

Chapter 2

Local Government in Estonia

by

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1. Overview of Local Government Reform

The Local Self-government Foundation Act adopted on 10 November 1989 reestablished the basis for a local government system in Estonia. A month later, on 10 December 1989, the first almost democratic postwar municipal elections were held. The words “almost democratic” are emphasized here because the citizenry was not defined by the time of the elections and representatives of the occupation army participated. The above events were also the first steps towards the democratization of Estonian society; they were followed later by other significant political developments and the adoption of essential laws leading to Estonia’s independence in August 1991 and transition to the market economy.

The most significant change in local government within the last ten years was the replacement of the two-level system with a single level. Initially, from 1989 to 1993, the first level of Estonia’s local government consisted of rural municipalities, boroughs and towns; the second level of counties. The 1989 act, however, demonstrated a clear preference for a one-level system.

Parliament established the principles of local government reform in December 1990. A reform strategy was drafted that took into consideration the problems that existing primary-level units would encounter by the simultaneous transformation into local government organs and inheritance of several previously central government responsibilities. Local authorities proposed socioeconomic development programs and statutes. The Administrative Reform Expert Committee of the Supreme Council of the Estonian Republic (comprised of about twenty-five specialists and chaired by the author of this review) inspected and analyzed the documents. Based on the opinion of the committee, the Presidium of the Supreme Council granted rural municipalities, boroughs and towns self-governing status; the rural municipality of Muhu and the town of Kuressaare were the first to receive such recognition in September 1990. When the constitution was adopted in June 1992, ninety percent of Estonia’s 249 rural municipalities, boroughs and towns were granted self-governing status. It is a matter of opinion if the described strategy was expedient, but it is a fact that the understanding of the essence of local government and support for further development by primary-level local authorities significantly improved.

In the course of administrative reform, even the weakest rural municipalities reached such a qualitative level of development that, considering the size of the state, it seemed practical to establish a single-level local government system. The constitution prescribed this in principle; however, it also allowed provisions for the second level of local government to be reestablished: “The units of local government are rural municipalities and towns. Other units of local government may be formed on the basis of and pursuant to procedures provided by law.” In May 1993 the State Assembly approved the creation of a one-level local government system and on 2 June 1993 adopted the Local Self-government Organization Act. The act is still in force today although it has undergone numerous amendments.

On 28 September 1994 the State Assembly ratified in full the European Charter of Local Self-government. Implementation later was discussed on numerous occasions. However, Estonian legislation from that point respected several principles of the charter.

The Local Self-government Foundation Act introduced the concept of municipal assets in 1989, and the framework for the municipal enterprise as a new, separately regulated form of ownership subsequently followed. Municipal enterprises were legally abolished by 1 September 1996 and were reorganized into limited liability companies or joint stock companies. This created some confusion as to what extent municipal councils or governments could participate in their management, even when the rural municipality or town owned them, and if such privatization was truly reasonable.

Estonia’s administrative reform in the 1990s can be defined by three stages.

1. In the early 1990s, shortly before and after regaining independence, the process of reestablishing a local government system became a priority, and the term “administrative reform” became synonymous with local government reform.
2. In the mid-1990s, after the adoption of the constitution, the development of state institutions received attention.
3. In the late 1990s, radical changes at different levels of public administration—that is, at the central, regional and local levels, as well as in various areas of public administration, such as public service, public sector financing, et cetera—resulted in somewhat disproportional development. Since Estonia is approaching a relatively stable phase of development and has initiated membership negotiations with the European Union, emphasis currently is focused on the comprehensive development and stabilization of public administration.

In June 1997 the government formed a committee comprised of twenty-three members (representatives of the State Assembly, ministers, county governors and representatives of local authorities) to discuss the basis for subsequent administrative reform. In early 1998 the committee submitted the paper “Principles of Public Administration Development” to the government, which approved it on 16 February 1999. The State Assembly also is expected to discuss and possibly approve the document.

The general principles of administrative reform outlined in this plan include decentralization of decision making, responsibilities and financial resources; delegation of several public tasks to the private sector and to the “third sector”; development of information systems; drafting a flexible personnel policy suitable for a small country with limited resources; et cetera. The paper emphasized the following areas on which local government reform should focus: territorial administrative division, modernization of municipal management and amendment of the principles of municipal budgeting in order to establish a direct relationship between revenue and local economic development.

