERDA. The agency is consulting inter-ministerial decision-making bodies which, depending on the respective programme, represent also regional and local authorities as well as various social partners. Monitoring and evaluation responsibilities are shared by the ERDA and the head of the inter-ministerial decision-making body relevant for the programme.

County governments are responsible for the co-ordination of sectoral policy activities on the regional level (e.g. by strategic planning, tourism and business development, some public services etc.). The principle of obligatory co-financing of the project by an applicant is used. Municipalities and county governments should verify that all projects envisaged for funding are in line with local and regional development priorities (according to relevant development plans).

### 1.3 Instruments

The set of possible regional policy instruments mentioned in the 1994 concept is quite comprehensive. It includes the

- regional development fund which may provide regionally differentiated credits;
- ERDA, established on 22 April 1997;
- corporate income tax relief for investments in fixed assets outside of Tallinn and the surrounding seven municipalities;
- principles of local public transport subsidies;
- principles of the organisation of, and subsidies for, transport and communication services between mainland and islands;
- Regional Policy Council;
- compilation of regional development programmes;
- granting and revoking of the development zone status.

Some of the listed instruments had actually been implemented before the approval of the concept (e.g. credits, county development grants, business centres, resettling activities, support to local development movements), but it was considered necessary to revise the implementation mechanisms of several instruments and ensure their flexibility within the limits of national regional policy. The complex of regional policy instruments consists of grants, subsidies, credits and tax reductions through various schemes.

In 1996 and 1997 the implementation of regional development programmes was regulated by a Governmental Decree containing the names of programmes, division of funds and procedural regulations of application and decision making. Each programme had a manager and a working group appointed by the responsible Ministry (Internal Affairs, Economic Affairs and Agriculture). A working group was allowed to determine more concrete rules and conditions. A support letter of the county governor was required. The working groups submitted proposals on the concrete application to the Minister responsible for regional affairs who was expected to decide whether to finance or to reject the application. The control of the implementation of the projects was the responsibility of the programme manager. The programme manager had to inform the Regional Policy Council quarterly about the progress of the programme.

In 1998 the law on the state budget determined the names of programmes and division of funds. The Minister of Internal Affairs delegated the administration of the programmes to the Estonian Regional Development Agency (established in May 1997). On 26 January 1998 the Board of ERDA approved „Rules of project application and treatment within regional development programmes“ ([http: www.erda.ee](http://www.erda.ee), Ristkok, 1998). More detailed regulations for application, decision-making, control, monitoring and contracting with project implementing institutions have been made and standardised application forms have been introduced. Working groups and programme managers have kept the responsibility to make financing proposals. The Managing Director or the Board of ERDA decides whether to finance or reject a project.

There are still some overlapping programme activities, the description of expected results in the application forms should be more detailed and programme documents for each programme should be developed. There is also

a need to refocus on proactive programmes and to concentrate efforts on more narrow objectives.

Regional development programmes are complex programmes of economic policy which are drafted in a co-operation of departments and regions, considering the regional impact of the envisaged measures. The programmes are managed by ERDA. Regional development programmes are needed to overcome the main difficulties of problem areas and to ensure their ability to develop independently. Considering the existing main problem areas the following eight programmes have been drafted, each with its clear goal and direction:

- The programme for peripheral areas aims at improving physical as well as social infrastructure, building up local industries and improving the local economic base in agricultural regions. The target area is comprised of peripheral rural areas.
- The programme for rural development focuses on the improvement of local initiative mainly in the form of village movements and minor joint projects and is spread in terms of target areas over the entire country. A majority of funding decisions are made on the regional level.
- The programme for islands aims at ensuring the availability of all main services to the residents of permanently inhabited islands (regular transport, communications, energy supply, rescue services, first-level medical aid, education) and the improvement of the development ability and competitiveness of the islands' economy. Attention has been focused on developing communications and physical infrastructure, provision of power supply and local educational facilities. The target area comprises 11 islands
- The programme for North-Eastern Estonia promotes new trade linkages and the integration of its immigrant population into Estonian society. This region was dominated by large manufacturing enterprises in mining of oil shale, production of electricity and manufacturing goods mainly for the Russian markets. The work force in these enterprises consists primarily of Russian immigrants. A majority of the support has been allocated to the implementation of the objectives of the regional development plan.
- The programme for border regions aims at promoting cross-border co-operation and international trade contacts. A majority of support has been provided as Estonian co-financing to regional trans-frontier co-operation projects.
- The programme for mono-functional settlements focuses on settlements with majority of employees in large manufacturing enterprise in the restructuring phase. The programme aims to promote business development and thus widen the local economic base, to improve infrastructural connections as well as to support human resource development.
- The programme for the Setumaa region aims to promote this peripheral border region in general and also to support those Estonians presently

living on the other side of the Estonian-Russian border to settle on the Estonian side of the divided Setumaa.

- The programme for South-Eastern Estonia was launched in 1998. It aims at supporting various development activities and projects in order to promote self-reliance of the region in the future, focusing mainly on innovative measures. The priority areas are human resource development (training, research, support to innovativeness and activities of non-governmental organisations), promotion of regional image (marketing of the region, strengthening of identity and cultural variety) and promotion of development potential (business climate, networking and co-operation of development organisations, cross-border co-operation).

The business support system consists of the business promotion centres established in each county of Estonia, through which various measures to support businesses are carried out. The target group consists of new entrepreneurs and small and medium-sized businesses. The state finances on the contractual basis the centres in providing the basic business services free of charge such as advice and preliminary consultations for start-ups, training courses for beginners, information on various state aid schemes.

