

**NATIONAL REPORT ON REGIONAL SUSTAINABLE  
DEVELOPMENT**

**ESTONIAN COUNTRY GUIDE**

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# 1. NATIONAL BACKGROUND OF REGIONAL DEVELOPMENT

Estonia is a small, developing, and dynamic nation situated on the northern corner of the Baltic Sea. Estonia is the northernmost of the three Baltic States, and it lies south of Finland, east of Russia, and just across the Baltic Sea from Sweden. The total area of Estonia is 43,432 square kilometres. Estonian territory is rather plain and covered in large part by forests. There are many swamps throughout the country, and numerous lakes in southern Estonia, including Lake Peipsi - the fourth largest lake in Europe – on the border with Russia. The climate in Estonia is rather humid and windy, as many parts of the country are positioned near water. The population of Estonia is 1,356,045 with negative growth rate, and approximately one third of all inhabitants living in and around the capital, Tallinn. The population density of Estonia is 31,2, but varies considerably throughout the territory as many rural areas are very sparsely populated.

Estonians and their ancestors have lived in their present location for around 5,000 years, however, as inhabitants of an independent Estonian state first since the first half of the 20<sup>th</sup> century. Historically, Estonia has been parts of Danish, German, Polish, Russian, and Swedish statehood in different forms, which all have left their trace on the formation and development of an independent Estonian state as it is today. In the first part of the 20<sup>th</sup> century, as the October Revolution ended the Tsarist Russian Empire, Estonia gained in 1918 for the first time in history the status of an independent state. In Russia, the Soviet Union was then established. Two decades later, Estonia was incorporated into the union. After the half-century-long Soviet regime, Estonia regained its independence with the separation from the Soviet Union in August 1991. Already some years before, in 1987, Estonian economists had published a declaration on economic autonomy that gained popular support and led to series of economic reforms. Following the regaining of independence, in June 1992, a national currency, which became stable and convertible, was introduced. After the parliamentary elections later the same year, market reforms accelerated, when the new government introduced rapid liberalisation of prices, a tariff-free and open trade policies, and privatisation.

After the Second World War, during the Soviet occupation, a formerly west-oriented, mainly agricultural Estonia had been rapidly turned into an industrial country. This meant concentration as well as centralisation of the economy with full dependence of Russian markets, and a large immigration of foreign labour force. Even in those conditions, Estonia was one of the most rapidly developing parts of the Soviet Union. A rapid transition process from centrally planned to market economy since the early 1990s brought along increasing regional differences. Shortly after regaining of independence and introduction of Estonia's own regional policy, the situation of regional development in Estonia actually worsened. The centre-periphery differences in economic growth, incomes, and unemployment escalated, subsequently increasing interregional labour mobility. Growth rates in larger towns, especially in Tallinn, began to rise considerably due to the advantages of international trade and new co-operation opportunities. At the same time, unemployment rates in the rural areas started to increase due to low employability of workforce of former soviet collective farms. Likewise, there were increasing unemployment and other social problems in the settlements of the large Soviet military bases and large industrial establishments in need of economic restructuring. The development potential of less advantaged areas began to deteriorate further due to migration, which led to disappearance of independent potential in several regions, social degradation, and an increase in welfare expenses. The consequence of these processes has been the emerging of new problem regions – backward rural peripheries, declining industrial settlements, and small inhibited islands. Those problematic regions have become more and more dependent on state support either in form of social aid, public sector employment, state budgetary transfers to local budgets, or state investments. There remain today many region-specific problems and inequalities to be addressed by Estonian public authorities.

## **1.1. Political and administrative system and hierarchies**

### **1.1.1. Political system**

Estonia is a constitutional parliamentary republic, with the 101-seat unicameral Parliament, elected in proportional elections by popular vote for a four-year term. The head of Government is the Prime Minister, nominated by the President and approved by the Parliament. The President is the head of state, elected for a five-year term with no right to be elected for more than two consecutive terms by the Parliament, or by the Electoral Assembly. Executive power is held by the Government cabinet - the Council of ministers appointed by the Prime Minister, and approved by the Parliament. Besides Prime Minister, there are currently 13 ministers in the cabinet, 2 without portfolio. Judicial power is held by courts, the system of which consists of rural and city courts, as well as administrative courts, district courts, and the National Court. Estonian Military forces are composed of Estonian Defence Forces (including Ground Forces, Navy, Air Force), Republic Security Forces (internal and border troops), Volunteer Defence League, Maritime Border Guard, and Coast Guard.

### **1.1.2. Administrative system**

Estonia has two administrative levels – local government and central government. There are currently 241 municipalities as local self-government units in Estonia, 39 of these towns, and 202 rural municipalities. The smallest municipality – rural municipality of island Ruhnu – has 63 inhabitants, and the largest – city of Tallinn – 397,150 inhabitants. The Estonian Constitution indicates that all local issues shall be resolved and managed by local self-governments, which shall operate independently pursuant to law. The main local issues, which are managed by municipalities, include primary and secondary education, local public transport, communal and social services, and local roads and streets. Duties may be imposed on a local self-government only by law or by special agreement, financial resources necessary for carrying out these duties shall be funded from the state budget. Municipalities have independent budgets, with the right to impose certain local taxes.

Estonia is divided also into 15 counties, however, not comprising a separate administrative level. It is the central government, which is represented at the regional level by counties. By law, the county government is the office of the County Governor. County Governor, a head of a county government, is a civil servant and responsible to the central government. A county governor is appointed by the central government on proposal by the Prime Minister and in coherence with the regional union of local authorities in the corresponding county, including a council member and a mayor of each local authority. If two candidates in the following are not approved, the central government has the right to appoint a person of its own choice to the office. County governor is appointed for a five-year term of office, which may be prematurely terminated by the government. County government consists of an office and departments that may include divisions. The head of the office is the county secretary. Central government may place education, culture, social welfare, and other agencies under the administration of a county government. County governments are financed from the state budget. Besides county governments, there are other central government institutions at the regional level, such as tax offices, immigration and citizenship departments, statistics bureaus, forestry offices etc.

County governor in Estonia is responsible for: (1) representing the interests of the state and ensuring the comprehensive and balanced development of the county, (2) liaising between the government and local authorities on regional policy and other relevant issues, (3) concluding contracts concerning the delegation of central government tasks to local authorities, and (4) co-ordinating co-operation between regional offices of ministries and other government agencies, and the local authorities in the county. County governments have supervisory and

advisory functions over local authorities in their region. The law entitles a county governor to carry out monitoring and control of legal aspects of the activities and regulative acts of the municipalities within the county, and over the legality and appropriateness of the use of state assets that are at municipal disposal. County governor has the right to review decisions made by local authorities that have entered into force. In general, the counties primarily administer central government functions and co-ordinate the activities of municipalities at the regional level.



Estonia has not had the same administrative division since regaining of independence, and restructuring the soviet administrative system – there have been important changes introduced also during the last 10-12 years. In November 1989, the Local Self-government Foundation Act was adopted which re-established the basis for a local government system in Estonia after the Soviet regime. During the end years of the 1980s, the Estonian names of local government units were already in use – counties instead of rajons, and rural municipalities instead of village soviets. The principles of local government reform were formulated, and the reform strategy drafted in December 1990. A reform strategy took into consideration that existing soviet primary-level units would encounter by the simultaneous transformation into local government organs. With the adoption of the Constitution in June 1992, most of the Estonia’s rural municipalities, boroughs, and towns, which had been established on the basis of former village soviets, but also counties, formed on the basis of

rajons, were given self-governing status. Thus, after regaining of independence, the counties constituted for several years a separate administrative level, with also regional legislative bodies, elected by the people. This was mainly due to the reshaping of the previous administrative system from the soviet times. The Local Self-Government Foundation Act from 1989 had demonstrated clearly a preference for an one-level local government system, followed by the Estonian Constitution from 1992, which prescribed the units of local government to be rural municipalities and towns, however also stating that on the basis of and pursuant to procedures provided by law, other units of local government may be formed. Consequently, in 1993, the two-level system of local government was replaced with the single-level system, as counties were left without the status of a separate administrative level, forming now a part of central government, as most of their tasks were forwarded to the municipalities. Since then, the so-called regional administrative level of Estonia has actually implemented just the central government policy in the regions. The current system can, however, change during the coming years, in light of the discussed regional administration reform at the central government level, especially in order to increase the tasks of the counties, so that they could bear also a wider responsibility for regional development. This can include also the introduction of elected legislative bodies in the regions.

The division of Estonia into 15 regions, either as a separate administrative level or not, is rather old. When looking back at the more distant history, many of the today's counties existed in similar territories already many centuries ago. During the time when Estonia was part of no foreign statehood, the parishes, consisting of the villages, were the most important administrative units. In the beginning of the 13<sup>th</sup> century, there were 45 parishes in Estonia, which united, mostly due to external threat, into parish unions – counties. In the current territory of Estonia, there were 12 counties altogether, several in the similar boundaries as today. Since then, the Estonian territories constituted parts of different statehoods. Initially, the division into administrative units similar to previous county division remained. Since the mid-14<sup>th</sup> century to the second half of 16<sup>th</sup> century, due to further re-division of Estonian territory between different statehoods, the initial county-system was changed. However, in the first half of the 17<sup>th</sup> century, as Estonia was incorporated under the Swedish rule, counties similar to as before were established. The Russian rule since the 19<sup>th</sup> century added some counties. During the first Republic of Estonia from 1918-40, the country was divided into 11 counties. During the subsequent Soviet regime, Estonian administrative system was changed. The early years of the regime left Estonia without some parts of its territory, including one county. By the end of the 1940s, three new counties had been formed. During the 1950s, Estonian administrative units were renamed to achieve similarity with the rest of the Soviet Union – counties were renamed into rajons, and rural municipalities into village soviets. The number of rajons was first increased importantly, thereafter decreased back, and by the beginning of the 1960s there were 15 rajons, which is the number of counties today. Perhaps due to this historical division of Estonia into regions similar to today's counties, the region as such is in Estonia often defined in the county boundaries. However, the specificity of a concrete region appears frequently also as a familiar basis for defining a district, and many people identify themselves not as an inhabitant of a special county, but of a border region or an island district.

When coming back to the today's administrative structures, the EU Nomenclature for Territorial Units for Statistics (NUTS) has to be mentioned. The NUTS division applies also to Estonia. Estonia as the whole country is a single territory under NUTS levels I and II, and is subdivided into five geographical areas at NUTS III level. NUTS III classification in Estonia is purely territorial statistical units division, and no administrative level, nor any administrative units exist at this level. NUTS III has not caused any reduction in the number of counties or local authorities in Estonia. NUTS IV level units are counties, and NUTS V level units are municipalities.

### **1.1.3. Administration of Regional Policy**

Administration of regional policy in Estonia is non-coherent, and fragmented between different line ministries. The ministry responsible for regional development and policy in general is the Ministry of Internal Affairs, therein the department of regional development. However, several other ministries carry out tasks connected closely to regional development as well, such as the Ministry of Economic Affairs and Communications with supporting SME development, the Ministry of Agriculture with rural development policy, and the Ministry of Environment with spatial and physical planning. It is possible to find within the activity fields of most Estonian ministries some tasks which foster regional development. At the regional level, the scheme of implementation of regional policy is similarly sector-based. Different ministries allocate finances under their activity fields directly to county governments, without co-ordinating with other concerned ministries. This is the largest problem with regional policy in Estonia.

The problem currently in Estonia is that all the activities actually contributing to regional development are in non-co-ordination with each other. Since 1994, there has been a position of a Minister responsible for regional affairs in the cabinet, however, without portfolio. These ministers have usually had their own bureaus within the State Chancellery for serving the minister and advising him on regional affairs, but these bureaus have developed neither into strategic planning nor regional policy implementation structures. As the minister responsible for regional affairs does not have until today a direct subordinate implementation structure, either in the form of a separate ministry or departments in different ministries, he has in reality neither control nor co-ordination power over the different activities connected with regional development, which are implemented in different line ministries. Thus, the planning and implementation of regional policy is today very fragmented between different state structures.

There are currently eight national regional development programmes operating in Estonia, administration of which is divided between different ministries. When looking at a more technical administration of the projects under these regional development programmes, Enterprise Estonia, a foundation established by the state for being a national support system for entrepreneurship, is the fund manager and technical administrator for the majority of instruments of regional policy in Estonia. After Estonia's accession to the EU, the foundation will become one of the implementing agencies of the EU Structural Funds in Estonia, becoming an administrator of various Single Programming Document (SPD) measures, at the same time remaining the main provider of support and development programmes, directed towards entrepreneurs.