The European Council emphasized in its “Agenda 2000” the need to strengthen Estonia’s administrative structure; thus, this has become a priority, leading in turn to the improvement of public services. Estonia is divided into counties (*maakond*), rural municipalities (*vald*) and towns (*linn*). Executive power in each of the fifteen counties lies with the county governor (*maavanem*), who is subordinate to the central government. The 207 rural municipalities and 46 towns are separate local government units; thus, since 1 January 1999, there are 253 local authorities in Estonia.

Previously the types of settlement in Estonia were towns (*linn*), boroughs (*alev*), villages (*alevik*) and hamlets (*küla*). A hamlet was a sparsely populated settlement with less than three hundred inhabitants. Villages and boroughs were densely populated settlements with more than three hundred inhabitants. Of the forty-six towns in Estonia, thirteen gained this status in the 1990s, having previously been boroughs; others were recognized over the course of history. Until recently all towns in Estonia were separate local government units, but under the Territory of Estonia Administrative Division Act (1995) towns were amalgamated with neighboring rural municipalities, forming new local authorities. The first such amalgamation took place in autumn 1998. Another ten towns are expected to unite with neighboring municipalities within the next few years due to their sparse populations and networks with surrounding areas. Until 1993 boroughs were local government units, but due to the new legislation they were required to apply for status as rural municipalities or towns. In 1993, eleven boroughs gained town status, and in 1996 another new town joined the list; ten boroughs applied for and were conferred status as rural municipalities. According to government regulation on 18 December 1997 there were 9 boroughs, 165 villages and 4,317 hamlets in Estonia. In the mid-1970s, the number of settlements was 7,100, but in the course of a campaign initiated in 1976, several formerly existing settlements were deserted, reducing this number to 3,500. The 1990s have witnessed the gradual reestablishment of the presoviet settlement network, hence the difference in numbers mentioned in the above government regulation and in the tables presented in annex 2.2 based on data from 1 January 1998. The changes in question concern only villages and hamlets, not towns and boroughs.

The following sections of this review will discuss several essential issues concerning the development and reform of local authorities, such as municipal management, budgetary planning, taxation, associations of local authorities and legal acts on local government.

2. Legal and Constitutional Basis

2.1 Legal Basis of Municipalities

In the early 1990s, local government replaced the centralized system; democratic institutions—municipal councils elected by the populace in direct, general and uniform elections—succeeded the former village soviets, which had been staffed by a couple of employees who administered a small budget sufficient to cover their salaries and some other minor direct expenses. Municipal councils in turn set up executive bodies (municipal governments). In rural areas and in small towns, collective and state farms, industrial enterprises and construction companies were responsible for most of the social sphere—kindergartens, recreation centers, sports facilities, housing, et cetera. Over the course of administrative reform responsibility for these tasks was assigned to local authorities. Furthermore, several formerly central government responsibilities concerning, for example, education and social welfare were delegated to local authorities, which simultaneously were given the right to develop their own budgets. Today the private sector is responsible for some of these tasks.

The main principle regulating local government is stated in the Constitution of the Republic of Estonia: “All local issues will be resolved and regulated by local authorities, which shall operate independently in accordance with the law.” This principle derives from the European Charter of Local Self-government; even though the charter had not been ratified yet, its text was used when the draft constitution was drawn up. The Local Government Foundation Act complements the constitution: “Local self-government embodies the right, authority and duty of democratically established bodies of power of a local authority provided for in the constitution to organize and manage independently local issues pursuant to the law, based on the legitimate needs and interests of the residents of the rural municipality or town and considering the specific development of the rural municipality or town.” Thus, local government in Estonia is:

- based on the territorial division of the state into administrative units; and
- exercised by democratically established legislative and executive bodies and, with regard to local issues, by means of opinion polls, referendums and public initiatives.

Local government is based on the following principles:

- independent and binding resolution of local issues and implementation of such decisions;
- protection of the individual’s lawful rights and freedoms in the rural municipality or town;
- observance of the law in the performance of functions and tasks;
- right of residents of a rural municipality or town to participate in local government;
- accountability for the performance of functions;
- transparency of activities;
- provision of public services under the most favorable terms possible.

2.2 Legal Basis of Counties

At the regional level the central government is represented by counties that are financed by the state budget. The county governor is the head of the county government and is responsible to the central government. County governments have supervisory and advisory functions concerning local authorities. Other central government institutions at the regional level are tax offices, immigration and citizenship departments, statistics bureaus, forestry offices, et cetera. Central government institutions that exist at the local level are police departments and emergency services offices.