Other instruments of regional policy consist of a development fund for county governments, a fund for local economic crisis areas, regional transport subsidies, a support programme for regional investments in social infrastructure and regionally differentiated corporate tax reductions. The use of the development fund for regional development activities is decided by county governments, mainly public or third sector activities are supported. Special commissions formed by the central government for each individual case decide the use of the fund for economic and social crises. The most important among the transport subsidies is the support to ferry and air traffic between the islands and the mainland. The support programme for regional investments in social infrastructure is similar to other regional development programmes with an exception that County Governments are main decision-making institutions.

Regionally differentiated corporate tax reductions apply since the beginning of 1998 in all municipalities outside the Greater Tallinn area. The scheme aims at promoting investments in rural and peripheral areas. In 1998, an exemption from corporate income tax became available in case of investments made in fixed assets (premises, buildings, infrastructures, machinery and equipment). The tax release applies to the whole territory of Estonia with an exclusion of Tallinn and eight surrounding local governments. Changes to the Law on corporate income tax were made in January 1998. It allows a relief of 26% corporate income tax.

#### **1.4 Funding**

The resources necessary for the implementation of the national regional policy come from the state budget. Table 1 gives an overview on the regional policy budget in Estonia. The resources for carrying out regional policy have been continuously increased; instruments have been gradually diversified.

**Table 1: Funding of regional policy from the state budget (in million EEK)**

|   | 1994        | 1995         | 1996        | 1997      | 1998           |
|---|-------------|--------------|-------------|-----------|----------------|
| Development projects of national importance         | 0.6         | 0.6          | -           | -         | -              |
| Support to areas of Peipsi lake region              | 1           | 1            | -           | -         | -              |
| Support to small islands                            | 0.5         | 0.5          | -           | -         | -              |
| Settlements programme of rural peripheries          | 15          | 25           | 7           | 5.8       | -              |
| Business support network                            | 1.3         | 1.78         | 5           | 3.9       | 9.5            |
| Development fund for County Governments             | 1.5         | 3            | 3           | 4.8       | 6              |
| Studies in the field of regional development        | -           | -            | -           | 0.7       | 1              |
| Harmonisation of regional politics for EU accession | -           | -            | -           | -         | 0.5            |
| Estonian Regional Development Agency                | -           | -            | -           | 0.6       | 1              |
| Peripheral areas programme                          | -           | -            | -           | 2.2       | 9              |
| Islands programme                                   | -           | -            | 6           | 7         | 10             |
| Community initiative support programme              | -           | -            | 1.1         | 2         | 3              |
| Border regions' support programme                   | -           | -            | 1           | 3         | 4              |
| Ida-Viru programme (North-Eastern Estonia)          | -           | -            | 4           | 4         | 6              |
| Monofunctional settlements programme                | -           | -            | 4           | 4         | 6              |
| South-East Estonia programme                        | -           | -            | -           | -         | 10             |
| Setomaa programme                                   | -           | -            | -           | 10        | 10             |
| Regional development loan                           | -           | 13.85        | 9.5         | 12        | 15             |
| Fund for local economic crises areas                | -           | -            | -           | -         | 24.066         |
| Programme of social infrastructures                 | -           | -            | -           | -         | 21.367         |
| <b>TOTAL</b>  | <b>19.9</b> | <b>45.73</b> | <b>40.6</b> | <b>60</b> | <b>136.433</b> |
| % of GDP  | 0.07        | 0.11         | 0.08        | 0.09      | 0.19           |

The majority of funding is technically allocated on a yearly basis from the state budget to the Estonian Regional Development Agency, some of the instruments are, however, funded directly from the State Treasury. The creation of a more flexible system of co-financing has been planned; the transition to the planning of budgetary funds several years ahead necessary for the participation in the European Union structural policy has also been started.

### 1.5 Estonian Regional Development Strategy

A draft version of the Estonian Regional Development Strategy was prepared in co-operation with the Phare regional development project. Work started in autumn 1997. It was presented to Government on 1 November 1998.

The Regional Development Strategy of Estonia shall take effect from the year 2000 and shall replace the Regional Policy Conception approved by the Estonian Government in 1994.

The objective of the regional policy in Estonia during the period before the accession of Estonia to the European Union is the balancing of the regional development of the whole territory through the strengthening and maximising the use of the local preconditions for development which will contribute to the general macroeconomic and social development of the state. The attainment of



the objective of the regional policy of Estonia shall be evaluated on the basis of two focal indicators: average income and unemployment rate.

The general trends of regional policy of Estonia shall proceed from the following principles: innovativeness - development of a capability to study, support to new ideas and activities; stimulation of initiative. Fostering of the emergence of, and support to, initiatives; sustainability - creation of continuing self-sufficiency; integrity of the area - development of an area proceeding from the interdependence of its centre and peripheries; decentralised concentration - balancing of regional development based on the network of county centres.

Development activities in counties as a component of the national regional policy are organised by county governors. The aim of the development activities of counties is to increase the local development potential and to create conditions for making use of it in all areas of Estonia. The development activities of counties secure the balanced development of the county by working out the development strategies of counties and organising their implementation.

The strategy document envisages to harmonise sectoral policies with the regional policy directed to target areas and with the development activities in counties. Harmonisation is to be secured with constant dialogues and the respective institutional co-operation mechanisms. According to the strategy, each regional development programme shall be implemented on the basis of a programme document that contains: the description and analysis of the regional development of the target area, objectives, strategy and expected results, development priorities, measures and activities, financing schedule of the measures planned, organisation of management, monitoring and evaluation.

The organisation of Estonia's regional policy shall proceed from the basic principles of the EU regional policy (programming, focusing, subsidiarity, complementarity and application of monitoring and evaluation). According to the strategy, five regional development programmes will be operating in the pre-accession period: The programme for regions lagging behind, programme for the Areas of Industrial Conversion, Small Islands Programme, Programme for the Formation of a Network of Centres, Programme of Local Initiative.