## **1.2. History of regional development**

First occurrences of regional policy as a separate policy field with its clear goals can be traced back to the post-depression 1930s and the attempts to tackle wide-spread unemployment in former industrial districts. The introduction of the principles of regional policy occurred more widely in Europe during post-war late 1940s-60s, mostly as reaction policy instruments to the newly occurred structural problems. Really pro-active regional policy in Europe can be dated back only to the beginning of the 1980s. This was not, however, the case in Estonia, being then part of the Soviet regime, which unvalued the idea of the balanced regional development.

Transition process from centrally planned to market economy has brought along several changes in patterns of regional development in Estonia since the beginning of the 1990s. The immediate result of the transition has been, unfortunately, the increase in regional differences. The main factors, which had a profound impact on regional development in the Soviet Union, were massive industrialisation, agricultural collectivisation, russification of the population, and total dependence on Russian markets. Regional policy in the Soviet Union was a paternalistic policy by the central government authorities directed from Moscow with strong interference

into local production patterns, migration flows, and financial redistribution. The main character of regional policy was a large regional redistribution of budgetary funds, however, not based on regional discrepancies as approximately 25 % of funds went for social and economic development of the Moscow region and the share of backward European part of Soviet Union was less than 2 %. No major aid scheme was implemented to balance the existing regional differences. Traditional problem regions, such as old industrial areas, were not supported enough, remaining net payers. Soviet regional policy did not bring economic and social cohesion, and towards the end of the union, the overall regional differences grew.

The first regional sustainable development activity in the Estonian territory can be traced back to the 1987 and the then ongoing Soviet regime, when the so-called phosphorite war took place. The plans of the Soviet Union's Ministry of Fertiliser Industry to build several gigantic phosphorite mines in Eastern Estonia, which would have been accompanied by large environment damages in the region, were opposed by large public demonstrations, which eventually hindered the foundation of the mines. However, the introduction of the principles of sustainable development remained then still an issue of the future.

The first principles and objectives of Estonian regional policy were formulated in 1989, under the Concept of Economic Independence of the Soviet Republic of Estonia (Self-Sustainable Estonia). Regional policy was defined as an activity carried out by public authorities and aimed at balanced and complex development of the regions with the use of all resources and policies. The objectives of regional policy were to compensate shortages in economic activities in the regions, and to avoid undesirable social circumstances. The main measures of regional development policy were to secure the opportunities for earning the living, living-worthy environment, and provision of basic social infrastructure in all regions. Regional economic development was to be guided also indirectly through administrative measures, such as establishing various protected areas and reserve territories. This first regional policy concept was not implemented at large, but it became later a reference for sectional and regional policies of independent Estonian government. During the next year, in 1990, a new concept of regional policy was formulated, though regional policy was defined similarly. The range of objectives of regional policy was increased as it was to achieve regionally balanced development of employment, incomes, environmental and living conditions, services, quality of life, and living standard. One objective was also to maintain national territorial integrity. Although the regional policy approach was still of a centrally directed and public sector based one, it was first noted that regional policy activities needed close co-operation and co-ordination between the state and self-governments. Attention was directed onto elaborating specific national development programmes to secure the development basis of backward areas.

In 1991, the guidelines of regional policy were approved by the Government, which foresaw donations for equalisation of local budgets lacking necessary revenues for social and technical infrastructure, tax reductions to stimulate new businesses for increasing financial and economic potential of lagging municipalities, but also other measures, such as start-up subsidies, loans, and interest subsidies. During the same year, the first regional policy instruments – corporate tax reductions and infrastructure investments in remote areas - were introduced. Some decision making power was given to regional administrative level. However, centralised administration of regional policy created a conflict between central authorities and county governments as the latter had defined the main development problems and development priorities meeting always not the central government's policy principles. Regional policy during 1989-1991 was very context-sensitive due to Estonia's situation on the edge of re-independence. Certain general rules of command economy still applied, but regional policy was also used as a tool to transform Estonia's economic dependence of the Soviet Union and its market towards national integration.

With the new cabinet from the 1992 came along a considerable change in the course of regional policy in Estonia. The cabinet acknowledged the necessity of regional policy activities, but took a laissez-faire approach with deregulation of regional policy and removal of public support. No funds were assigned in the state budget for regional development, and the elaboration of regional policy law stopped. Several regional policy measures, such as tax reductions, were cut off. State support for regional development was considered non-appropriate in the newly re-independent Estonia's market economy. No regionally oriented policies were pursued, although municipalities were too weak to solve their development problems on their own. The aim was to use market mechanisms to obtain best possible allocation of resources, which in turn would create the conditions for sustainable growth and an improvement of living standards in the country. In 1993, however, regional development activities in Estonia continued, being targeted to business promotion with the establishment of first business support system for fostering entrepreneurship in the regions. This composed of advisory and business promotion centres in all counties. 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 (including financial analysis, business strategy, marketing etc), training courses for beginners, information on various state aid schemes, and partnership creation. Various funds were established to provide grants mainly to SMEs.

In 1994, the number of regional policy measures was remarkably enlarged, and various regional development projects of national importance, and settlement activities, such as population development in remote areas, were carried out. However, the main target on business development did not give expected results, and other priorities, such as underdeveloped infrastructure, poor availability of services in rural areas, and deconstruction of industry, had been entirely forgotten. In practice, regional policy was passive and fragmented, as all development activities remained sectoral and without region-specifics. Although neo-liberal approach had been changed into regulatory one with very little co-ordination, the expected results were not achieved, as local authorities used decentralised regional development funds for other purposes, such as for basic service provision. During the same year, the cabinet approved the second guidelines of regional policy, and consequently institutionalised central-authority-led public regional policy in Estonia. It aimed at fostering self-reliance rather than reliance on redistribution of resources by the central government, at creating a vigorous economy not reliant on constant subsidies from the state, and at avoiding permanent subsidies unless unavoidable. Regional development was to be based on local initiatives, participation, and support, with state intervention or directions only complementary. Several additional regional development instruments, such as credits, various grants supporting development projects, development grants for county governments, business support centres, settlement activities, and support to local initiative movements were applied from 1994 on. Regional policy was made based upon flexibility and local initiative. Regional policy measures were not to be permanent and automatic. The necessity to move gradually from compensatory towards stimulative measures of regional policy was more widely acknowledged. The range and character of measures improved continuously. State support measures were project-based, thus enabling applications to be treated individually.

During the following several years, additional regional policy instruments, such as loans and advice subsidies for business development in target regions were introduced. In the end of 1995, six regional development programmes were introduced – for peripheral areas, islands, border regions, mono-functional settlements, rural development, and for North-Eastern Estonia. In 1996, development grants were organised under the regional development programmes. However, the state budget for regional policy activities was reduced by 10 %. In 1997, the administration of regional policy instruments in Estonia was centralised under the Ministry of Internal Affairs, and the amount of regional policy funding was risen by 50 %. Additional national regional development instruments, such as a special programme for South-Eastern Estonia, instrument for local economic crisis management, and a programme for regional investments into infrastructure were introduced. In general, regional development

policy was targeted still for the whole territory, but state aid primarily focused to special problem areas, such as less developed rural areas, areas with restructuring problems, and peripherally located areas.

From 1998 onwards, regional development policy in Estonia has been directed towards Estonia's future accession into the EU. Prior to the beginning of the preparations for the accession to the EU, the aspect of regional development became especially important as majority of the overall EU budget is targeted towards rural and regional development of the Member States. Thus in 1997, Estonian regional policy was assessed by the European Commission for the opinion on Estonia's membership application for the EU. Consequently, financial resources at the disposal of regional policy initiatives were found very restrictive and in need to be strengthened. Estonia had to continue developing the legal, administrative, and budgetary framework so that to be able to implement an integrated national policy to tackle regional disparities and participate in the EU structural programmes after accession. Estonian regional development policy had to be strengthened to be able, despite the increased regional imbalances as well as the growing gap between the living standards of the rural and urban areas, to ensure regionally balanced development of the country. Consequently, several rearrangements in Estonian regional policy instruments and administration were introduced, and the budget for regional policy was more than doubled. In general, the harmonisation process of Estonian national regional policy with the principles of the EU Structural Policy began. In 1998, the elaboration of the Estonian Regional Development Strategy began in order to redirect the country's regional policy due to increasing regional differences, and prepare accession of Estonia into the EU. The strategy was approved in 1999, and it applies for the pre-EU accession period until May 2004. In June 2002, Estonia closed the negotiating chapter with the EU on regional policy without requesting transitional provisions.

Since then, the resources for carrying out regional development policy have been continuously increased, and the set of instruments gradually diversified. Regional policy measures consist today of grants, subsidies, credits, and tax reductions through various instruments. There are today eight national regional development programmes operating in Estonia – for islands, border regions, mono-functional settlements, rural areas, industrial areas, network of centres, local initiative, and border district Setomaa, which provide development grants to public authorities and NGOs, but not for commercial projects. The principle of obligatory co-financing of the project by an applicant is used. There are several other instruments of regional policy in Estonia. The use of the finances of the development fund for county for regional development activities and a support programme for regional investments in social infrastructure are decided by county administrations. There is a fund for local economic crises areas, decided by special commissions formed by the cabinet for each single case. Most important regional transport subsidies are support for ferry and air traffic between the islands and the mainland. Regionally differentiated corporate tax reductions apply since 1998. A regional policy loan scheme has been established, aimed at taking higher risks compared to commercial banks, and providing credit for small and medium-sized manufacturing or service sector businesses in rural areas lacking collateral necessary for commercial bank credit lines. The proposals for funding the applications are made by inter-ministerial decision-making body with the use of additional expertise of business promotion centres. The resources necessary for the implementation of the national regional policy come from the state budget. The majority of funding is technically allocated on a yearly basis from the state budget to Enterprise Estonia.

### **1.3. National initiatives on sustainable development**

There is today no coherent national approach towards sustainable development in Estonia, although the country was one of the first in the world to adopt a special law in this field. The concept of sustainable development is, however, rather widely used in the government

documentation as well as at the public arena, but it has remained largely in the status of the simple catch-word, with neither a systematic approach, nor even a single definition behind this. It would be very demanding to expect any specific action plans or concrete measures on sustainable development to be present in Estonia. Nevertheless, several legal acts as well as government documents have been elaborated in Estonia since regaining of independence, which somehow try to determine the nature of sustainable development. As following, the essence of the concept of sustainable development in these documents is presented.

**A) Sustainable Development Act.** The concept of sustainable development was first introduced into Estonian legislation with the adoption of the Sustainable Development Act in 1995. The act passed by the Estonian Parliament in 1995, being one of the first laws on the subject in the world, and it was importantly amended in 1997 to establish the obligatory consideration of the principles of sustainable development in the long-term sector development plans. The act establishes the grounding for the Estonian national sustainable development strategy. Interestingly enough, the act provides no definition of sustainable development either in Estonia or even more widely. Likewise, the principles of sustainable development are formulated rather generally, and more specific goals and tasks are left to regulate by secondary legislation and development plans.

**B) Sustainable Estonia 21/Estonian Agenda 21** is a meta-level development strategy of the Estonian state and society until the year 2030. The strategy was concluded by the experts in June 2003, and passed the harmonisation process in the ministries during summer. The strategy must still receive an approval from the cabinet, and will then be forwarded into the Parliament for the discussions. The strategy defines sustainable development through four goals - vitality of the cultural space, increase in welfare, coherent society, and ecological balance. The document states that Estonia is sustainable only when in the Estonian society, a clearly perceived, measurable, and co-ordinated movement towards all these four goals is present. Estonia is sustainable if its language and culture stay vital, a high level of living quality is secured, a society operates as an integrated association, and a balance between environment and human activities is guaranteed.

The strategy Sustainable Estonia 21 is not an academic study, but a document ordered from the Government in 2001. The Ministry of Environment co-ordinated the preparation process at the national level, which six institutions and 50 experts participated in. The initial preparation process of the strategy had begun already in 1997. As the first step, a guidebook for applying Agenda 21 locally was widely distributed throughout the country to local government officials, community members, and development groups. The Association of Estonian Cities co-ordinates the local Agenda 21 processes. As part of the process, a collection of articles under the name of "Estonia in the 21st Century. Strategies for Development. Visions. Options" was published in 1999 with an aim to open public discussion for selecting alternative development routes for Estonia during the 21st century, for setting national development priorities in the light of a social consent, and for a wide introduction of sustainable development ideas.