Under the Government of the Republic Act, a county governor is appointed by the central government on proposal by the prime minister and in concordance with the regional union of local authorities. The minister of internal affairs is responsible for convening the regional union meeting to approve the candidate; regional union representatives include a council member and the mayor of each local authority of the county in question. The candidate is approved if supported by more than one-half of the representatives. If the candidate is not approved, a new candidate is nominated at the following meeting. If the second candidate is not approved, the central government has the right to appoint a person of its choice to the office. The governor's term of office is five years, which may be prematurely terminated by the government:

- on proposal by the prime minister;
- on the occasion of his or her resignation;
- upon court conviction;
- due to long-term incapacity for work.

The county council must approve the candidate for the governor's replacement before formal appointment by the central government. However, the release of a county governor from his or her post is solely within the competence of the central government. It would seem that both procedures should be similar; however, as county governors are civil servants responsible to the central government, granting authority to local authorities to dismiss this officer would create a conflict of interest. In new administrative proposals, candidates for the office of governor no longer need the approval of the local authorities of the county in question. In the interest of productive cooperation, it is essential that the local authorities express confidence in the central government's appointment.

A county governor cannot hold any other public office, belong to the management board or supervisory board of a commercial enterprise or be employed in any other remunerative field with the exception of research and teaching. A county governor cannot be a member of a municipal council.

The county governor 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) coordinating cooperation between regional offices of ministries and other government agencies and the local authorities in the county.

The law bestows upon the county governor supervision over the legality of legislation of local authorities and over the legality and appropriateness of the use of state assets that are at their disposal. A governor has the right to review decisions made by local authorities that have entered into force. Local authorities are required to submit such decisions not later than seven days after receipt of the governor's request. If the governor finds that legislation of a local authority is at all in conflict with the constitution, a law or other legislation, he or she may submit a written proposal to bring the legislation into conformity within fifteen days. If the local authority does not comply with the proposal within fifteen days after its receipt, the governor files a protest with an administrative court. When a governor files a petition with the legal chancellor to analyze conformity of legislation with the constitution or other laws, he or she on the same day sends a copy of the petition to the local authority that passed the legal instrument. In recent years ownership reform, especially land reform, has been a particular area of conflict in which it has been necessary for governors to intercede. County governors occasionally have intervened at the request of elected or appointed local government officers in cases where such officers unjustifiably were relieved of their posts by a vote of no confidence.

If the county governor discovers that a local authority unlawfully or inappropriately has possessed, used or disposed of state assets, he or she files a report and any available supporting documentation with the State Audit Office or with an investigative or other competent agency. If authorized to do so by the central government, county governors or officials have the right to inspect how local authorities execute the responsibilities assigned to them by law or by contract.

A county government consists of an office and departments that may include divisions. The head of the office is the county secretary. Only a person with a university degree in law can apply for this post. The central government may place education, culture, social welfare and other agencies under the administration of a county government.

2.3 The Status of the Capital City

From 1989 to 1993, when local government in Estonia was exercised at two levels, the six largest towns (Tallinn, Tartu, Narva, Kohtla-Järve, Pärnu and Sillamäe) had second-level—that is, county-level—local authority status. Problems emerged after transition to a one-level system, especially in the capital, Tallinn, where the city council established district authorities in order to decentralize the town administration. Simultaneously, the status of Tallinn—with close to five hundred thousand inhabitants—was changed; it became one of the local authorities of Harju county, which had one-fifth the number of inhabitants of Tallinn, and the Harju county

governor became responsible for supervising the legality of legislation of the Tallinn city council and city government. The Tallinn city council submitted proposals to the central government to reconsider the status of the capital in 1994 and again in spring 1998, the essential idea of which was to transfer supervision of the city council and city government to the ministries. In August 1998 the government appointed a board to work out the principles regulating the status of Tallinn. The general point of view tends to be that there is no need for a special parliamentary act to adopt recommended changes, but rather the Local Government Organization Act should be amended, taking into account the capacity of the capital to fulfill tasks better than other authorities, including those concerning emergency services provided at the central government level. The Tallinn city council and city government also have concluded special agreements with ministries and the county governor concerning the delegation of responsibility in the field of environmental protection.