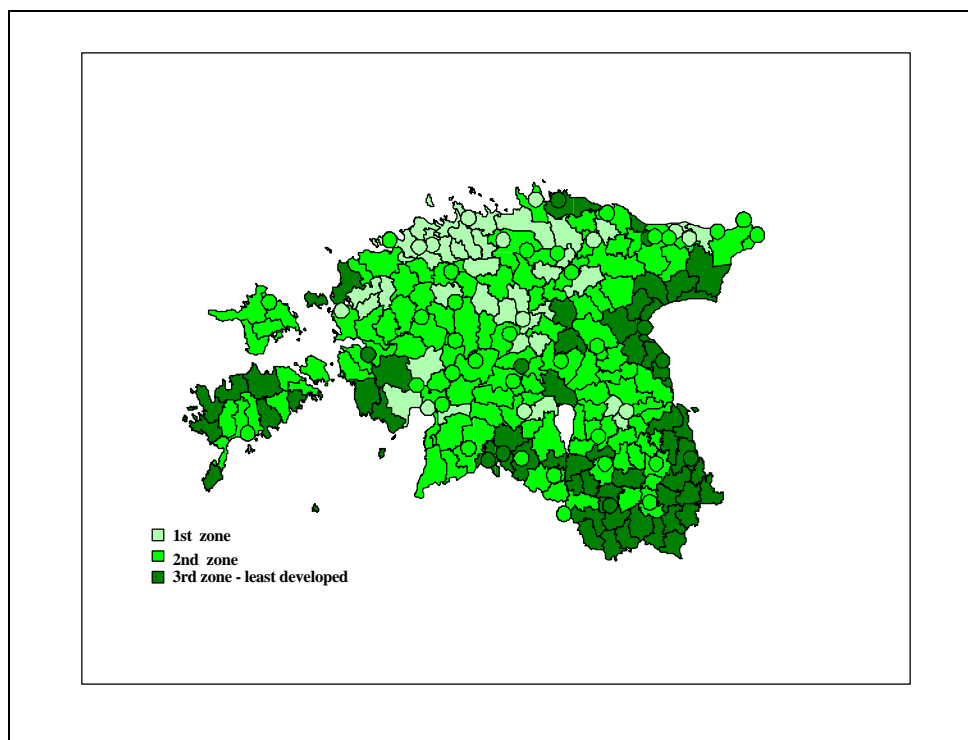
## **2. Legacies of regional policy making and the mobilisation of economic, social and political capacities**

Estonia is relatively small country with one dominating centre-growth-pole (capital Tallinn) and relatively well developed centres' structure inter-linked by functioning transport infrastructure (road and railway network, telecommunications network). There are two types of regional problem areas in Estonia: long-term „problem areas“ and new regional problems areas as result of transformation process.

The regional political zoning commissioned by ERDA was completed in the beginning of 1998 (see figure 2). For the 1998 zoning the compound index was calculated from three sub-indexes of local self-governments: employment index; income index, strategic (long-term) characteristics index. For the

*employment* index, labour force participation rates have been calculated on the county level, based upon the average national-level unemployment rates of 1995-1997. The *income* index allows to differentiate between local self-governments and consists of the amount of personal income tax payments per working age local resident in 1996 and 1997, the amount of social assistance payments and the number of applications for social assistance. The latter two figures refer to 1997 and are related to the number of local residents. The third index reflects strategic (*long-term*) characteristics and is composed of a location coefficient based on expert estimations and hard data, the age structure of the population and the demographic developments between 1959 and 1989 (showing also long-term migration).

**Figure 2: Regional policy zoning**



It is easier to measure differences existing among the counties than among local self-governments but the fact is that differences between counties are smaller than differences within any individual county. Apart from these intra-county differences, the southern and eastern parts of Estonia have generally been less developed than the northern and western parts.

For example, the corresponding index is from 1/3 to one half of the level of Estonia's wealthiest region, North Estonia, and is decreasing according to the development level of the depicted regions. Due to the smallness and high concentration of Estonia the financial and business services, top executives of

the public sector with the highest average salaries, as well as the foreign firms with higher wage levels, have concentrated in that region.

A separate class is formed by Ida-Virumaa, where the small share of the primary sector (with the lowest salaries in Estonia), the domination of the large industry and the mining industry set this region clearly apart from the others. The average wages are relatively high in the mining industry, while the presence of large-scale industry means correct control over the wages.

The Tartu region is a smaller copy of Tallinn, being another location of state institutions, higher education and business services as a regional centre, although secondary to Tallinn. The further transition is taking place towards reduction, the smaller is the share of the aforementioned departments and branches in the economic structure, and, vice versa, the higher is the share of the primary sector. Still, these regions, beginning with Tartu county (and actually even North-eastern Estonia) are quite similar as to the income levels; the changes are sufficiently gradual in that respect.

Unemployment is certainly the most important problem in the developed countries, both at the national and regional levels. Unemployment in Estonia has been considered mainly a secondary problem for certain reasons, but if we observe its nature and extent, it should still be considered one of the most important in the analyses of regional welfare and poverty. The analyses of Eastern Europe have revealed that while the unemployed are also poor as a rule, the opposite connection need not be as definite, i.e. the poor need not be unemployed, but can actually have quite high-quality jobs according to the standards of the advanced nations. Connections between employment and income are frequently present, but they are quite often rather different.

The first major decline of employment was caused by the reorganisation of the agricultural sector. A specific feature of Estonian collective and state farms was their big size. Farms dealt with social problems and needs for local people. The first collective farms were reorganised in the beginning of the 1990s and the last in the latest couple of years. In the case of nearly every collective or state farm, the industrial, construction and various service enterprises seceded or became independent. In some cases a single (large) enterprise continued its activities, in others the agricultural enterprise was divided in two or three smaller units (mostly on the territorial basis), some enterprises were shared between private farms and other private enterprises.