The strategy proposes a specific course of action, which could be the basis of so-called societal contract on sustainable development in Estonia. The document seeks an answer to the question of how to guarantee sustainability and success of Estonia in a thirty-year perspective. The strategy tries to cover all fields of society, and not to concentrate on only some sectors, such as environment or economy. The suggested development route to follow in the document is the creation of a knowledge-based society in Estonia, which applies effectively intellectual capital in all societal fields. Consequently, the strategy has its main emphasis on listing in detail the needed changes in the fields of education, science, and innovation, and the actors for implementing these changes. The state is not seen as the main force, but only as one of the actors behind the suggested changes. The strategy emphasises the need for a decentralised decision-making mechanism as regard to sustainable development of the country.

**C) National Spatial Plan Estonia 2010** is the first national spatial development plan in Estonia, setting the goals up to 2010. The preparatory phases of planning and compilation of the initial draft were carried out by the Estonian Institute of Future Studies, and the plan was finalised by the Ministry of Environment. Its preparation started in spring 1995, and the document was finalised in September 2000 with its approval in the cabinet, and an adoption of the Action Plan for its implementation.

The purpose of the national plan is to provide a generalised strategic treatment for Estonian territory - outlining the measures, guiding and shaping the spatial development, and setting up the tasks for subsequent activities. The plan determines possible development scenarios, and outlines basic development principles, which should be followed until, and achieved by 2010. The main goal of the plan is the improved process of guaranteeing the basic needs of the people, such as living place, job, education, services, and recreation, in every part of the country. This is considered to be possible preliminary by improvements in transport solutions, and in quality of environment, and through enlargement of choices.

Improvements in the quality of life of people cannot today be approached without acknowledging the notion of sustainable development, and Estonia 2010 is not an exception. Although the document does not provide a definition of sustainable development, it emphasises its importance not just in the context of environment or regional development, but also regarding energy production and management, and transport, thus approaching from somewhat wider basis. The requirements of sustainable development in planning and spatial development are seen as part of the three most important global trends. Sustainability and the status of environment are considered of being the major future factors of competitiveness.

**D) Estonian National Environmental Strategy** determines the guidelines and priorities for the environmental policy in Estonia until 2010, and is grounded on the international principles of sustainable development (signed by Estonia in different documents), and Estonian historical traditions, taking also account the present social and economic situation. The preparation of the strategy began in 1995, and it was approved by the Parliament in March 1997. Environmental administrators, representatives of six ministries, representatives of universities, and other science institutions, and foreign experts (under PHARE) participated in putting together the strategy.

Although the strategy provides no definition of sustainable development, it emphasises its importance in today's world of limited resources. The issues of sustainable development are discussed mainly as regards environmental issues, but the necessity to co-ordinate also with other policies, such as economy and social policy, is underlined. However, the strategy is quite generally phrased. Although the existing environmental problems and their probable causes are outlined in the document, and important policy priorities (short-term of 2000, and long-term of 2010) are specified, the responsible authorities for implementing concrete actions are not entitled. The more specific tasks are left to be outlined in the Estonian National Environmental Action Plan. The main results of the strategy have been the initiation of amendments into the existing environmental legislation.

**E) Estonian National Environmental Action Plan** was adopted by the Government in May, 1998. The overall aim of the plan is to pave the way for further implementation of sustainable development principles outlined in the National Environmental Strategy. The first 3-year action plan included 658 projects, 2/3 of these short-term (1998-2000, the remaining long-term 2001-2006). In mid-2001, the second action plan was issued, following up the previous document, and updating and refining the actions. When the first document had been worked out in close co-operation with the EU experts, the second was managed by about 250 Estonian specialists. These action plans outline the specific activities in environmental policy, which take into account the principles of sustainable development. The largest responsibility for

sustainable development solutions within the current plan lies upon the Ministry of Environment, followed by the Ministry of Economics and Communication, and the Ministry of Education.

## **2. REGIONAL SUSTAINABLE DEVELOPMENT**

Although the concept of sustainable development is more or less introduced into Estonian legislation, its essence has remained rather abstract, as different and rather vague definitions of sustainable development are used in different legal acts and government documents. Clearly defined legal responsibilities for achieving the objectives of sustainable development have been only minimally established. When moving from general sustainable development issues to more regional aspects in this regard, the situation in Estonia can be considered even more unfavourable, as the essence of the concept of regional sustainable development has remained even vaguer. There is no official definition of regional sustainable development neither in Estonian legislation nor documentation, thus contributing to unfamiliarity of the idea of the region-based sustainable development both in legislation and in practice. However, the absence of the clearly defined concept does not mean that sustainable development is not the concern of Estonian regions. Although the main implementation of policies aiming to guarantee sustainable development is laid upon the municipalities, the counties of Estonia have also been given some legal responsibilities on the issue. As following, these responsibilities are shortly presented under the corresponding legislation and documentation.

### **2.1. National initiatives linked to regional sustainable development**

#### **2.1.1. National initiatives at county level**

**A) Sustainable Development Act.** Perhaps due to its generality, the act does not put any concrete tasks on the counties; it only entitles the cabinet to decide upon the necessity of regional development plans. Thus, the act does not initiate in practice any activities of sustainable development in the regions, except the possibility to foster in general terms regional developmental planning. Obviously, the counties have to follow the general principles determined in this act. As the act is the grounding legal document on sustainable development, the counties must avoid going into conflict with its provisions.

**B) Sustainable Estonia 21/Estonian Agenda 21.** The state is not seen as the main force, but only as one of the actors behind the suggested changes. The strategy emphasises the need for a decentralised decision-making mechanism as regard to sustainable development of the country. The strategy does not outline, however, any concrete tasks, which would be the main responsibility of the regions. This can be due to the fact that the main formulation of education, science, and innovation policy is still seen as the responsibility of the central government, although in close co-operation with third sector actors, and municipalities.

**C) National Spatial Plan Estonia 2010.** The plan foresees responsibilities also in the context of the regions. The responsibilities of the counties are seen regarding sustainable development mainly in the context of regional planning. The counties are entitled to follow the principles of sustainable development in putting together their development strategies and considering these thereafter in the implementation process. The responsibilities of the counties concerning sustainable development are determined in the plan mainly in the context of environmental aspects, and regional regulations are seen as the main policy instruments.

The plan is based on the notion of importance of the historically developed settlement system and landscape structure in securing national identity, as well as the quality of environment. More than half of the Estonian territory is covered with forests and bogs; rich and diverse nature will be one of Estonia's most valuable legacies also in the 21<sup>st</sup> century. Preservation and further improvement of the natural environment's good condition is an essential condition for the development of Estonia's spatial layout, settlement system, and economy in whole. The concept of green network – natural environment being an integral co-operative system, is introduced in the plan. Co-operation and conflicts between the green network, settlement, and transport networks is acknowledged. The national spatial development plan identifies the core areas of national and international importance, and the main connecting corridors, but also the main conflict areas between the green network, settlement, and transport. The task to discuss and solve these problems is laid directly on the county planning, which is entitled to develop appropriate environmental conditions to guide settlement and land-use in the regions. The planning solutions of the counties in these conflict areas, in addition to protective measures, must safeguard preservation of natural condition of core areas, and road crossings for wild animals.

**D) Estonian National Environmental Strategy.** As concerning the regional level, the strategy only mentions that environmental issues in the counties are dealt by the departments of environment, building, and architecture, and boards of land and forest of county governments, local divisions of land board, regional departments of sea inspection, and local environment offices. The main regulation of the use and protection of environment, landscapes, living communities, natural resources, water and fish supplies is organised on the basis of law through the environmental departments of county governments, which also perform regional inspection over the use and protection of natural and environmental resources, and co-ordinate the environmental activities of local governments. County governments are entitled in this document to use mainly the policy instruments of command-and-control.

**E) Estonian National Environmental Action Plan.** In the present action plan, the responsibilities or finances of county governments are mentioned in connection to only three of the goals – promotion of environmental awareness, improvement of air quality, and improvement of the quality of the built environment. Many responsibilities of county governments are actually connected to supporting the activities of the municipalities in the region, and mostly just environmental activities, with no wider reference to the promotion of sustainable development. Only the responsibilities connected to management and reducing of ambient air pollution (mostly caused by public transport and other traffic solutions), and the task to find new use to old buildings and different landscapes have a concrete direct link to sustainable development. The largest responsibility for sustainable development solutions within the plan lies upon the Ministry of Environment, followed by the Ministry of Economics and Communication, and the Ministry of Education.

In general, the grass-root level promotion of sustainable development in the municipalities is clearly preferred and supported in Estonia, and the role of counties in the national sustainable development process is seen as minimal and rather unimportant.

### **2.1.2. Trans-national co-operation**

Successful implementation of the development plans and achievement of the goals of sustainable development does not always follow the borders of municipalities, of counties, or of countries. Often, the regions with similar development potential, but also with similar environmental or social problems, cross the country borders, and include diverse parts of different states. The surroundings of the Baltic Sea build up a region which can profit from regional trans-national co-operation.

**A) Agenda 21 for the Baltic Sea Region (also Baltic 21)** is a regional process of sustainable development in the Baltic Sea region. It was initiated in 1996, and it involves all the countries around the Baltic Sea (Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, North-West Russia, and Sweden), and also the European Commission. The responsibility for the Baltic Agenda 21 has been given to the Ministers of Environment and other appropriate ministers. Although economic, social, and environmental conditions of the countries surrounding the Baltic Sea are very different (and include diverse specific problems), the close geographic position, and intervened historical and cultural heritage are considered of being a suitable basis for co-operation between the states.

The decision to start the co-operation in the regional sustainable development in the Baltic Sea region was taken in 1996 in Visby, Sweden, summit of the Council of the Baltic Sea States. It was decided to begin the development of the regional Agenda 21. The politicians, top civil servants, experts, specialists, different interest groups, and wider public of the Baltic Sea countries co-operate until today in the process. The objective of the Baltic Agenda 21 is to design and implement developmental visions, and an action programme considering the principles of sustainable development of the entire region, and of its seven more important sectors - energy, fisheries, forestry, agriculture, transport, tourism, and industry. In June 1998, a consensus-based political document was adopted, presenting the objectives of sustainable development and a developmental vision for the entire region and the different sectors until 2030. The main part of the Baltic Agenda 21 includes the action programme, financing opportunities, and a structure of implementing and monitoring of activities. The action programme consists of the three parts and embraces nearly 30 activities that are divided into (1) joint (multi-sector) activities, (2) sector activities, and (3) spatial planning activities.

The final document of the Baltic Sea Agenda 21 was taken in summer 1998. The document includes a vision of sustainable development in the region until 2030, the implementation programme, financing possibilities, implementation structure, and some time guidelines. The implementation of the objectives of the sectors has begun. Each sector has its own strategy and implementation plan (including time-tables, implementers, and sources of finance), and has two leading countries, who are responsible for the development and implementation of the sector goals. Estonia is co-leading the sectors of energetic and tourism. The leading countries are also responsible for providing the reports (every two or three years to the ministers of environment, and every five years to the prime ministers) about the activities, and implementation of the objectives.

The process of Baltic Agenda 21 is lead by a Working Group of Senior Officials including high officials of the states together with representatives of financial and other organizations. Part of the functions is delegated to the Bureau of Working Group of Senior Officials (Estonia, Denmark, Finland and Poland), being responsible for the progress of action during the interim period between the sessions of the leading group. General co-ordination of activities is performed by a secretariat, currently located in Sweden.

## **2.2. Regional initiatives linked to regional sustainable development**

Although national level has not given many responsibilities to county governments regarding the promotion of sustainable development, the initiatives are sometimes taken themselves. This does not involve only the officially defined regions of Estonia – the counties, but also some larger districts, or so-called self-defined regions, where the counties or parts of the counties work together for implementing the principles of sustainable development.