2.4 Legal Basis of Municipal Districts

The Local Self-government Foundation Act also created rural municipality and town districts—units operating in the territory pursuant to district statutes approved by the municipal council. The formation of a rural municipality or town district may be initiated by: (1) one-fourth of the municipal council members, (2) not less than one percent of the residents of the local authority with the right to vote and not less than five residents with the right to vote or (3) the municipal government. A council makes the decision to form a rural municipality or town district on the basis of an application and may organize a public opinion poll on the issue if necessary. Proposed statutes must provide (1) a description of the boundaries of the rural municipality or town district, (2) procedures for the formation of the district executive body, (3) procedures for appointment to office of the district elder whose term of office cannot exceed the term of office of the municipal council, (4) the authority of the district executive body and district elder and the budgetary funds allocated by the local authority to fulfill the tasks delegated to the district and (5) the principles and procedures for supervision of activities of the district executive body and the district elder and for liquidation of the district. A district elder's office, similar to that of county governor, is called a county government in existing legislation. District elders may, within the limits of their authority, issue legislative orders and directives to organize the internal activities of the district executive body. Supervision of orders issued by district elders is exercised by the mayor in accordance with procedures established by the statutes of the local authority. The authority of district executive bodies and elders cannot be restricted, and the budgetary funds allocated to them cannot be decreased during the municipal budgetary year.

Districts have been established in Tallinn and some other local authorities. In Tallinn, eight city districts were established in 1993 in order to decentralize the city administration. Earlier there were four rather arbitrarily formed districts; one of the underlying principles behind such division was the number of inhabitants (each district had a population of at least one hundred thousand

inhabitants), disregarding historical neighborhoods. However, most of the districts' institutions were located in the old town center. The essential criteria for establishing the new districts were a similar way of life and socioeconomic problems; as a result, the population of the largest district is more than one hundred ten thousand, while the population of the smallest is less than ten thousand. Each district has its own political body called the administrative council, which is set up by the city council based on city council election results. The administrative councils of city districts consist of members of the city council representing the given district and the unsuccessful candidates for city council. The city council determines the division of seats in district administrative councils between city council members and other representatives; only eight of the twenty-seven seats of the central district administrative council are reserved for members of the city council. In smaller districts the respective numbers are five to seven, and in the largest, fifteen. Members of parties, members of joint candidate lists and individual candidates do not have to have received five percent or more of the votes cast in the municipal elections to be eligible for the remaining seats in a district council. The city council decides on the authority of district councils, which can include responsibility for education, culture, public maintenance and other district matters. The district councils in the Kohtla-Järve area function similarly, following Tallinn's framework.

The number of rural municipality districts is still rather low, but in light of changes in administrative-territorial division and the expected amalgamation of rural municipalities, the importance of districts should increase. From the point of view of local democracy, it is important to underscore the historical significance of the institution of village or hamlet elders. Existing legislation recognizes the institution in order to enable better exchange of information between inhabitants and local authorities within sparsely populated rural municipalities. Under relevant law, an elder may be elected at the village or hamlet meeting. The performance of municipal tasks by an elder is provided for by contract; the elder's term of office is not restricted by the term of office of the council.

3 Local Politics, Decision Making

3.1 System of Local Elections

Three municipal elections have been held in Estonia in the postwar period after a fifty-year break. The first, semi-democratic elections took place on 10 December 1989, almost two years before the country regained its independence. Elections were not fully democratic, since the citizenry had not yet been determined and the occupation army participated, though the latter was rather limited compared to earlier times since, irrespective of the number of military personnel based in each electoral district, they could elect only one representative to each municipal council, including the Tallinn city council. The number of seats prescribed for the Tallinn city council

was eighty, but only sixty-nine members were elected; due to the activities of the prosoviet forces, elections produced no results in three constituencies of the capital. The method of a single-member constituency was applied in the election tally. The next municipal elections took place on 17 October 1993 when the constitution was approved by referendum, and the d'Hondt method was applied in tallying votes. The same method was used during the subsequent municipal elections held on 20 October 1996.

Local government bodies from 1989 to 1993 included:

1. the council of the county and of the rural municipality, borough or town;
2. the government of the county and of the rural municipality, borough or town;
3. the county governor and the mayor of the rural municipality, borough or town;
4. the audit committee (*revisjonikomisjon*) of the council of the county and of the rural municipality, borough or town.

Thus, there were eight local government bodies due to the two-level system—that is, four local government bodies at each level. The law generally assigned responsibilities to local government bodies without specifying the level, causing confusion as to the particular organ on which the responsibilities fell. This problem still exists, despite the 1993 elections for a one-level local government system and two local government bodies (the council of the rural municipality or town and the government of the rural municipality or town), since the law often assigns responsibilities to local authorities as such. The Tallinn city council has resolved the issue by conferring such responsibilities upon the city government unless decided otherwise by the council.

In the 1996 municipal elections the electorate consisted of 878,962 individuals, 461,653 of which (52.5 percent) voted in the elections. The electorate of Tallinn consisted of 234,243 people. The representatives of the following six parties were elected members of Tallinn's city council:

- Estonian Reform Party—fourteen seats;
- Estonian Center Party—twelve seats;
- electoral coalition "Tallinn" (mostly consisting of the members of the Estonian Coalition Party)—eleven seats;
- Estonian United People's Party—eleven seats;
- right-wingers and moderates—ten seats;
- Russian Party in Estonian—five seats.