The economic reforms usually took place parallel to each other, although with different proportions. This led to a situation where the indicators of employment changes differed widely across regions but lacked a definite geographic nature (e.g. centre-periphery etc.). The changes of employment and unemployment rates could significantly differ in time and space, as they were not linked to the regional economic potential. Due to the rapid changes of the employment indicators it became completely impossible to isolate short-term trends, since these indices, due to the earlier high concentration of labour in one or two large collective/state farms, mostly depended on the state of the reorganisation process of the concrete enterprises.

The increase of regional differences, caused by the transition period, continues. The result is that the potential of less advantaged areas deteriorates further due

to migration, leading to the disappearance of independent development potential in several regions, social degradation and an increase in welfare expenses.

Thus, the main transition period resulted in the increase of differences along the centre-periphery and East-West axes. These interregional differences increased the mobility of labour, during the first years mainly in the form of increasing commuting. Permanent change of residence and the settlement structure itself is much more rigid and changes after certain time lag.

All those developments formerly described have been the cause for the emergence of „new“ problem regions - backward rural peripheries, declining industrial settlements and small inhabited islands. Those problematic regions are more and more depending on state support either in form of social aid, dependence on public sector employment, state budgetary transfers to local budgets or state investments. This means that past-transition will not run towards the stabilisation of regional inequalities as it did on the macroeconomic level - many regional problems are yet on the way and will ask solutions from national authorities.

### **3. Evaluating the efficiency of regional policy**

The efficiency of regional policy is usually evaluated in respect of the geographical location of economic activities, the total contribution of the measures in the economy of the state and the financial contribution to the national wealth.

It is difficult to evaluate the efficiency of regional policy in Estonia at present. First of all, the general goals have been formulated similarly to those of the other states, but the tasks and the corresponding measures are significantly different in Estonia. For example, the absence of tasks oriented at economic results (primarily the creation of jobs). There is discussion of creating indirect conditions and opportunities (favourable business and economic environment), similarly to the economic policy of Estonia as a whole, but the reality is quite different from the goals.

The small volume of regional policy in the quantitative sense also does not permit to state the results of this policy in the regions. We have no adequate regional statistics at our disposal, which would enable to compare definite figures of expenses (and general efficiency) and the income (results).

For the evaluation of regional policy measures and projects, we have used the evaluation analysis of regional policy programmes elaborated by regional development expert Jaak Kliimask.

#### **3.1 Evaluation of programmes and measures**

The regional policy programmes cannot be evaluated due to their small volumes and short periods. This will be possible after a minimum term of five-six years (the 1994 programmes in 1999 etc.). It is possible to evaluate, whether the objects being developed have become operational, whether the

events and projects have taken place and to what extent the contents of the programmes correspond to the set goals and the general goals of regional policy.

Rural settling activity/programme (before 1994 resettling activities) is one of the oldest regional policy programmes which started in the beginning of the 1990-s and has been influenced by the values of the first independence time (village-life, community) and the economic policy of the first Republic of Estonia (settling activities, importance of agriculture etc.). The programme is managed by the Ministry of Agriculture.

The largest expenses directly and deliberately influencing the development of certain areas have been made within the settling activities independently of the officially determined state regional policy. The goal of the programme was the resurrection of small villages facing extinction by the construction of infrastructure and via measures primarily favouring agricultural activities there.

The programme was launched in 1994 and has been managed by the Ministry of Agriculture in a significantly more stable and better financed way than the state regional policies. In the first two years the financial volume of the programme amounted to EEK 15 and 25 m. In 1996 and 1997 expenditure was reduced to EEK 7 and 5.8 m.

At the same time, considering that there are more than 3,000 small villages in Estonia and that only a couple of dozen can be „repaired“, including partially, every year, while all the villages would require extra development impulses, these measures have little impact on the rural development as a whole. Besides, other villages are dying out and even the repaired ones can hardly be expected to be self-maintaining and reproducing ones. And the greatest problem areas in the countryside are mainly the centres of the former collective and state farms (with as a rule 200-500 residents), where certainly the greatest unemployment and poverty are concentrated. As a result, this direction of activity can be considered the least effective and at the same time the most expensive.

This programme is in conflict with other current policies: the aim of this programme is to value traditional Estonian lifestyle, village-life and development of agriculture but processes of reforms and current economic policy priorities are against this. We can interpret this as an example of unsuccessful capacity building. Officials have not based this regional policy programme on the nature of the problems but on the area considered/designated as problematic.

The programme for peripheral areas is also one of the oldest programmes in regional policy. The programme lacks clearly defined geographical preferences; the term „periphery“ is used in a rather flexible manner. The aforementioned geographic flexibility can certainly be considered practical in the current situation. The programme should encompass a majority of the rural boroughs and small towns; those excluded should primarily be the local governments of the closer hinterlands of large cities. But the package of possible measures presumes a significant local initiative where primarily the local governments and their associations will determine the local priorities and will screen out the most practical ideas. At the same time the other basic idea

should still be that of the physical and mental linking of the peripheries with larger centres, especially regarding the mobility of labour.