### 2.2.1. Regional initiatives at the county level

**Spatial Planning** was introduced as a common practice with the Planning and Building Act of 1995, which gave each county officially three years to devise its own spatial plan. By 1998, 13 out of 15 counties had their own spatial development plans, and by now, all counties have finalised the documents. Spatial development plans were worked out in close co-operation with county authorities and municipalities. An action plan for implementation of spatial planning, indicating the county's priorities, was also requested. About half of the counties have so far complied with the obligation. The Ministry of Environment has also requested the county administrations to formulate a policy, integrating the nature conservation concerns (i.e. green networks and valuable landscape reservations) into spatial plans. Parallel to furthering the territorial aspects of the spatial plan, each county was also requested to formulate a strategy and plan for the social and economic development in its territory (i.e. the county development plan).

The above-mentioned nationally determined requests do not oblige the counties to include the principles of sustainable development into their development priorities, because the counties are generally not seen as important actors in the field. All Estonian counties have, however, voluntarily included the principles of sustainable development into their development strategies and plans. According to these documents, the fields of environment, transport, waste management, water supplies, or others, are organised according to the principles of sustainable development. Thus, the notion of these principles in the documentation of the counties can be considered as regional initiative for following the principles of sustainable development. There is no evaluation document, however, on whether the implementation of regional policies has remained in accordance with the acclaimed groundings. As the national level does not entitle the counties with many responsibilities on the subject, the national evaluation of the self-imposed responsibilities in the counties is unlikely in the near future.

The under-regulation of sustainable development activities of the counties in the legislation does not mean, however, that no action in this regard is taken at the regional level. The reality is quite the opposite – quite many different activities for promoting the principles of sustainable development are taken continuously. In most cases, regional initiatives for regional sustainable development illustrate a project-based approach, usually in the framework of the EU Pre-structural Funds. **Some examples** of these activities will follow.

Saare County has taken initiative to promote sustainable development of nature tourism in its territory. The pilot project (Sept 2001 - Sept 2002) was co-ordinated by the non-profit association Ecological Tours of Saaremaa; academic help was received from Turku University (Finland). Nature tourism is a developing field in land tourism, and the county considered the project to be profitable, as land tourism had been continuously gaining importance in the region. The project was mainly targeted towards local farmers, and aimed to raise the level of environmental education among the farmers who provide tourism services, so that their activities would follow the principles of sustainable development. The farmers were taught about the variability of nature, surrounding their farms, about different living and floral species, about the care and regeneration of semi-natural associations – so that they could increase the attraction of their farms, and provide possibilities for interested people to become acquainted with the rich surrounding biota. This new knowledge was given also to avoid the farmers (and the tourists) from damaging the nature in a non-compensating way – destroying natural rarities, or crossing the limits of natural toleration.

The goal of the project was not merely to raise knowledge about the principles of sustainable development among the farmers. Every visitor of the nature tourism farm is in the future expected to see sustainable use of resources everywhere – in use of water, in management of waste, in energy-sparing management of household. Special attention was given to the valuation of joint effect of nature, cultural heritage, and traditional way of life. The

preconditions for the provision of nature tourism services are not merely the location in the nature, with the provision of housing and catering, as has often been the case. The farmers must also follow a healthy practice of agriculture and forestry, as well as the principles of sustainable tourism. The concrete evaluation criteria for nature tourism farms were also worked out.

Ida-Virumaa County carried out a project "Ida-Virumaa 21" in 2002 for promoting the principles of sustainable development. The project consisted of different activities, such as a round-table, forum, exhibition, essay, and a drawing competition. The project aimed to create a vision for sustainable development in the county.

The Ida-Virumaa county bears the largest heritage of soviet union compared to other regions – the concentration of the remaining out-of-date industrial enterprises is nowhere else in Estonia so large as in Ida-Virumaa. The county faces an urgently need to follow the new technological developments and carry out thorough structural changes, necessary for modernising the industry, which is difficult upon the remains of an old infrastructure. This has had negative impacts both on environment, and the social sphere.

The promotion of sustainable development has been going on in the county for about a decade. Now, the models of sustainable development were aimed to be tested in practice. During the process of the project, a thorough analysis of successful model solutions from other former mining districts in the world was carried out. The analysis was expected to give guidelines of how the county could develop itself into an attractive living environment. The model solution of the mining district of Dessau-Bitterfeld in Sachsen-Anhalt, Germany was chosen to be drawn concrete lessons from for sustainable development of Ida-Virumaa. The programme for further activities was launched, under which the necessary projects would be carried out in the framework of Estonian-German partner relations.

### **2.2.2. Regional initiatives in self-defined regions**

Regional initiatives linked to regional sustainable development can be found also at a cross-border level. The cooperation project between seven Baltic Sea islands for the protection and sustainable use of ground-waters was completed in 2001. The islands have to manage local, often short supplies of ground and surface waters. The transportation of drinking water from mainland is unquestionable for economic reasons. Therefore, a comparative investigation of natural protection, water supplies, use of water, corresponding legislation and planning, and financing was carried out in co-operation between Hiiumaa, Saaremaa, Ahvenamaa, Gotland, Öland, Bornholm and Rügen. The subsequent report from 1999 is a thorough joint report on the problems of water economy. Thereafter, the catalogues of sustainable planning and implementation of water use were compiled, in which the possible solutions were shown and experiences shared (from planning to control). In Hiiumaa, the practical solutions (renewal of water supply) were found upon these documents in the village of Lauka.

Peipsi Centre for Trans-boundary Co-operation is an international, non-governmental organization which works to promote sustainable development and cross-border co-operation in the border areas of the Baltic States and the New Independent States (NIS). The Lake Peipsi area is foremost a self-defined region, and it comprises of different entities. The so-called Big Peipsi Area consists of four counties on the Estonian side, and of five districts at the lake on the Russian side. The Small Peipsi Area (Peipsi region in its narrower sense) would be the parishes that lie directly on the shore of the lake, both on the Estonian and Russian side. The Small Peipsi Area has no strictly defined territory - it is a matter of perception rather than administrative term. Likewise, the Small Peipsi Area in this form is not registered in any statistical records. The Lake Peipsi region is characterised by old settlements - for centuries, different cultures, nationalities, and ethnic groups have lived together there. Yet, this region

(either in wider or narrower sense) is voluntarily involved in many development projects, some of these connected directly to the promotion of sustainable development.

The specific conditions of natural environment (poor soil, forests, and the lake that is rich in fish) provide a basis upon which co-operation on environmental issues is built upon in the region. Many of the joint projects promote integrated water management and protection of the trans-boundary waters of the Lake Peipsi basin. The co-operation centre is also involved in the preparation and management of municipal environmental and sustainable development projects in the region.

One of the running sustainable development projects (Sept 2002 – Oct 2003) addresses the water eutrophication in the Baltic Sea basin through sustainable watershed management, strengthening of institutions for cross-border co-operation, and public involvement. At the beginning of the last century and into the 1950s, the Baltic Sea was an oligotrophic sea, with low nutrient levels and high water transparency. Thereafter, the change to a eutrophied sea has been quick. The reason for this change is the increase of nutrients being deposited to the sea both from aquatic run-off, and discharges from the atmosphere. Signs of increasing algae biomass and anoxic bottoms were detected and the conclusion was drawn that these changes in the marine environment were mostly anthropogenic, i.e. caused by human activities. Project target group includes the environmental administrators, municipal specialists, and environmental NGOs from Estonia (Lake Peipsi and River Pärnu basin), from Latvia and Lithuania. Water eutrophication is the major problem in the Baltic Sea basin. Major investments have been made in modern waste-water treatment facilities all around the Sea but the major problem now is to address the non-point sources such as agriculture, traffic, and sewage systems that are not connected to the centralised sewage system, and are major sources which cause eutrophication.

This project is intended to be a demonstration project that will promote sustainable river management in Estonia, Latvia, and Lithuania - countries in the Eastern Baltic. Under the project, three national (Estonia, Latvia, and Lithuania) and a regional (for Eastern Baltic Region) strategy and action plans for stakeholder involvement in preparation and implementation of watershed management are developed. These will address the issue of developing institutional framework and capacity of relevant organization to prepare and implement the watershed management plans for international rivers in the region.

## **2.3. Pre-accession Fund programmes and regional sustainable development**

### **2.3.1. National context**

All three EU pre-accession funds programmes – PHARE, ISPA, and SAPARD are currently operating in Estonia. As an example, in 2002, Estonia received 68 million euros (MEUR) from the EU, 35 MEUR (51%) from this under PHARE, 20,4 MEUR (30%) under ISPA, and 12,6 MEUR (19%) under SAPARD. The financial aid received together under the three programmes was 11,2 MEUR smaller as in 2001.

Different authorities are involved in the co-ordination and management of pre-accession financial aid in Estonia. The Central Finance and Contracting Unit (CFCU) was established in autumn 1997 in the Ministry of Finance. At the same time, the Decentralised Implementation System of the European Commission's PHARE programme was taken into use. The purpose of CFCU is to administrate the European Commission's PHARE programme. It operates under the responsibility of the National Aid Co-ordinator according to the Estonian legal requirements. CFCU has also been nominated as the implementing agency for ISPA horizontal technical assistance measures, being responsible for tendering and contracting of

these, as well as for payments to be made. The Agricultural Registers and Information Board (ARIB) is a government institution subordinated to the Ministry of Agriculture, and founded in July 2000 specifically for the administration of SAPARD funds. ARIB is responsible for the administration and payment of national agricultural and rural development supports, and supports of the EU SAPARD programme, as well as the operation of agriculture-related national registers (register of animals) and databases, and processing and analysing of data. The more programme-specific authorities are outlined separately below, under the different fund descriptions. In general, basically all administrative structures, which have operated with the pre-structural funds, will administer also the EU Structural Funds. These structures are all part of the central government administration.

In the beginning of 2003, the Government decided on the creation of a network of regional development centres in all regions. The preparation process of these centres had started already earlier, and came to the finalising phase in late 2002. The goal of the establishment of regional development centres is to create a supporting structure, which should guarantee the increase in administrative capacity of municipalities, citizen associations, and other institutions in planning regional development, and in using the EU structural funds. Such centres will operate in the interests of the counties, in order to help gaining investments into the region, consequently creating new jobs, and increasing the quality of life. The centres will be partners to both public and private sectors in initiating, planning, and implementing development projects. The centres should help connect locally initiated development and business projects with the opportunities of the national support programmes and the EU Structural Funds. Thus, the centres will foster regional development and competitiveness of the business environment. The centres were to be initiated by county administrators, but the centres themselves can take different forms, for example by not necessarily creating a new legal body, but by giving additional tasks, which specifically will be financed by the state, to existing administrative units or non-governmental institutions. By now, several counties have already established such centres, which will help the grass-root level organisations to use the EU Structural Funds.

### **2.3.2. Pre-accession Fund programmes**

**A) PHARE** is the main assistance programme of the EU to help the countries of the CEE to prepare for the accession to the EU. Initially designed to help these countries in their transition towards democracy and a market economy, the role of the programme has gradually evolved - since 1994, PHARE has concentrated on supporting the candidate countries in their preparations for accession to the EU. The PHARE programme allocated around 245 MEUR to Estonia during the period 1992-2001.

In Estonia, the aim of the PHARE programme is to support the priorities of the Estonian Government in its preparation for the accession to the EU. Every year, the European Commission agrees with the Estonian Government on a PHARE programme that fits within the budgetary limits, and focuses on the agreed priorities in the accession partnership. Once the Commission and the EU member states have given their approval for the programme, the responsibility for management is transferred to the Estonian Government, which has three years to prepare, manage, and complete all projects which have gained EU financing under the programme. Any money not used by the deadline is lost. PHARE thus operates under a "decentralized implementation system", where funds are managed by the Estonian authorities, but ex ante controls are carried out by the European Commission's delegation in Estonia. The CFCU acts as a functional administrative unit, and it is responsible for financial, accounting, reporting, and contracting side of the procurement services, supplies and works in the context of PHARE programmes in Estonia. The scope of its activities lies in the administrative side of the programme implementation; the technical side is carried out by responsible programme officers in the line ministries. All PHARE funds are provided as grants, not loans. Projects are usually

implemented by qualified companies selected by a tendering process on the basis of EU procurement rules, or by specialised governmental or non-governmental institutions.

In addition to the national programme, Estonia also benefits from PHARE-funded multi-beneficiary programmes, which are open to all CEE countries. In financial terms, the benefit that Estonia derives from the multi-beneficiary programmes can be estimated at approx. 1.5-2 MEUR per year. This figure can only be a rough estimate since most multi-beneficiary projects concern administrations, persons, or companies from several countries at the same time (e.g. seminars and training courses in which representatives of all candidate countries participate).