Two parties representing the Russian-speaking population won a quarter of the seats of the Tallinn city council (sixteen). A month after the municipal elections the Estonian Center Party, the electoral coalition "Tallinn" and the Estonian United People's Party formed a coalition, constituting the majority of seats.

Table 2.1
Parties in the 1996 Municipal Elections in Estonia

Party	Elected Candidates on Single Party Lists	Elected Candidates on Coalition Lists	Total
Estonian Democratic Labor Party (<i>Eesti Demokraatlik Tööpartei</i>)	4	5	9
Estonian Center Party (<i>Eesti Keskerakond</i>)	7	3	10
Estonian Coalition Party (<i>Eesti Koonderakond</i>)	3	—	3
Estonian Rural Union (<i>Eesti Maaliit</i>)	17	—	17
Estonian Country People's Party (<i>Eesti Maarahva Erakond</i>)	8	18	26
Estonian Pensioners and Families League (<i>Eesti Pensionäride ja Perede Liit</i>)	17	19	36
Estonian National Party (<i>Eesti Rahvuslik Erakond</i>)	10	—	10
Estonian Reform Party (<i>Eesti Reformierakond</i>)	22	3	25
Estonian Greens (<i>Eesti Rohelised</i>)	—	1	1
Estonian Blue Party (<i>Eesti Sinine Erakond</i>)	—	12	12
Estonian Farmers' Party (<i>Eesti Talurahva Erakond</i>)	—	3	3
Estonian United People's Party (<i>Eestimaa Uhendatud Rahvapartei</i>)	7	1	8
"Estonian Home" Party (<i>Erakond Eesti Kodu</i>)	—	1	1
Moderate Party (<i>Erakond Mõõdukad</i>)	19	8	27
Pro Patria Union (<i>Isamaaliit</i>)	12	6	18
Farmers' Union (<i>Põllumeeste Kogu</i>)	8	—	8
Republican and Conservative Peoples Party (<i>Vabariiklaste ja Konservatiivide Rahvaerakond</i>)	—	2	2
Russian Party in Estonia (<i>Vene Erakond Eestis</i>)	6	—	6
Legal Balance Party (<i>Õigusliku Tasakaalu Erakond</i>)	—	1	1

3.2 Forms of Direct Democracy

The forms of direct democracy provided for in the Local Self-government Foundation Act include meetings and referendums. These opportunities, however, have not been used extensively, although a few local referendums concerning administrative-territorial division recently were organized. Participation in the referendums was all but active—only a couple percent of the local electorate voted. Smaller districts in Tallinn have organized public meetings to discuss topics such as the construction of new roads, land reform-related issues, et cetera.

About ten very small rural municipalities in Estonia will retain their size even after a radical change of the country's administrative-territorial division due to their location (on small islands) and other geographical circumstances. The authors of the principles of administrative reform have proposed that forms of direct democracy be introduced in such municipalities rather than representative democracy.

3.3 Internal Structure of Local Government Decision Making

The representative body of a local authority is the council (*volikogu*). Elections to municipal councils are regulated by the Local Government Council Election Act. The council is chosen through general, uniform and direct elections by secret ballot for a term of three years. All residents who are at least eighteen years of age and reside permanently on the territory of the given local authority have the right to vote in municipal elections. In 1993 an amendment to the Local Government Council Election Act stipulated that Estonian citizens have the right to vote and be elected, but citizens of foreign countries and stateless persons are only entitled to vote if they have lived in the territory of the given local authority for at least five years.

A minimum of seven members is necessary to form a municipal council. The number of seats is determined by the previous municipal council and is proportionate to the total population of the local authority; the council of a local authority with over two thousand residents is comprised of thirteen members, five thousand residents—seventeen members, over ten thousand residents—twenty-one members, and over fifty-thousand residents—at least thirty-one members.

Elections are organized in multimandated electoral districts. In Tallinn the boundaries of the electoral districts follow those of the city districts. Half of the mandates are distributed equally among all the city districts of Tallinn (each city district receives four mandates), and the remainder are distributed proportionate to the number of voters in each district.