This will presumably become Estonia's most significant regional programme or a target area of regional politics. We can interpret it as an example of successful capacity building

Programme for rural development. This programme tries to strengthen grass-roots initiatives and supports micro-projects in the entire area of the country. In addition to the generally accepted regional problems and regional differentiations, special problems can also be singled out corresponding to the needs and values of social communities. It is very difficult to quantify these needs according to generalised principles and they can be an object of a region-specific approach. The territorial unit is a village (rural settlement), which forms, as a rule, a homogenous group with a relatively uniform identity (in a large city the corresponding unit would be a block, a street or, in an extreme case, a city district). But the differentiation between such small territorial units within cities would not be practical in the regional policy context, the problem is mainly reduced to geographical isolation. Since the goal of Estonia's regional policy is also the preserving of life in the rural areas in general, this programme should be considered very necessary from that particular viewpoint, although the progress is difficult to evaluate, but quite acceptable in view of the relatively low expenses.

The programme for islands. With the exception of technical conditions (connected to the improvement of location – ports, traffic) this programme belongs more to the peripheries programme (it includes also the large islands). The greatest obstacle to the development of the peripheries is primarily the inadequate accessibility and the resulting excessive locational costs of activities. The settlement of small islands is a separate strategic goal, but it is questionable whether a specific programme or target area will be needed for that.

The programme for border regions is developing into a co-operation programme of border regions which is quite justified. Since these are effectively international co-operation programmes, it should turn into a programme covering the entire territory of Estonia and supporting activities in these directions.

The programme for mono-functional settlements. A programme with a clearly defined problem, but due to the nature of possible solutions (similarity of required measures) a combination with other industrial cities and primarily with the Ida-Virumaa programme should be considered. The programme should envisage an option for a significant reduction of the population of these settlements, since the previous sources of growth have been exhausted. The option of commuting of workers to workplaces in other localities should also be used to a greater extent.

The programme for North-Eastern Estonia. North-Eastern Estonia (Ida-Virumaa) is a more or less clearly defined region which differs from the other Estonian regions in a sufficient number of aspects. Such ethnic peripheries dominated by large industry and mining are well known in the world; they are frequently also the economically backward or problematic areas.

The main emphasis in Estonia lies on the ethnic problem, although there is at least a mentioning of major economic problems (unemployment, restructuring of large enterprises, etc.). But since there are neither structural nor economic development policies in the Estonian economy, these aspects have been effectively omitted from the programmes. The integration of non-Estonians in Estonia is an issue which does not concern exclusively Ida-Virumaa, although it is manifested there in its most concentrated and, due to the economic problems, also most acute form. Besides, measures concerning integration as such are, as a rule, absent from the arsenal of regional political measures. Consequently, if the main share of the Ida-Virumaa programme were directed at integration issues, this programme should be financed and directly co-ordinated through the integration and other funds (i.e. the institutions directly involved with the matter) rather than from the regional policy resources.

The Ida-Virumaa programme could exist in principle, if we consider the economy (industry) of the large cities of the region. It could then be claimed that restructuring presupposes the solving of language, citizenship and other problems. In other words, prior to their solving no development programmes can be considered since they simply would not work. Consequently, a certain co-operation with the Citizenship and Migration Board and other involved institutions should be considered to prevent the solutions provided by regional policy from failing. Regarding the economic side, a combination of the Ida-Virumaa programme with that of the mono-functional settlements could be considered. The problems in the context of Estonia as a whole are somewhat different but more similar than dissimilar in the economic respect.

According to their nature the business support systems belong more to regional policy in a wider sense, although they are financed within the framework of regional policy. Such centres in different forms are probably characteristic to most advanced countries where the new and small/medium size businesses are simultaneously being supported. Modern business and economic development policy take geographical aspects into account through business support schemes. Consequently, this is a measure having significant positive impact on regional development, but one that need not necessarily be considered part of regional policy. This does not mean that the system needs to be changed (it works), the author is simply recommending that it need not necessarily be defined as regional support.

Among all currently used measures regional policy loans correspond most of all to the regional policy realised in Western Europe and aim at concrete results (primarily job creation). The problem is mainly in the limited resources; the role of this measure should increase significantly. The absence of guarantees, the principled distrust of conservative businessmen to use loans, etc. did not permit to fully use the opportunities offered by the banks. One of the reasons has also been the limited interest of banks in small projects, particularly those in the peripheries and involving agricultural production. Since the present measure already has a working institutional structure, regional political risk capital and start-up capital structures stimulating new business could grow out of the limits of this measure.

Development fund for county governments. It is principally impossible to evaluate the results of the work being currently done within the county

government's regional policy. Activities have been highly varied and their contents have largely been based on local initiative with many of them lacking a directly measurable output. To reflect this variety, evaluations should not generally concern the form of regional policy activities as such, but the concrete work at the places (the number of applications meeting general and technical standards, the number of development ideas). This is, however, not a problem for regional policy of the state but for individual actors (the state ensures the information and corresponding training, rather than appointing the persons to do the work). After a reform of the development fund regulations, the county governments could perform the following tasks in the realisation of the state regional policy:

- Initial selection of regional support applications;
- Adding extra value to the regional support applications;
- Preparation of potential for the improvement of the regional development projects' quality;
- Drafting of new regional development ideas and directing them to potential applicants;
- Analysis of state decisions within the limits of the „wider regional policy“

The initial analysis and selection of regional support applications belongs to the competence of the corresponding departments of the county governments even now and it is quite practical that, being aware of the principles of the state regional policy, the applications are being reviewed in a decentralised fashion and the most appropriate sources of financing are recommended when needed. The county governments are operating this way as the representatives of the state in the realisation of regional policy. At the same time, since the development departments have concentrated the most significant relevant information and experience of the regions, the support of the county governments to improve the quality of projects should be increased. The county government's competence would also include the organisation of specific training according to definite target areas or measures.

The county government's development fund should be treated not as a measure but as a form of realisation of regional policy.