As an example, in 2002, PHARE financed several environmental projects, some of which have also a connection to sustainable development. In general, these projects covered different aspects of agriculture, veterinary, fisheries, environmental impact, water management, ambient air, waste management, and nuclear safety. Some projects targeted vocational education in some regions of Estonia. The counties benefit directly from the PHARE border-areas co-operation programme which promotes cross-border co-operation between counties, municipalities, and non-profit organizations from CEE and neighbouring EU countries. Estonia has received financial aid under the programme already since 1994, and has received 25,6 MEUR altogether. In 2002, 3 MEUR were received under the co-operation programme of the surrounding regions of the Baltic Sea.

**B) ISPA** (Instrument for Structural Policies for pre-Accession) is an EU assistance programme designed for the improvement of environment and infrastructure in the CEE countries, which have applied for the EU membership. The purpose of the programme is to upgrade infrastructure and environment of these countries into accordance with the standards of the EU. ISPA offers financial assistance to projects which have a significant impact in the fields of transport infrastructure networks and environmental protection. The average annual budget available for Estonia under ISPA amounts to roughly 36 MEUR per year.

Every year, project applications are prepared by the Estonian concerned ministries - Ministry of Economy and Communications, and Ministry of Environment, together with the relevant beneficiary (e.g. municipality, public utility company, road administration, railway administration). The national ISPA co-ordinator is the Minister of Finance, who submits the applications to the European Commission (Directorate General for Regional Policy - DG REGIO). The viability of the project applications is assessed by the European Commission in Brussels. On the basis of a project appraisal, the Commission services decide to propose the project's approval and prepare a draft Financing Memorandum. This document is submitted to the ISPA management committee, which includes representatives from all EU member states, for its opinion. In case of a favourable opinion, the Commission then approves the projects covered by the application. Following the Commission's approval, the Financing Memorandum, which serves as the technical and financial basis for the implementation of the project, is signed between the Ministry of Finance and a high-level Commission official. The national fund in the Ministry of Finance is designated as the central entity through which all ISPA funding for Estonia is channelled. Ministry of Economy and Communications and the Ministry of Environment prepare international tenders to select the companies that will carry out the works. The tender documents are endorsed by the delegation of the European Commission in Estonia.

As an example, in 2002, ISPA financed the building of a landfill, extension and reconstruction of a water and wastewater network, technical support for different water (protection) projects, technical support for reconstruction and building of a land connection of a port, and technical support for the preparation of a recall renovation of a highway. ISPA finances large-scale infrastructure and environment projects from which many counties profit directly.

**C) SAPARD** (Special Assistance Programme for Agriculture and Rural Development) was created in 2000, and it supports the agricultural sectors and rural areas of the applicant countries of the CEE until their accession to the EU. The purpose of the programme is to support the restructuring and modernisation of the agricultural sector, and to promote its compliance with the veterinary and sanitary norms of the EU. The available budget for Estonia (from the year 2000) amounts to approx. 13.1 MEUR per year.

The main objective of the SAPARD programme in Estonia is to support the adjustment of Estonian agricultural sector to that of the EU, and to enhance rural development. Supports of the SAPARD programme are administrated by the Agricultural Registers and Information Board (ARIB). The departments of supports and control of supports, and financial department of ARIB perform the tasks of the SAPARD-agency. Applicants can submit applications for support in the following areas: (1) investments into agricultural holdings, (2) investments into the processing and marketing of agricultural and fishery products, (3) development and diversification of economic activities in rural areas, and (4) development and improvement of rural infrastructure. From 2003, applications in the areas of agricultural environment and forestry are also possible. SAPARD is the first EU programme in Estonia, which is managed entirely within the responsibility of the Estonian administration, in a similar way as the structural in the EU member states. The European Commission does not approve projects, contracts, or payments in advance. The EU control over expenditure and programme execution is maintained through reporting at quarterly monitoring committees, the clearance of accounts by the European Commission, and through ex-post control by the European Court of Auditors.

In 2002, SAPARD financed various projects under the four priority fields. Regions profited most probably from investments into rural infrastructure.

### **2.3.3. Pre-structural funds and regional sustainable development**

When assessing the link between the EU pre-structural funds and sustainable development in the Estonian regions, one can clearly notice a positive connection. The impact of the funds reaches far behind just mentioning the ideas of sustainable development in the projects. The projects which have applied for, and received EU pre-accession funding, can gain sustainable development in different forms, for example by building a cleaning system which helps to keep environment non-polluted in a region, by raising environmental awareness in a seminar, by creating new jobs, by applying innovative business ideas in an under-developed sector, or by something else. Any new and innovative solution which fosters continuous development in the region without producing negative side-effects can be claimed to lead to sustainable development.

However, this does not mean that all pre-structural funds projects in Estonia have made a contribution to regional sustainable development. Such projects are with fixed and mostly rather short implementation period, usually one to several years. Sustainable development is not measured in such a short-term perspective, but rather in decades. Thus, if new jobs (one of the most important indicators under pre-structural funds) are created only for some years and people loose their work after the end of the project implementation period, no real contribution to sustainable development has been made. No profound value for regional sustainable development is likely to accompany the so-called soft projects, such as conducting joint seminars, conferences, or just pooling of experiences. If the acquired knowledge and skills are later not applied into creating long-term regional development solutions, absolutely no value for regional sustainable development is added. On the contrary, different hard projects, such as repairing infrastructure, building refuse disposal sites, or sewage treatment plants to reduce environmental pollution, have an obvious impact on sustainable development in the region where such solutions have been introduced. Thus, the

creation of visible impact on regional sustainable development by the pre-structural funds projects can depend also on the nature of the programme.

Another impact where the EU pre-structural funds can have as regard to regional sustainable development concerns capacity building of the regional decision-making structures. Administration of complex EU financing schemes can be expected to raise administrative capacity of the concerned bodies. In Estonia, the pre-structural funds have no important impact of regional administrating and this due to the fact that the national part of pre-accession administering of finances is implemented at the central government level. The main way of how the regional level administration as well as municipalities and NGOs have improved its capacities in regional sustainable development is in connection to pre-accession funds by writing projects, which have applied for funding. The potential applicants have profited a lot from the funds in regard to capacity building. The project preparation skills have increased enormously, and currently many NGOs survive only by writing projects and receiving funding from the EU pre-structural funds. The work of NGOs as the developers of their area should not be understated as large sums of funding to several regions have been gained mainly due to the NGOs who operate in the region, and receive finances for their high-quality projects.

The impact of pre-structural funds among the regions by being more favourable to some areas cannot be detected. This can be the case that more projects from some counties have received funding in comparison to some others, but pre-structural financing has not visibly sharpened the differences between the regions. However, it has also not reduced significantly the development differences between the counties. Rather, the Estonian regions have developed evenly on the basis of the development level they had before pre-structural funding, by retaining the previous diversities. Differences in the received amounts between the regions have been caused also by the different target areas of the programmes as always is not the whole country considered eligible. The level of development has certainly risen in all regions due to EU financing, but the area-characteristic problems have not been solved in full. The ability to receive and administer pre-structural funds is not the same throughout the country, and often the least developed regions lack in comparison to others the capacities to apply successfully, or administer without problems the received funding.

Pre-structural funds and regional development plans have developed a link, which cannot be ignored, although this might not be directly connected to the idea of sustainable development. The project applicants are often asked to refer to the regional or local development plan in order to justify their claim for the EU financing. Thus, the projects to be financed must belong to the regional development priority field, or otherwise – the activities, which could be financed under pre-structural funds, should be made the priority of the region. This requirement has a clear positive impact on the regional development in general by forcing the regions to analyse thoroughly and in a long-term perspective, and define precisely, which sectors will most importantly benefit the whole development of the region. Consequently, both the projects to be financed, and the regional development plans are thorough, detailed, and with justified claims.

The pre-structural funds in Estonia have a quite sector-specific nature, thus not always causing favourable conditions for cross-sector integration of policy, which is a necessary precondition for profound development. SAPARD targets directly agriculture, and ISPA environment and infrastructure. In this regard, PHARE could be the most favourable programme for cross-sector policy integration, especially as regard to cross-border or national co-operation projects. However, also under PHARE, the projects have to define clearly their policy fields. Thus, the pre-structural funds in Estonia benefit rather the general development levels of the country, without having a clear impact on cross-sector policy integration. In fact, many regions themselves have concentrated on developing only a single or several policy sectors with the help from the pre-structural funds. Most obvious example here is tourism – many Estonian regions have directed the EU financing in large part into tourism development,

which is seen as the prerequisite for the general development of the region. Likewise, tourism is the policy field, which has also had a large impact on regional identity, as many areas determine themselves preliminary as attractive tourism targets. The possible impact of the pre-structural fund programme on regional identity depends largely on both the region, and the project. Large-scale projects tend to have a greater chance to foster identification of the region with the project. Likewise, some regions are more coherent in nature, so that identity on the basis of a single project can be created. Some projects have also targeted identity creation, such as gathering the local people together in order to make them acquainted to each other and foster contacts between them, so that in the future they would initiate together regional development projects. There is no guarantee that pre-structural funds projects would have a sustainable impact on regional sustainable development, in a sense that they could be further fully self-financed, after the EU financing is finalised. This is problematic in the case of soft projects, such as training activities or seminars. The impact is easier to maintain in the case of hard projects, such as environment protection infrastructure. For example, the sewerage system, which has been built with the EU pre-structural funds, does not close down, but operates further. Thus, some projects certainly have a profound impact on further sustainable development in the regions.

#### **2.3.4. Preparations for implementing the EU Structural Funds**

In April 2002, the Estonian Government adopted the “Basic Principles for Preparing for the Implementation of the EU Structural Funds and the Cohesion Fund in Estonia”. According to this document, the future Managing Authority will be the Ministry of Finance, which will be responsible for the general management. The future Paying Authorities will be the Ministry of Finance (for the ERDF and the Cohesion Fund), the Ministry of Social Affairs (for the ESF) and the Agricultural Registers and Information Board (for the EAGGF and FIFG). The Managing Authority and the Paying Authorities will have to be operational by the date of accession. There are currently several projects operating, which aim to prepare the Estonian administration to be ready to administer the EU Structural Funds after the expected accession to the EU in 2004. In addition, already the programmes for receiving financial aid from pre-accession funds actually prepare the candidate countries to be ready for the Structural Funds. The main goal of the on-going preparatory process is to create a working mechanism for receiving financial aid from the Structural Funds, and for being able to use this aid purposely, regularly, and effectively.

After the accession and consolidation of Estonia into the EU, the Extended Decentralised Implementation System (EDIS) will be taken into use for administrating financial aid. The whole responsibility of the process will recede to the Estonian Government; the European Commission will achieve only second examination. For operation of the EDIS System, the preparation process started in 2002. After accessing the EU, the European Commission transfers the responsibility for the management of the Structural Funds to implementing agencies on a decentralised basis, and abandons the ex-ante approval requirement for tendering and contracting procedures. Under EDIS, the control function of the European Commission Delegation over the management of the EU pre-structural funds in Estonia will be handed over to the national administration, and the PHARE programme will be managed without ex-ante control by the European Commission. After the accession to the EU, Estonia must be ready to implement the Structural Funds with its own administration. The preparation process of EDIS is expected to end in 2003, and Estonia will then demonstrate its readiness to manage EU funds on its own, which should give a positive signal for the future use of Structural and Cohesion Funds, and the absorption capacity of Estonia to use the substantial amounts of funds made available after accession. The European Commission will grant EDIS when the relevant criteria are achieved to be in compliance with, and thus the system allowing sound financial management of the EU Structural Funds in place, and risk of fraud, and mismanagement minimised.

In June 2003, the SPP++ project for completing the preparations for the management of the EU Structural Funds was launched. The target of the project is the level of intermediate bodies and final beneficiaries, and the preparation of these for the introduction of the Structural Funds and the Cohesion Fund. The Estonian administration will have to be developed in order to reach the necessary level of capacity for assuming its obligations in managing and conducting control over Community funded projects. The project aims to raise the capacity of the central government, and of the potential final beneficiaries through training and finalising the relevant structures in the regions. The project is supposed to complete administrative preparations to implement the Structural Funds, the Cohesion Fund, and Community Initiatives in Estonia.