The procedures for municipal elections have had a negative effect on implementing administrative-territorial division. Previously, the law prescribed only regular municipal elections. Prior to the 1996 municipal elections some municipalities were amalgamated, which subsequently required extraordinary elections. However, such elections were not regulated until February 1998 and

thus were not held between regular municipal elections. An amendment made extraordinary elections possible, which were thus initiated in autumn 1998. But it is not clear if the term of office of the councils elected through extraordinary elections lasts until the next regular elections or is three years from the date of election. The constitution stipulates that the term of office for municipal councils is three years, but it is unclear if this should be interpreted as a guarantee to the council or as the right of the electorate to choose a new council on a regular basis. Choosing the former interpretation will result in a staggered election schedule.

A council member is not bound by his or her mandate. The positions of council chair and deputy chair are remunerative, based on council resolution. Members may be reimbursed for expenses incurred while performing tasks assigned to them and for salary lost at their principal jobs pursuant to rates and procedures established by the council. The authority of a council member is suspended in the case of (1) appointment as a cabinet minister, auditor general, legal chancellor or county governor, or election to the post of mayor or confirmation of his or her appointment as a member of the municipal government; (2) entrance into active service in the armed forces; or (3) probation.

The authors of the concept of administrative reform proposed that the authority of a council member also be suspended due to his or her election to the State Assembly. As a result of the 1996 elections, a quarter of Tallinn's city council members became members of the State Assembly. On the one hand, members of the State Assembly need to understand topical issues concerning local authorities. On the other hand, being a member of two elected bodies (or even three, if counting district councils) can be difficult in terms of time and avoiding a conflict of interest. This becomes even more complicated if a politician is a member of a town council and at the same time represents the electorate of another county in the State Assembly.

Upon suspension of the authority of a council member before the end of the council's term, an alternate replaces him or her. The alternate is the first unelected candidate of the same political party or coalition who ran in the same electoral district as the council member being replaced.

Issues that are within the sole competence of a council are decided by vote. Other issues are decided by vote upon the request of at least one council member. Voting is open, with the exception of intra-council elections, which are decided by secret ballot. Council decisions are passed by a simple majority.

A council is unable to act if it:

- fails to pass the municipal budget within three months of the beginning of the fiscal year, or three months after the adoption of the state budget if the latter is not approved by the beginning of the fiscal year;
- fails to elect the chair or the mayor within one month of the date of the first council session or fails to confirm the membership of the municipal government within two months of the date the mayor is elected.

If a council is unable to act, the authority of all council members is deemed prematurely terminated, and alternates replace them.

The municipal council elects a chair, who cannot be the mayor, and a deputy chair. The chair of the council:

- manages the work of the council and convenes, organizes the preparation of and chairs the council meetings;
- represents the local authority and its council in accordance with the law, the statutes of the local authority and council decision;
- signs regulations passed by the council and other council documentation;
- performs other functions assigned to him or her by law and by the statutes of the local authority.

Councils may form standing and ad hoc committees. Chairs of committees are elected from among the members of the council. The appointment of other committee members is confirmed on proposal of the committee chair. The principles and procedures for the activities of council committees are provided in the statutes of the local authority.

The only statutory committee of municipal councils is the audit committee, which is elected by the council for the duration of its term of office from among its members and is comprised of not less than three members. Pursuant to procedures provided in the statutes of the local authority, the audit committee supervises the activities of the municipal government, including:

- conformity of municipal government activities with the regulations and resolutions of the council;
- timely collection and registration of revenues and conformity of expenditures with the municipal budget;
- accuracy of accounting of municipal administrative agencies, enterprises and institutions and the appropriate use of municipal funds allocated to them;
- fulfillment of contracts concluded by the local authority;
- legality and appropriateness of the activities assigned to the municipal government by the council.

The audit committee informs the municipal government of any deficiencies it discovers and makes written proposals to address them; the municipal government adopts its position within ten days after receipt of the audit report and submits its opinion to the council, enclosing the report. The audit committee reports again on its work and submits its comments and proposals to the council prior to approval of the report.

There are two essential documents a council must adopt in addition to the budget: the municipal statutes and the municipal development plan. The statutes establish the formation, rights, duties and rules of procedure of the local government bodies, their committees and agencies. The development plan provides an analysis and prognosis of the socioeconomic situation, environmental conditions, main objectives of development, physical master plan and principles for infrastructural development of the local authority. Development plans are prepared for at least two subsequent years. The council makes the draft development plan accessible to all residents of the local authority pursuant to procedures provided in the municipal statutes and approves

the draft after proposals concerning the plan have been reviewed by a date specified by the council. If circumstances arise that necessitate the amendment of the development plan, the municipal government has the right and the duty to initiate such proceedings with the council.