The formulation of the financing principles of the county governments' corresponding activities is somewhat complicated. The level of problems of concrete counties should not be used here. The number of local governments should not serve as a basis either, since there are no significant differences in Estonia in that respect, with the exception of Hiiumaa. Nor is it particularly important whether 10 or 15 individuals participate in the event since the organising expenses will remain more or less the same. It cannot be predicted how active will the localities be in submitting their regional support applications, a factor determining the county government officials' volume of work. It can be presumed that the number of projects should not be linked to the number of the counties' residents, considering the fact that the larger towns as a rule do not receive regional support in case of smaller projects. There are no principal differences regarding the county governments obligations' connected with the analysis of regional support projects, state decisions and the



organisation of training activities. The formulation of new development ideas will also depend more on the quality (this holds largely true in case of other activities as well). Consequently, if these activities remain in the competence of the county governments, the allocation of a uniform sum per county will be more practical.

In case the principle were the linking of the quantitative distribution of regional support to the number of project financed according to the regional political zoning, the competence of the county governments could also include the expenses of the organisation of the drawing up of the applications/projects, especially concerning the submission of projects to international organisations. The presumed sums could thus be calculated, once the cost of the corresponding projects and the possible permitted numbers are known. But these sums can also be allocated as a targeted funding (according to the emerging of need) directly to the local governments and to the applicants via them.

Regionally differentiated corporate tax reductions. This is generally an insignificant measure in the Western countries; neither is this an important incentive to the large enterprises for investments and the relocation of production. It will presumably be of relatively limited effect, especially regarding the new businesses and economic growth in the industrial and primary sectors. The larger centres outside Tallinn would benefit which in itself is a positive outcome.

The programme for South-Eastern Estonia has been operated since 1998. The South-Estonian counties would like to realise within the programme several „major projects“ promoting the development of the region, based on the specific advantages of the region (primarily the location). This is a fully justified approach, both generally and regarding concrete ideas, provided the business plans will be correct or economically viable. The counties and local governments of entire Estonia could and should become active in the generation of ideas for such projects and support to their initiation and realisation with their expertise and resources. Every region has its own and quite real advantages for the stimulation of development in that area. Additional advantages can be created independently of natural, geographical, cultural etc. material peculiarities of the regions. But the premise of the programme will be at least partial financing from the public sector, including the state.

The programme for the Setumaa region. The programme has been operated since 1997. The basic features are similar to the Ida-Virumaa programme, the difference is mainly of technical nature (one programme is aiming at the increase of the share of the Estonians in the population, while the other attempts to maintain the local culture and identity). As to its goals the programme is quite questionable, as was pointed out in case of Ida-Virumaa, the ethnic issues should not belong directly in the regional policy area; certain ethnic aspects must be merely observed/considered in order to ensure local development. This is primarily a political programme and if the residents of Estonia's regions in a similar situation will accept it, the programme can be maintained. In the opposite case it would be difficult to explain the duplication of the peripheries' programme.

### 3.2. An evaluation of the projects financed within regional policy programmes

The projects cannot be quantitatively evaluated due to their small volumes and brief periods. This will be possible after a minimum term of three years (the 1996 projects in 1999; the 1997 projects in 2000, etc.). A qualitative evaluation is possible, but this work should be completed before the evaluation of the project's presumed efficiency. It is possible to evaluate whether the objects being developed have become operational, whether the events and brief programmes have taken place and to what extent the contents of the programmes correspond to the set goals and the general goals of regional policy.

The analysis of projects financed within regional policy was conducted in 1998. And during it a total of 85 projects within five programmes were interviewed. The projects were divided as follows:

**Table 2: Evaluation of regional policy projects**

|       | PROJECT                                       | Interviewed |
|-------|---|-------------|
| 1     | The programme for peripheral areas            | 18          |
| 2     | The programme for islands                     | 23          |
| 3     | The programme for border regions              | 14          |
| 4     | The programme for mono-functional settlements | 10          |
| 5     | The programme for North-Eastern Estonia       | 20          |
| TOTAL |   | 85          |

The conclusions about the projects effectiveness are as follows: The resources allocated for the projects have been spent according to the goals of the programmes and in an efficient way. Another matter are the goals and objectives set by the programmes themselves and their problematic of which projects should be financed according to regional policy. Such questions concern, for example, the repair of schoolhouses, certain studies and utilities and social infrastructure projects. The Ida-Virumaa and the mono-functional settlement programmes are noticeable in the latter respect.

A majority of the financed projects, regarding their technical and organisational feasibility, could belong to any regional policy programme. With the exception of two cases, the projects were realised and won general approval. This was obvious, since any support is considered a priori useful to the region, if the evaluator comes from the same region.

The respondents considered a majority of the projects also to belong to the most important priorities to the regions. But a development plan or programme of the local self-government, i.e. a properly thought-out basis, existed only in less than 10% of the cases studied. Consequently, the question remains effectively unanswered, since there is no technical opportunity to evaluate how projects correspond to the actual problems and premises identified by local actors.

But how can regions be enabled to maintain the supply of ideas, improve the quality of initiative and use opportunities provided by numerous sectoral policies for regional policy? The key to effectiveness will be, on the one hand, maintaining local initiative and, on the other hand, ensuring that the financed projects belong to the priorities and that the most problem-ridden regions can apply for them. The goal should be set at a long range: to raise the income to a certain level compared with the national average, to reduce unemployment to a certain acceptable level and to create premises for development within the limits of defined territorial units, rather than responding to local initiatives exclusively. Regions should not remain dependent on the state regional policy within their current needs and problems for an indefinite period.