### **3. MULTI-LEVEL GOVERNANCE**

According to Estonian official definition, sustainable is the type of development, which guarantees, today as well as in the future, necessary resources for a satisfying living environment and economic development without importantly damaging the natural environment, and by preserving natural variety. Regional sustainable development should guarantee this process in the regions. The questions, which should be addressed jointly by different administrative levels, are generally of wider importance or more complicated in nature – thus requiring the involvement of different stakeholders. In the field of regional sustainable development, those issues should still be regional in nature, but their implementation requires contribution from different administrative levels, and from other partners.

#### **3.1. Regional issues and cases which involve EU, national, and sub-national co-ordination**

The importance of regional sustainable development is mentioned in the Estonian legislation mainly in two separate contexts – in connection to regional policy, or to environmental protection. Legal acts and development plans in these policy areas determine the concept field-specifically, by either defining the role of sustainable development within the general regional policy area, or by providing some regional administrative divisions with obligations to implement certain issues of sustainable environmental policy. However, regional sustainable development is still a phenomenon of a distinct shape and complex nature, which covers in practice a much wider range of policy fields. In order to address sustainable development in the regions appropriately, one must not limit the activities by only environmental or general region-developmental questions, but try to integrate as many societal sectors as possible. If regional sustainable development is seen only in a narrow perspective, covering only several policy fields, its goals would not be addressed sufficiently, and no profound results can consequently be reached. Co-operation between different administrative levels and other societal actors is especially important in this regard.

##### **3.1.1. Central government**

Both the Estonian Constitution and the Sustainable Development Act oblige everybody to sustain life and natural environment, and avoid damaging these. Thus, some responsibility for sustainable development is legally laid already upon every individual. This obligation concerns, however, the private sphere of life. In the public sphere, the responsibility for sustainable development in general is given legally in the first place to the state, and more specifically to the cabinet. This applies also to regional sustainable development.

One can claim that Estonian administrative system is quite hierarchical in nature. Regardless other policy fields, this certainly seems to be the case of the regional sustainable

development. The overall responsibility for sustainable development in general, and especially as no such concept as regional sustainable development has been introduced into Estonian legal framework, lies within the cabinet, with the Ministry of Environment bearing the main responsibility for guaranteeing its implementation. The counties and municipalities must keep their practice in accordance with the national laws and development plans in this regard. Thus, although the concept of sustainable development is grounded in Estonia on the individual, in practice its essence is hierarchical. This is in many cases, however, justified, because the concerns of sustainable development – such as economics, environment, natural resources, employment, education - are the fields of wider than regional impact, and are thus by nature the concern of the central state authorities. However, in very many policy fields, the long-lasting results can be reached by applying the principle of subsidiarity - by engaging the lowest administrative levels, which are able to perform the task, into the planning and implementing processes. In this regard, the specialities of the Estonian administrative system determine the real nature of regional sustainable development.

### **3.1.2. Regional administration**

As Estonian counties do not constitute a separate administrative level, but are legally just the representatives of the central government in the regions, the county governors have almost no real possibilities to initiate any policy at the regional level, and they implement mostly just the central government decisions. Likewise, the central government is not obliged to consult the counties before taking decisions, which have an impact also on the regions. In fact, the counties are not even obliged to have regional development plans (although many of them have), but merely regional spatial development plans. The latter indicate not really any wider strategic developmental goals, but just the development of the physical space of the region. Thus, the Estonian regions are already by nature very weak, and initiate almost no own policy in regional sustainable development.

At the moment, as the counties have no democratic mandate, and consequently also no own finances, they do not shape the development patterns of their regions. Even if specific developmental goals are defined in the development plans, there are often no finances, or no staff to be occupied with strategic development in the regions, especially in the framework of limited rights in this regard. The reality is quite often that continuous occupation with the strategic development of the region is dependent on a few local administrative or political initiators. In general, the counties bear no remarkable responsibilities on the sustainable development of the region.

The implementation of central government policies in the regions is strictly organised by sectors – the cabinet approves and the ministries allocate finances in their field to the county administrations without any imagination of the more general development process of the region. The county governors themselves cannot plan developmental activities, as their administration does not elaborate its budget. Thus, the current system is not just unfavourable as regard to sustainable regional development, but in reality it does not provide possibilities to undertake large-scale development activities by county governors.

From the more environmental perspective, regional sustainable development is supposed to guarantee that no resources necessary for satisfying living environment and economic development would be wasted or misused on the regional basis. Thus, much of the occupation in this perspective in the regions with limited authority is connected with administrating the provision of different usage licences, and inspection of performance, which might hinder sustainable development in short and long run. Estonian Environmental Strategy establishes that executive power in implementing environmental policy in general, lies within the cabinet, and especially within the Ministry of Environment, which also leads communication with another states and international organisations. The responsibility for

elaboration and implementation of regional development plans, also including the issues of regional sustainable development, lies above all within the ministry. The implementation process does not rely, however, only upon central government. At the regional level - in the counties - the environmental issues are dealt by the departments of environment, building, and architecture, and boards of land and forest of county governments, local divisions of land board, regional departments of sea inspection, and local environment offices. The main regulation of the use and protection of environment, landscapes, living communities, natural resources, water and fish supplies is organised on the basis of law through the environment departments of county governments, which also perform regional inspection over the use and protection of natural and environmental resources, and coordinate the activities of local governments within the area of environment. However, one must bear in mind that this licensing and inspection of different activities is actually just part of the central government administration in the regions. However, the ministry of environment has tried since 2000 to be more of a co-ordinating and planning structure, when different boards carry out the actual implementation of environmental policy.

The fact that county administration is in reality only an extension of a central government does not mean also that the latter controls the whole process of regional sustainable development. Although the lack of developmental activities is often the case in the regions, it would still be unjustified to argue that county administrations do not care at all about the development of their regions, and only follow the moods of a government cabinet. Their main concern is still a certain region, and its development, although the practical possibilities to carry out a strategic development policy in the regions are currently minimal.

### **3.1.3. Local government**

Municipalities form a separate administrative level in Estonia, having a democratic mandate and also a responsibility on the questions of local development. The engagement of municipalities in shaping local development varies though. A large number of Estonian especially under-populated local government units have financial resources just enough to provide the basic tasks of a municipality (there have been cases there even the provision of basic tasks has been insufficiently financed), with no possibilities to address local development in practice. On the contrary to the counties, the municipalities must have local development plans. However, a more strategic guidance of the local development process is affordable mainly to large cities, and perhaps also to regional centres. This concerns also the questions of local sustainable development. Although many municipalities could have added the principles into their development plans, few are in reality able to follow these. Only several larger cities have introduced also a Local 21 agenda, with enough finances and human capacities to follow the documents in practice. However, the practice has shown, that the principles of sustainable development are not being followed in all fields. Initiatives for local development must come from the municipalities themselves, because local administrators and inhabitants know their development needs best, and thus only a bottom-up system benefits the development of the regions the most.

The field of sustainable development is important in Estonia at the levels of central and local government, who have been given certain legal obligations on the issue. Regional administrative units have relatively little say in this regard. Central government sets guidelines, forces field-specific legislative acts, and joins international agreements and contracts on the issue. Central government controls also the implementation of its policy priorities and legal norms through decentralised administrative divisions in the regions. The more specific implementation of sustainable development principles lies within the municipalities. For example, in waste collection - if the central government sets the criteria to the amount of waste certain territory can produce, and which conditions of storage it must follow, the municipality itself can decide on how its waste is collected, whether it is assorted, and where it

is stored. In Estonia, thus, sustainable development does not rely that much on the regional, as on the central and local levels of administration.

### **3. 2. Multi-level interaction among different stakeholders**

Regional sustainable development is a complex issue and requires a variety of actors to participate in order to gain success of the process. The actors, who in reality participate in the development of regions are not always part of the official administrative system, or do not follow the expected decision-making patterns. One is clear – the contribution of all concerned as well as interested parties is necessary to address the complex issue.

In reality, legal acts define only the responsibilities or tasks of the administrative bodies which can be held responsible for guaranteeing regional sustainable development. It is not determined how and which results are actually to be achieved. However legally regulated the field could be, the legal framework cannot predict results. Thus, one cannot evaluate the state of regional sustainable development just by analysing the legal acts and other documents, which regulate the field in a country. One must also look at the practice.

In Estonia, it is in the first place the state, which has a possibility to create favourable conditions for sustainable development in the regions. The state has an authority to channel the implementation of different activities, which are important as regard to regional sustainable development, for example, the support of the business structure in the regions. The state can provide certain training activities for the entrepreneurs in the regions, as well as give start-up finances, or create favourable conditions for receiving loans. The state can create business-friendly conditions, and activate regional entrepreneurs, which consequently fosters development in this region. The central government has defined the under-developed regions in Estonia, where such favourable conditions for development are especially guaranteed by the state – three regions in south-east Estonia, two regions in the eastern Estonia, and all small islands. In the se regions, the unemployment rates are especially high, and the individual income the lowest. The most developed cities – Tallinn and Tartu, do not receive any such support. The municipalities should also take the initiatives to ask the central government to create business-favourable conditions, which can in turn benefit the whole region. For example, the city of Pärnu near the gulf initiated the buying of an ice-breaker, which now keeps the gulf ice-free throughout the year, and thus attracts new business into the region.

There have existed also other entities with an aim to foster regional development outside the state or county administration system. Since 1993, different types of support structures were created throughout Estonia, and these included business advisory boards, job and society centres, and other business support structures. These bodies were created in the regions, initiated either by some line ministry, or in co-operation between central government, county administration, and municipalities. The tasks ordered from the central government were financed from the state budget. However, the system was not coherent, as these support bodies were not distributed evenly among the regions. They had also a different legal status. This consequently weakened the system, as the quality of the provided services varied among the units largely. During 1996-97, the system was changed, as the support structures were transformed into business support centres in a legal form of a foundation, and established in every region. The central government ordered certain services from these, covering preliminary the consulting of entrepreneurs as regard to the regional business environment such as information provision, one-hour free of charge consultation to entrepreneurs and the like, which were financed from the state budget. The recently started system of creation of county development centres will be based in large part on the business support centres, in many cases the new tasks – consulting on the national support and the EU Structural Funds programmes – will be given to the existing centres. In some cases, however, the tasks will be

given to some other body, or a new entity will be established. The general principle behind the creation of the county development centres is that there will be structures supporting and fostering the overall development of the region, not just business activities. The possibility to use financing from the EU Structural Funds is seen as one of the best opportunities to develop the regions further. Current experiences with the EU pre-structural funds have shown only positive effect – the levels of development in the regions have risen, although the largest region-specific problems have not been eliminated. However, the variable selection of programmes with different initiative criteria under the pre-structural funds has certainly fostered the overall development of the country.

In general, regional development policy at the central government level during the last decade has not benefited very much the aspect of sustainability. The system of regional development itself has gone through amendments in every several years, and this has caused also the non-sustainability of the policy field itself, let alone targeting sustainable developmental results in the regions. One can claim that perhaps the real player behind the development processes in the regions is the market, which has induced the creation of new businesses. It is important to understand that regional sustainable development cannot be guaranteed or implemented merely by state administrative system, but only in close co-operation between the different administrative levels, and societal actors, such as businesses and NGOs as well. The development of viable business environment in the region is vital for forming a living space, where people actually want to live in, and thus have an area which to develop. The sparsely populated regions with decreasing number of inhabitants face the most difficult conditions for further development. Business and industry also create new jobs in the region, thus preventing the region from depopulating. Thus, the central government may create the favourable conditions for regional sustainable development, whereas the business enterprises foster in practice the development of the regions.

However, the necessity of co-operation between different stakeholders in order to foster regional sustainable development has not been fully understood. Even the idea of partnership at the same administrative level, for example between municipalities, has appeared problematic to introduce in practice. Likewise, there is insufficient co-operation among the line ministries, and county administrations. This situation applies also to business enterprises. There is no really representative body of private sector firms in Estonia, either for small or large businesses, under which co-operative relations could be formed. The existing associations of private sector firms are very unrepresentative, covering only a small percentage of actors. As most of the private sector firms in Estonia are young, as being created first after re-gaining of independence, they are also cautious about the idea of letting a rivalry entrepreneur to represent their interest. Estonian society and market economy is still too young for having a really co-operative nature. Rather productive co-operation projects are developed under the EU pre-structural funds programmes, which foster cross-border co-operation, but these cases are rather initiated by municipalities or NGOs. The idea of mutually necessary and beneficial co-operation is yet to be introduced into Estonian private as well as public sectors. In general, there is no fully developed balance of power in the regional sustainable development processes, with the central government holding the widest possibilities for shaping this type of development. However, one must admit that the country's preparations for the EU Structural Funds have made a start in the direction of acknowledging the necessity of multi-level governance, as the allocation of Structural Funds is done through the principles of concentration and programming, as well as through partnership and additionality. The partnership principle means that for development activities, different interests between supranational, national, regional, and local levels, and other social partners are brought together. This principle has started to root already during the current experience of Pre-structural funds.