The chair or deputy chair convenes regular council sessions in accordance with procedures established by the council. Issues to be discussed are indicated in the session notice, which is forwarded to the council members not less than four days prior to the meeting. A council discusses only the issues indicated in the notice and prepared pursuant to procedures required by the council. The council is convened on the proposal of the municipal government or of at least one-fourth of the council's members. The municipal election committee chair or deputy chair leads the first session until the council chair is elected. Council sessions generally are public, though the council may declare a session to be closed if not less than two-thirds of the council votes against such a proposal or if the disclosure of data pertaining to an issue under discussion is prohibited or restricted by law. The members of the municipal government and persons invited to a session by the council may participate with the right to speak. The council may assign the preparation of issues to be discussed during a council session to the government.

The support of at least one-fourth of the members of the council is necessary to initiate a vote of no confidence in the council chair, the mayor, a member of the municipal government or a chair of a council committee. A vote of no confidence in the council chair or a committee chair results in release from office. In the event of a vote of no confidence in the council chair, the deputy chair or the eldest member of the council performs his or her duties. A vote of no confidence in the mayor or a member of the municipal government is grounds for release from employment.

The head of the municipal government is the mayor, elected by the council for a term of three years. The head of the government cannot be the chair of the council. However, from 1989 to 1993, the principles of administrative reform prescribed that the chair of the council simultaneously could be the mayor of a rural municipality, borough or town. The mayor sets up the municipal government, the detailed regulations for which are stated in the municipal statutes.

3.4 Public Participation in Decision Making

Residents of a rural municipality or town have the right to initiate legislation. Not less than one percent of the residents of a local authority with the right to vote, but not less than five residents with the right to vote, may initiate the passage, amendment or repeal of legislation of local authorities concerning local issues; such initiatives must be debated within three months of the adoption of the legislation in question. The issues are presented to the municipal government in the form of a draft to which a signed list of the initiators is appended. If the issue lies within the competence of the council, the municipal government within one month submits the issue together with its own position to the council for resolution. A representative of the initiators has the right to participate in the council or municipal government debate on the issue. Any individual

has the right to apply to the council or the municipal government for the amendment or repeal of legislation that unlawfully restricts the rights of the applicant. If the council or the municipal government refuses to amend or repeal such legislation, the applicant has the right to initiate recourse through the courts for resolution of the issue.

3.5 Ethnic Issues, Multicultural Government

There are several local authorities in Estonia, including large towns such as Narva and Sillamäe, in which Estonians constitute only a small percentage of the local population. In Tallinn approximately one-half of the population is Estonian. Candidates of two Russian parties ran in the 1993 municipal elections for the Tallinn city council and won close to half of the seats. In the 1996 municipal elections the Russian parties split and won only a quarter of the seats. In the Narva, Kohtla-Järve and Sillamäe municipal councils Estonians hold less than one-third of the seats.

The working language of local government bodies is Estonian. Everyone has the right to address local authorities and their officials and to receive responses in Estonian. The use of foreign languages, including the languages of ethnic minorities, is provided for in the Language Act.

Cultural autonomy is an important issue when speaking about the rights of ethnic minorities. The first Ethnic Minorities Cultural Autonomy Act was adopted in Estonia in 1925. The 1992 constitution provides that ethnic minorities can establish cultural local government institutions. On 26 October 1993 the State Assembly adopted a new Ethnic Minorities Cultural Autonomy Act, which reaffirms the constitution. Under the present act, ethnic minorities have the right to establish, manage and supervise public and private educational institutions in which instruction is performed in their mother tongues and to address other issues concerning the preservation of their cultural traditions. Any ethnic minority group with more than three thousand residents in Estonia has the right to establish such cultural institutions, which currently applies to Germans, Russians, Swedes and Jews.

3.6 Local Government Associations and International Contacts

Two local government associations existed in Estonia before the annexation of the country—the Association of Estonian Cities and the Association of Rural Municipalities. Their activities were suspended on 17 August 1940 by the government of the Estonian Soviet Socialist Republic; on 1 March 1990 this decision was declared null and void. In May 1990 the activities of the Association of Estonian Cities resumed, and in September 1990, of the Association of Rural Municipalities.

The constituent assembly of the Association of Estonian Cities (AEC) was first held on 19 September 1920. In 1925 the AEC became a member of the International Association of Cities and Local Self-governments (*Union Internationale des Villes et Pouvoirs Locaux*). The AEC is

directed in its activities by statutes adopted in 1926. Today AEC membership includes forty towns, four boroughs and two rural municipalities representing a population of over one million—more than two-thirds of Estonia’s residents.