## Conclusions

Regional development is influenced by a highly varied interplay of factors. Their sequence, pattern of influence and the developmental needs have not yet been adequately analysed in Estonia. The transformation process has brought about several changes in the patterns of regional development. The main features of regional development in the 1990's have been as follows:

- Amplifying centre-periphery differences in economic growth, incomes, unemployment etc. Fast growth in Tallinn due to advantages in international trade is taking place partly at the cost of other regions as the capital is draining development potential from other parts of Estonia;
- Increasing unemployment in rural areas is due to the low flexibility of the labour force of former collective farms;
- The change in the geo-political situation has negatively affected economic ties to Russian markets (especially in the Eastern border areas) and has made the exploitation of ports and development of tourism possible in the Western coastal regions and islands;
- Unemployment and other social problems have increased in the settlements of former large industrial Soviet military bases. Large industrial conglomerates need economic restructuring.

The main goals of national regional policy are to ensure secure living conditions for the inhabitants of all regions, including the opportunity to find employment, the availability of primary services and an environment not detrimental to health and well-being, economic growth potential in all regions, balanced regional population and settlement development dynamics, sustainable development and national territorial integrity.

The greatest factors influencing the development of Estonian regions and the positive development impulses exert an impact through internationalisation and according to most studies of the regions' development prospects it can be stated that the more international a region is, the better are its prospects. The regional policy concept approved in 1994 together with the set of instruments and programmes is, according to experts, a compromise between the desires and ideas of various departments. This is indicated by the omission of employment and infrastructure as regional problems. According to the experts,

the regional policy programmes have not been based on the nature of the problems, but on the area considered/designated as problematic by various departments (together with problems determined a priori).

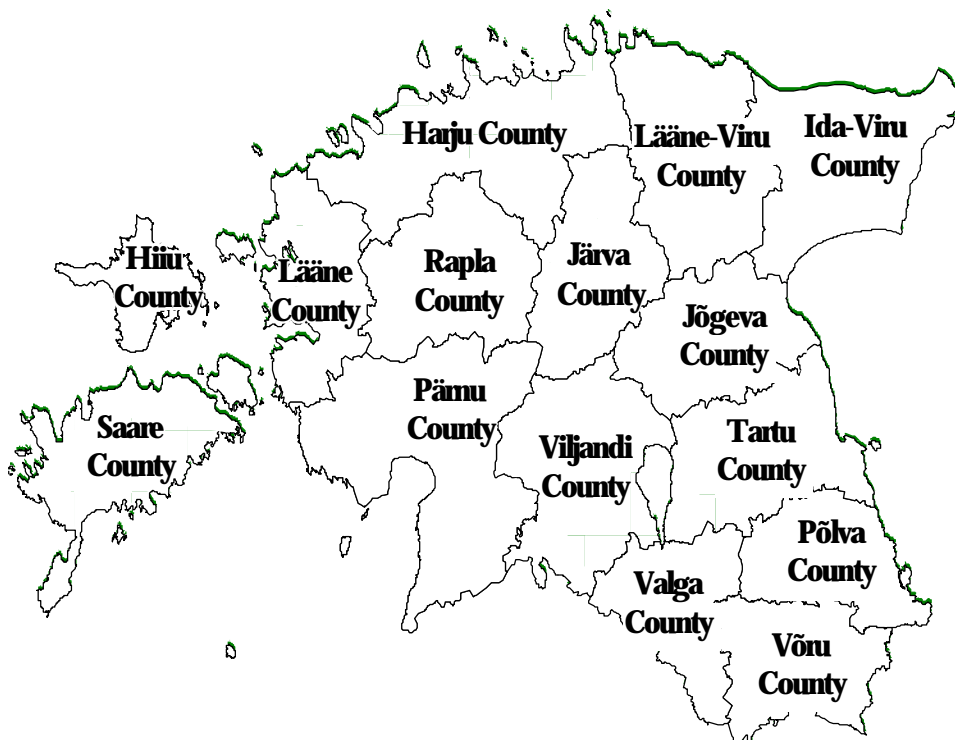
It is currently difficult to estimate the efficiency of regional policy in Estonia. First, the general goals have been formulated similarly to other countries, but the tasks and the corresponding measures are significantly different in Estonia. We do not have as accurate regional statistics at our disposal as to be able to compare concrete figures showing the expenses (and general efficiency) and the income (results).

With the exception of Harjumaa, the indicators of all other regions, counties and most local governments show serious problems like unemployment, low incomes etc. But the future problem areas also need some re-interpretation in two respects:

1. Areas which influence the welfare and development of other areas, too;
2. Areas which cannot adequately react to the opportunities offered by the environment.

The first group includes Tallinn with its hinterlands; their challenge is to maintain and consolidate its position in the international division of labour by competing for the performance of some functions and relaying development impulses to the other areas of Estonia. The second group includes a number of areas which differ in their development paths. First of all; Ida-Viru county and agricultural areas with a more efficient production should be mentioned here.

## Appendix 1: Territorial-administrative division of Estonia



## Appendix 2: Chronology of regional policy in Estonia, 1989-98

The history of regional policy can be regarded as brief, as the principles of regional policy were first formulated only in 1989 in *the Conception of the Self-financing of Estonia*. The reason may lie in the situation in the Soviet period, when there were no essential regional problems (significant regional differences in income and living standards, unemployment, etc.) and there was therefore no need for a regional approach. The principles of the Conception of the Self-financing of Estonia have later become the basis for several national policies. Regional policy became a targeted activity at the beginning of the 1990s, when the first measures of regional policy were applied in practice.

### 1989

- In the Conception of the Self-financing of Estonia, the necessity and objectives of regional policy were first formulated. The objectives of regional policy were to compensate for shortcomings in the preconditions for economic activities in regions and prevention of the undesirable social consequences of such shortcomings. The primary aim was to enable the inhabitants of all regions to earn their living, secure the basic level of the social infrastructure and enjoy a decent living environment.

- On the basis of the Planning Department of the former Planning Committee, the Regional Development Department was formed in the Ministry of Economic Affairs, with the task to establish a regional policy.