### 3. 3. Cross-sector policy interaction

Sustainable development, like any development, is by essence multi-sectored subject. As concerns Estonian legal acts, the requirement for guaranteeing sustainable development while performing diverse activities is established in the Constitution, but also in the Sustainable Development Act, Local Government Act, Estonian Nature Protection Act, Water Act, Waste Act, Ambient Air Protection Act, Earth's Crust Act, Forest Act, Fishing Act, Hunting Act, Protected Natural Objects Act, Planning and Building Act, and in several other laws. Although the variety of legal acts regulates some aspects of sustainable development, these are, however, mostly connected to environmental questions. The linking of sustainable development mainly with environmental issues seems to be the trend in Estonia, as the wider discussion on the subject is in large part led by environmental activists. Likewise, administrative units engaged directly with environmental questions have been given the majority of tasks in carrying out the sustainable development principles in practice.

In order to evaluate the reality of regional sustainable development, one must, however, look behind the legal acts and into the practice of the regions. With an exception of only few rapidly developing regions, many of the counties are lagging below the medium level of development. In most cases, the under-development covers majority, if not all policy sectors. Thus, regional sustainable development cannot be determined either in environmental, nor in any other narrow field. Development must address all sectors equally, and prioritise perhaps the most undeveloped ones.

In Estonia, the main objective of regional development policy is until today the minimisation of regional inequalities and guaranteeing an equal minimum living standard among different parts of the country. Estonia is very unevenly developed, with larger cities and some regional centres heading far ahead most of the other areas. As investments have been provided mainly to Tallinn and other larger cities (regional centres), improvement of the economic situation in rural districts has remained the main aim of the state regional policy. One reason behind the lack of strategic sustainable development in the regions is the need to address short-term questions of guaranteeing the basic needs of the inhabitants. Many Estonian regions have suffered the most from the economic restructuring during the first years of re-independence, which has hindered the raise in development patterns since today. Although restructuring of the production after the privatisation of soviet heavy industry has succeeded in reorienting the economy in general, a remarkable number of districts have remained mono-functional. The closure of large factories has caused deep short- or long-term economic and social crises, which have to be addressed in the first place by the regions and the central government level. Although the development differences between the regions are quite drastic, the regional development policy should use this regional diversity as a platform for following different and for the specific region most suitable development routes.

The drastic decrease of about two times in the amount and employment in agriculture after regaining independence has caused heavy unemployment and decrease in incomes in land districts of the country. As many regions of Estonia suffer constantly from unemployment, and thus from serious social problems, the creation of new jobs or developing any economic activities which would improve the situation, is of main concern. It may appear very difficult to impose additional, for example environmental requirements on these activities, which would be in accordance with the sustainable development principles. Besides, the environmental activities in the regions still have to remedy the damages of the soviet heavy industry on the districts' natural environment, instead of introducing the higher level standards of environmental protection. In the very nature, the goals of regional policy and sustainable development are in Estonia quite conflicting. Sustainable development can be an everyday concern of more developed and richer regions, but in reality not in the districts of economic and social crises. The main trade-off the regions have to make, is between creating as many new jobs as possible, and thus improving the social situation, or implementing responsibly

(and without exceptions) the principles of sustainable development, such as higher standards for environment protection, waste management, and the fields alike, which may seem unfavourable for new businesses to enter the region.

One larger policy field, the importance of which has been acknowledged widely in Estonia at different levels as regard of strategic sustainable development, is the combination of education, science, and innovation policy. Different solutions have been sought for, and already introduced, when bearing in mind long-term development of the regions. The restructuring of the vocational education system has begun several years ago, with an aim to cover the country with vocational education centres, at the same time raising its popularity among the young people. This would in a longer time perspective raise the share of the skilled labour force, and hopefully diminish the high rates of unemployment in many regions, thus creating a basis for further development of the regions. The current trend of people moving away from the rural areas to the regional centres is one of the main hindering factors to even development of the regions. The provision of qualitative vocational education in the regions would also function as a motivator for young people for not leaving the area, and planning one's professional life in the same region.

The second trend regarding education is the creation of the higher education institutions' branches outside the two most developed cities of a country, where the main university buildings are also located. This is expected to keep the young people in the region, and possibly also attracting others to move into the area. The higher education centres themselves create a favourable basis for long-term development, as these must be accompanied by wider services, leisure, and communications network. Thus, Estonian regions have understood the potential of targeting education and innovation as motivators for further development of the region. However, one must also bear in mind the risks in this regard. Such areas will begin to develop continuously when provided with independent financial budget and authority to take decisions. The universities should have special funds for investments into regional branches, in order to provide a soil for further development. The principle of subsidiarity is not the key word in fostering regional development just in the field of education, but in most of the sectors. In Estonia, the problems of under-developed regions are complex and caused in co-operation of several sectors. However, cross-sector policy integration is not often used in addressing these problems.

## **4. EVALUATION METHODS AND TOOLS FOR REGIONAL SUSTAINABLE DEVELOPMENT**

### **4.1. Existing evaluation methods and tools (including indicators)**

There are currently no widely accepted evaluation methods for regional sustainable development in Estonia, because even the concept of regional sustainable development is unknown, both in legislation and practice. Obviously, as long as the subject remains undefined in Estonian legal framework, there will be elaborated no distinctive evaluation methods in this regard. In fact, there exist also no such methods for measuring sustainable development at the national level, although the concept of sustainable development was introduced into Estonian legislation already in 1995. The continuous absence of evaluation methods as regard of sustainable development shows perhaps the general attitude towards the issue – being since today considered a question to be addressed by sectoral activists, and not of a central government level. There exist though the indicators for evaluating the attainment of the objective of regional policy, outlined in the current Regional Development Strategy. These include average income level, unemployment rate, and municipal tax revenues, and additional indicators according to the specificity of particular regions. The strategy applies until Estonia's

accession to the EU, and the attainment of the objectives of regional policy has not been measured as yet.

Yet, in 2002, the Statistical Office of Estonia released a publication "Indicators of Sustainable Development" in order to have comprehensive statistical information about the indicators of sustainable development during the previous decades, and especially since the last ten years of re-independence. However, the indicators used in this publication are no official Estonian indicators for measuring sustainable development, as such have not been decided yet by the Government. The selection of the 62 indicators has been done by the Statistical Office, and it corresponds to the Eurostat panel, which in turn is a selection from the United Nations Commission on Sustainable Development indicators on sustainable development. The information was gathered mainly due to the United Nations World Summit on Sustainable Development, which took place in autumn 2002, in order to sum up the achievements of ten years in the field of sustainable development, and to determine further actions. These indicators cover the fields of natural environment, economic activities, and social development. Wherever possible, the given set of indicators was outlined also at the regional level, but all indicators at the state level did not have their regional breakdown or regional counterpart. Nevertheless, the publication gives enough statistical information for the comparison of certain sustainable development indicators also on the basis of the regions.

## **4.2. Types of measurement**

As the sustainable development strategy, based on the Sustainable Development Act has not yet been approved by the Government and the Parliament, there are no official or most preferred evaluation method of sustainable development determined. However, this can change already in late summer or early autumn 2003, when the strategy Sustainable Estonia 21 is expected to be ready for official approval.

The strategy suggests using a cross-impact analysis for the evaluation of sustainable development. Cross-impact analysis is a means of measuring a correlation between different variables. It is most commonly used as a forecasting tool to identify of how developments in one area will affect those in the other, the strength of that influence, and whether this makes the outcome more, or less likely. The major benefit of using a cross-impact analysis is the ability to show how one situation impacts another situation. This method is especially beneficial, as many of the other forecasting methods produce information in isolation.

The strategy underlines the necessity before taking important decisions to assess clearly of how could factors or events in one field have an impact on the factors or events in another field, and what would be a probability of such impacts. The strategy emphasises the highly complex nature of sustainable development, which must address many different societal sectors and policy fields. The method of cross-impact analysis is considered to benefit the decisions to be taken regarding general sustainable development in Estonia. The strategy emphasises the need to replace the current often reactive decision-making system in Estonia by proactive one, based on a profound analysis, so that the Government could focus in the future on the developmental questions instead of addressing continuously unforeseen problems in different sectoral policy fields. Cross-impact analysis is expected to give most likely the adequate information of the possible impacts of the decisions. Strategic sustainable development policy does not have a single goal, but several aims of the same importance. The method would give information how the pursuing of one goal could hinder the reach of another. Cross-impact analysis would help to link different policy fields with each other, which would in turn help to replace the current strict sectoral separation in development questions.

### **4.3. Harmonisation**

In order to harmonise different evaluation methods and tools of regional sustainable development, there must be such methods present. Estonia is currently in an unfortunate position of not having yet introduced officially the method according to which to evaluate overall sustainable development in the country. The counties themselves are using no defined evaluation methods for regional sustainable development. They collect though general statistical information about their area, which should give some information about the development trends in the region as well. The next step remains to wait if the general evaluation system for sustainable development will be put into practice after the strategy Sustainable Estonia 21 is approved.

## **5. ANALYSIS OF REGIONAL SUSTAINABLE DEVELOPMENT**

### **5.1. Experiences with regional sustainable development**

The situation in the field of regional sustainable development is not very positive in Estonia. Current experiences have not been based on thorough strategic considerations or planned developments. The activities concerning sustainable development in the regions have been rather infrequent, and thus no thorough conclusions can be drawn as yet on the basis of the current experiences. Nevertheless, some development paths can be outlined. Also, Estonia has currently no generally used evaluation method of sustainable development as such in the country, let alone in the regions. Thus, even though the activities to implement the goals of sustainable development are undertaken, no measuring of its results is being carried out at the moment.

In general terms, the implementation of sustainable development in practice is considered in Estonia more an issue of towns and rural municipalities than regions. The central government has created a framework for sustainable development in different legal acts and other documents, but the introduction of these ideas into practice remains mainly upon the first level municipalities. This is due to the fact that the fields associated first with sustainable development, such as sewerage and waste collection systems, are within the tasks of the local government. Some initiatives for implementing the ideas of sustainable development have been initiated also on the regional basis. However, these have occurred more in the so-called self-defined regions, than strictly in the county limits. Furthermore, the activities to strengthen regional sustainable development are continuously carried out also in the framework of cross-border or trans-national co-operation.

The necessity of cross-sector policy interaction in the field of regional sustainable development has not been fully understood in Estonia. Sustainable can only be the type of development, which connects many different policy sectors and which is being implemented in close connection between different societal sectors. Currently, regional sustainable development is defined either in terms of regional policy or environmental protection, and these sectors are mostly kept separated from each other. The defining of sustainable development as yet is quite field-specific, although in essence it is, on the contrary, a multi-sectored subject. Already the term “development” indicates the necessity to include as many policy fields as possible, otherwise no genuine development is being faced with.

One of the main reasons behind the lack of cross-sector policy interaction and strategic perspectives in carrying out regional sustainable development is the highly uneven general development levels between the regions. Many rural and outermost areas face severe short- or long-term economic or social crisis, which forces the authorities to focus on guaranteeing

the basic needs of inhabitants in the short run. Only larger cities and regional centres are doing sufficiently well in financial terms that the provision of primary public services is not threatened, and the authorities can tackle longer-term developmental questions. Another important reason behind the lack of cross-sector policy interaction in the field of regional sustainable development is the sector-based financing of the county administrations. As county administration is currently by law only the representation of the central government in the regions, the decisions on the delivery of finances into specific policy fields in the regions are taken in the line ministries. County administration does not put together independently a budget, which could focus on the development needs of the specific region. There are no real possibilities to carry out in practice an independent development policy in the regions.