### **1990**

- The first regional policy conception was prepared. Regional policy proceeded from the principle that each area has its preconditions for development. As the need for development of regional policy had primarily arisen due to the social needs of society, the objectives of the regional policy were to develop regionally balanced employment, income, environmental and living conditions, services, quality of life and living standards. Proceeding from the demographic and socio-political situation that had developed in Estonia, one of the objectives of regional policy was also the preservation of the territorial integrity of the state.
- The zoning was drawn up according to the principles of regional policy and it reflected the current socio-economic situation and level of development of municipalities.
- Special facilities were established for the enterprises of the Narva area.

### **1991**

- The objectives of regional policy were to diversify the economic structure of rural areas, enable local governments in depressed areas to create normal continuous production activities and to secure continuation of production activities.
- Settlement activities were begun.
- In less developed areas income tax concessions for new businesses became effective.

### **1992**

- Regional policy was characterised by three different approaches: the formal approach was aimed at the development of the general economic environment, and the informal approach was characterised by the wish to implement regional policy mainly through county governments. The alternative approach was represented by the Estonian Congress that wished to regard all activities of the Government outside Tallinn as regional policy and provided that the zonings of regions should be drawn up according to their levels of development and that regional aid should be allocated by the central government according to such zoning.
- The Department of Local Governments and Regional Development was formed in the State Chancellery on the basis of the department of the Ministry of Economic Affairs and the Administrative Reform Committee.
- The co-operation project between the Department of Local Governments and Regional Development and NUTEK (National Agency of Research and Technological Development in Sweden) began. This allowed for the

training of consultants and entrepreneurs and the creation of business contacts with Sweden.

### 1993

- The main attention of regional policy was on business development activities.
- In co-operation with NUTEK, the Business Development Centre of South-East Estonia was established, as were later the business development centres of Virumaa and Viljandimaa with their branch offices. In the framework of the EU Phare programme, a network of business advisory services centres was formed. It became the task of the business development centres and business advisory services centres to train and advise entrepreneurs, provide business services and mediate partners. At the same time, the umbrella organisation “Estonian Jobs & Society” was established, with the help of which business development centres were established in Hiiumaa, Saaremaa, Tallinn and Harjumaa.
- The Department of Local Governments and Regional Development of the State Chancellery was transferred to the administrative sphere of the Ministry of Internal Affairs and became an independent state agency.

### 1994

- At the end of the year, the Estonian Government approved the Regional Policy Conception prepared jointly by the Department of Local Governments and Regional Development of the Ministry of Internal Affairs, the Regional Policy Sector of the Ministry of Economic Affairs and the regional Policy Bureau of the Ministry of Agriculture and became a basis for the further activities in regional policy.
- Regional policy was seen as a part of national policy, complementing and connecting other sectoral policies with each other, and co-ordinating the activities of different state institutions. The principles of regional policy were now encouragement of local initiative, achievement of economic results with measures that have an impact on the economy and infrastructure and social and ecological processes.
- The main activities were considered to be the formation of conditions that allow viable business activities in all regions, development of an infrastructure of communications in the entire territory of the state, support to the regionally viable restructuring of rural economy, creating self-sufficiency for developing regions, securing access to basic services (basic education, basic medical aid, communications, etc.) and creating an information database for the monitoring and direction of regional development.
- In the Estonian Government, the post of a minister without a portfolio was formed and endowed with the task of co-ordinating the national activities of regional policy.
- Several regional policy measures were applied:

- ✓ development funds of counties and business support;
- ✓ support to non-governmental business development centres;
- ✓ support to development projects of national importance.
- ✓ The network of business development centres was jointly established by the Department of Local Governments and Regional Development of the Ministry of Internal Affairs and NUTEK.

### **1995**

- The Regional Policy Council was formed. Its main tasks were to develop the principles of regional policy and co-ordinate their application.
- Regional policy support consisted of the following categories:
  - ✓ support to the regional business support systems;
  - ✓ business support through county governments;
  - ✓ support to national development projects;
  - ✓ regional policy loans;
  - ✓ support to settlement activities.
- With the decree of the Estonian Government, three counties of South-East Estonia were afforded the status of development areas which did not, however, in essence increase their financial support.

### **1996**

- Six regional policy programmes were launched: the peripheral areas programme, the islands programme, the border regions' support programme, the community initiative support programme, the monofunctional settlements programme and the Ida-Viru programme.
- The funds allocated for the support of regional policy were used for:
  - ✓ regional development programmes;
  - ✓ support and development of business support systems;
  - ✓ regional policy loans;
  - ✓ development funds of counties (for the preparation of development strategies and territorial planning).

### **1997**

- The Ministry of Internal Affairs as a central state institution engaged in regional policy started to administer the regional policy measures.
- Funds were allocated from the state budget for the support of regional development:
  - ✓ to regional development programmes;
  - ✓ for the development and support of the regional business support system;
  - ✓ for regional policy loans;
  - ✓ allocations to county governments for the organisation of regional development and county planning;
  - ✓ regional surveys;
  - ✓ support to the regional development of Setumaa.



- The Estonian Regional Development Agency was established, its tasks included financial and technical arrangement of the use of state funds and other funds allocated to regional development, the formation of the uniform national business support system and the management of its activities.
- The Regional Policy Council was reorganised into the Expert Commission of the Estonian Government.

### 1998

- A new programme was launched - the South-East Estonia Programme. Its objective was to support various development projects in the three counties of South-East Estonia. Additional programmes were: a programme for supporting investments related to social infrastructure and a measure targeted at reducing the consequences of the so-called crisis situations; settlement activities were discontinued.
- The work of harmonising regional policy with the principles of the EU Structural Funds began.

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