As concerns regional sustainable development, Estonian administrative system is rather hierarchical in nature. The overall responsibility for sustainable development lies within the cabinet, and there is even no such term as regional sustainable development officially introduced into Estonian legislation. The importance of sustainable development is mostly understood in connection to central government and municipalities, who have been given certain legal obligations on the issue. Central government has in reality the largest possibilities to foster sustainable development – by creating legally or in practice (by special treatment of most undeveloped areas) favourable conditions for such development. Still, the idea of the necessity of partnership at aiming the set goals is yet to be introduced into Estonian administrative system. Besides the lack of co-operation between the different administrative levels, there is insufficient co-operation also among the units within the same level – often, the municipalities or ministries do not co-operate with each other. In general, it would be rather ambitious to speak about the lack of multi-level governance in addressing regional sustainable development, because as underlined before, the concept does not exist in Estonia and there are no strategically co-ordinated activities in the field. Rather, all practice described here is mostly the occurrence of activities in the field.

The possibility to use finances from the EU pre-structural funds has certainly fostered the grass-root level initiatives also in addressing the aspects of sustainable development and this also on the regional basis. Most of the Estonian municipalities have as a rule very tight budgets with financial resources available mostly for legally given tasks, and insufficient funds for larger policy aims, such as sustainable development still tends to be. The projects financed from pre-structural funds which address sustainable development have not been strictly beneficial for an applying municipal unit, but often have had a larger regional impact. Thus, the availability of EU pre-structural funds has certainly benefited regional sustainable development in Estonia, although the failure to find necessary co-financing in one's budget has often hindered the application for these funds. In addition, the necessity to write good projects in order to get the financing has importantly raised the administrative capacities of Estonian municipalities, county administrations, and NGOs.

There can be no impact detected that the EU pre-structural funds have been more favourable to some regions as compared to the others. Pre-structural financing has not visibly sharpened the development differences between the regions, but it has also not reduced the existing diversities. The funds have been beneficial to general development levels of all regions, but area-characteristic problems have not been fully solved. However, the pre-structural funds operating in Estonia are rather field-specific in nature, and do not importantly foster cross-sector projects. Tourism is one sector, which has benefited significantly much from these funds.

## **5.2. Practical implications of regional sustainable development**

Regional sustainable development in Estonia is determined largely by the absence of such concept at all in the legal framework, and by the currently weak and non-independent nature

of regional administration. Unless the concept itself is being introduced into the legal context, its underlying aims cannot be implemented basically at all, at least not on a strategic basis. Thus, as there is no commonly acknowledged idea of sustainable development which is targeted on a regional basis, its practice cannot be labelled as planned or following an inner regularity. This is one of the underlying reasons why regional sustainable development is in Estonia still in a preliminary phase.

As sustainable development as such is targeted in Estonia either very generally or in a municipal context, its practical outcomes at the regional level are difficult to evaluate. Sustainable development is in the current legal framework of Estonia not considered as a subject of active regional concern, although any development questions should be addressed in larger than just municipal context. The planned regional administrative reform can change the situation though. If counties would form a separate administrative level, either with democratic mandate or an independent budget, they would probably bear the main responsibility for the development of the regions. Thus, considerable amount of responsibility for sustainable development questions of the regions could be transferred them. However, there is no certainty at all that Estonian administrative system will be changed, and the reform plans contribute as now mostly to the wider public discussion on the issue.

In Estonia, the counties could possible form a strong basis for this, as regional identity of the people certainly cannot be considered low. There are various regional traditional events being carried out continuously in the counties, and the trend has increased since Estonian re-independence in the beginning of 1990s. Today, as tourism development at the local, as well as at the regional level is often seen as the main pre-condition behind overall development of the area, the regions are creating symbols which would differentiate them clearly from the others. Fostering of the regional identity could be a good basis for fostering also regional sustainable development. In general, the inhabitants of certain areas define themselves as living in a concrete county, although such identity is most likely not stronger than with the specific town/village, or Estonia as a country in whole. Regional identity tends to be stronger in more specific areas, such as islands or some regions of historical/cultural importance. Estonian regions would provide a good framework for planning and implementing strategically sustainable development of certain areas. Unfortunately, the county administrations have insufficient financial means. As today, implementation of regional sustainable development does not concern much the individual inhabitants of a certain area, but is carried out often under projects financed from the EU pre-structural funds.

### **5.3. General trade-offs**

In Estonia, sustainable development has to face one major trade-off - between trying to improve the social situation by fostering any economic activity in the regions, or having higher environmental protection standards to implement responsibly the principles of sustainable development. Estonia faces the economic situation where basically the whole country besides larger cities is covered by areas in financial or social problems at some scale. Privatisation of the soviet-type large scale industrial and agricultural production since the beginning of the 1990s has closed a considerable amount of enterprises and left a lot of people unemployed. Social problems have escalated as some regions face very high unemployment rates. As economic activities have concentrated since restructuring mainly into larger cities, the rest of the country is lagging by large behind in this regard. Therefore, the policy of regional development in Estonia has been heavily focused on the creation of the favourable circumstances in the regions for attracting business activities to be start up there. New business activities are expected to foster overall development in the regions and provide a remedy to social problems caused by unemployment.

Many Estonian regions, especially rural areas, are underdeveloped if compared to larger urban settlements in the country. Often, the very basic idea of development is difficult to

implement due to the lack of financial resources. Many areas do not have much chance to concern about the principles of sustainable development as any development itself is difficult to foster. At the same time, larger urban areas with large industrial and services sectors face very rapid development patterns, from which other areas lag several, if not ten times behind.

Estonia is very unevenly developed, with some areas highly developed and others severely underdeveloped. Often, the attraction of new business activities is so important for giving remedy to social problems that it is much more valued than some environment protection rules upon new businesses. The people who lost their jobs during the restructuring of the soviet economy had mainly been skilled in large industrial production, which is not any more the case at the same scale. Their unemployment problems could possibly be solved by re-qualification training or by attraction of new industrial manufacturing or processing enterprises into the regions. At the same time, these types of enterprises are the most likely to produce environmentally harmful waste or pollute air. Large-scale industry carries almost always a threat to the neighbouring natural and living environment. At the same time, in Estonia it is often seen as the most favourable solution to deep unemployment problems in the regions. Although SME development has continuously been fostered in Estonia for several years, its main advantage is seen in diversification of the business environment and not in solving unemployment problems, which is taken as a concern of large-scale industry. Thus, sustainable development faces the challenge of an attraction of any economic activities in the regions.

#### **5.4. Top-down and bottom-up relations**

When analysing general regional policy in Estonia, its institutionalisation has had an emphasis on partnership between central and local authorities. Central government assumes today that the initiative for regional development must derive bottom-up, but the support and the policy should be directed top-down. However, many national regional development programmes do not tackle the reasons for the problems, but the outcomes. Thus, regional policy generally can be considered from the central government side rather passive.

National initiatives on regional sustainable development include the elaboration of legislation, definition of the legal framework, development of the concept, preparation of larger strategies and plans on the issue. Regional initiatives for regional sustainable development in Estonia include mainly the preparation and implementation of projects, and elaboration of regionally focused development plans. When illustrating the relation between national and regional initiatives for regional sustainable development in Estonia, incoherence could be the most suitable word to use. As has been indicated also above, national initiatives in this regard have been either in the form of legal acts or government documents rather general and vague, being unable to define concretely the concept of sustainable development neither at national, regional, nor local level as well as the possible framework for its implementation, and thus remaining ineffective. In the current situation, where Estonian Sustainable Development Act does not even define sustainable development as such, it would be very premature to speak about a distinctive policy field, which is being continuously strategically planned in Estonia. Current vague situation will hopefully change with the adoption of the strategy Sustainable Estonia 21, which outlines the framework for implementation the principles of sustainable development more concretely. At the same time, there are continuously undertaken various activities in the regions, mainly in the form of Pre-structural Funds projects, which contribute directly to regional sustainable development. Such projects are being implemented well also in the situation of no legally defined concept, nor strategic approach on the issue. Thus, regional project-based initiatives can actually be considered to represent a more active approach towards regional sustainable development in Estonia, especially as comparing to general regulative framework. This positive situation should not be used as sufficient justification for not elaborating further the necessary legal framework which would enable contributing to

regional sustainable development in Estonia in the future more systematically and intensively. The adoption of the national strategy on the issue could provide a favourable basis for this.

There can be identified one main institutional barrier for regional sustainable development in Estonia. The current system of a very weak regional administration (as the counties do not even constitute a separate administrative level) with no democratic mandate, and thus a low-weight responsibility, and with no independent budgets does not provide in practice wide possibilities for the regions to plan their development paths strategically, nor contribute to sustainability, when all finances are allocated by different line ministries into specific sectors without co-ordination among the different fields. In this framework, regional development is in practice not much more than a regionalised sectoral policy. Actually, even the current Estonian Regional Development Strategy for 1999-2003 defines the role of regional policy to complement, bind together, and co-ordinate sectoral policies. Besides achieving the primary objectives of sectoral policies, also a balanced development of Estonia is striven for. In the formation of regional development, many different sectoral activities play the central role due to their comprehensive impact. It is mentioned though, that due to their remarkable impact on regional development, sectoral policies have to be in harmony with the objectives of regional policy as well as the priorities of the development activities of the counties. The future regional development strategy of Estonia should strive for overcoming the today's fragmentation. Although the county governors have been given the responsibility for the balanced development of their region, this has not been accompanied by sufficient means for having real influence on the development. This is also one reason behind the situation where most of the regional initiatives for regional sustainable development have been project-based, and financed mainly from the EU Pre-structural Funds programmes.

## **5.5. Post-2006**

As regional sustainable development is still a rather vague concept in Estonia, it is difficult, if not impossible to give an overview of the planned strategies for post-2006 period. The lack of strategic approach generally in regional policy has caused the development to be casual and without a clear single goal. This characterises adequately also overall sustainable development in Estonia. In the best case, the concept of sustainable development as such will be by 2006 much deeply tied into Estonian legal framework, allowing the elaboration of longer-term strategic plans. The strategy Sustainable Estonia 21 can perhaps foster coherence between the documents and reality, and will become a solid basis for further integrated development.

Another positive factor in this regard can be Estonia's accession to the EU, which will probably also foster the wider acknowledgement of the principles of sustainable development in the country. The introduction of the EU six-year programming periods can contribute positively to more strategic approach in overall development planning in Estonia, and ease the elaboration of more concrete context-specific action plans, especially with the introduction of multi-annual financial planning and programme development. Also, this could subsequently put into place clearer responsibilities between different administrative structures as well as mechanisms for co-ordinating the functioning of different policies.

As concerns regional policy and environmental policy as the most emphasised parts of sustainable development in Estonia, the country has during the recent years been actively engaged with the preparations for the management of the EU Structural Funds and the Cohesion Fund in order to be fully operational when the accession to the EU takes place. The current Estonian regional development strategy applies only until the accession, and the existing eight national regional development programmes are planned in the future to be transformed into the SPD measures. As Estonia has been foremost engaged with the preparation to be able to manage the Structural Funds as soon as possible after accession,

far-reaching plans for post-2006 period have not really been made. However, these would be most likely linked to the Structural Funds. Most of the activities contributing directly to regional development in Estonia since re-independence have been financed from public funds, and many of these during the recent years from the Pre-structural Funds. Most such activities during the following years will probably be financed from the Structural Funds. Thus, it is very likely that the post-2006 strategies will be elaborated in Estonia in the framework of these funds. However, the possibility to attract Estonian own private finances to make investments into regional development should not be excluded, and could perhaps be promoted more actively.

## LIST OF ABBREVIATION

ARIB	Agricultural Registers and Information Board
CEE	Central and Eastern Europe
CFCU	Central Finance and Contracting Unit
DG REGIO	Directorate General for Regional Policy
EAGGF	European Agriculture Guidance and Guarantee Fund
EDIS	Extended Decentralised Implementation System
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
FIFG	Financial Instrument for Fisheries Guidance
ISPA	Instrument for Structural Policies for Pre-Accession
MEUR	Million euros
NGO	Non-governmental organisation
NUTS	Nomenclature of Territorial Units for Statistics
PHARE	Poland and Hungary Action for Restructuring of the Economy
SAPARD	Special Accession programme for Agriculture and Rural Development
SME	Small- and medium-sized enterprise
SPD	Single Programming Document
SPP++	Completing Preparations for the Management of EU Structural Funds in Estonia - Phase II

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