The supreme body of the AEC is the general assembly (*Linnade Päev*). The assembly convenes once a year; each member is represented by a number of delegates proportionate to its population. At the meeting of the general assembly the board is elected, which is the legal representative of the AEC. The board proceeds in its work from the program approved by the general assembly. The board elects a chair and deputy chairs from among the representatives of the members, prepares proposals to the general assembly, collects information necessary for the activities of the AEC, checks the progress of implementation of previous decisions adopted by the general assembly and has decision-making authority. Members of the board are, as a rule, municipal council chairs and mayors. At present, the board of the AEC has twenty-one members.

The main tasks of the AEC are as follows:

- to represent and protect the general interests of its members;
- to foster the development of the public administration system;
- to provide assistance to local authorities in economic and cultural areas;
- to foster international relations and partnerships;
- to coordinate cooperation among members;
- to provide information for local government officers and to arrange activities fostering their professional knowledge and skills.

The bureau manages the administrative work of the AEC; the board must approve the candidate for the office of managing director. The main tasks of the bureau are as follows:

- to implement the decisions of the general assembly and the board;
- to provide assistance to local authorities and to coordinate joint activities;
- to arrange assembly sessions, board meetings and informative meetings and to prepare all necessary materials;
- to collect, analyze and distribute the opinions of local authorities regarding drafts of legal acts;
- to arrange training programs for local government officers;
- to establish contacts and develop relations with associations and organizations of local authorities abroad.

The Union of Estonian Associations of Local Authorities (UEALA) is a nationwide voluntary union. The government approved its statutes on 27 May 1993. The functions of the UEALA are as follows:

- development and cooperation among local authorities and their associations;
- representation and protection of the common interests of local authorities and their associations;
- participation in drafting regulative acts concerning local authorities;
- compilation, exchange and distribution of information concerning local government;
- safeguarding the interest of local government officers.

As of 1 January 1999 all fifteen regional unions of local authorities were members of the UEALA. The highest administrative organ of the UEALA is the council; each UEALA member is represented in the council by no more than two representatives. During the period between the council meetings, the chair manages the activities of the association.

In 1994 the three local government associations agreed to establish a joint committee, the objective of which is to negotiate with the central government on key issues concerning the development of local government units, such as the amount and distribution principle of funding allocated from the state budget to the local government units and the division and fulfillment of responsibilities between the state and local governments.

Local authorities have the right to become members of and to cooperate with international organizations of local government. In relations with international organizations, local authorities are represented by the council or delegates appointed by the council.

4. Local Administration, Service Provision

The head of the municipal government is the mayor. The mayor, members of the municipal government and, by virtue of office, the municipal clerk (or secretary) constitute the municipal government. The municipal government has a quorum if, in addition to the mayor or his or her deputy, at least one-half of its members participate in the session. Municipal government decisions are passed by majority vote. Sessions are not public unless the municipal government decides otherwise.

The municipal government:

- prepares issues to be discussed by the council based on the position of the government and council resolutions;
- resolves and manages local issues that are assigned to the municipal government by council resolution or the municipal statutes;
- resolves and manages local issues that do not fall within the sole competence of the council;
- represents, as a legal person, the local authority in court.

The mayor is elected under conditions and by procedures provided for by law and the municipal statutes for a period of up to three years. The mayor has the authority to form the municipal government from the date he or she is elected. The mayor is conferred authority upon confirmation into office by the municipal government, and the municipal government is conferred authority from the date of its appointment by the council. The mayor:

- organizes the work of the municipal government and preparation for its sessions;
- represents the municipality in accordance with the authority granted him or her by law, the municipal statutes and the council;
- issues directives for the management of the internal activities of the municipal government and its agencies;

- signs municipal regulations and orders and other municipal government documentation;
- submits the membership of the municipal government to the council for confirmation;
- submits proposals to the council for confirmation of the appointment of additional members to or for the release from office of members of the municipal government;
- presents candidates for heads of municipal enterprises to the council for confirmation;
- performs other functions assigned to him or her pursuant to the law and the municipal statutes.

The municipal government may apply to the council to review a regulation or resolution passed by the council. Regulations and orders of the municipal government are made public prior to their entry into force pursuant to procedures provided in the municipal statutes, with the exception of the disclosure of data that is prohibited by law or that is intended only for internal use by municipal agencies.

On 1 January 1996 the Public Service Act came into force regulating employment in state and local government institutions. An administrative agency is one that is financed by the state or municipal budget and exercises public authority. Municipal administrative agencies, in which employment is considered to be public service, are (1) the office of a municipal council, (2) municipal governments (as agencies) together with their structural units, (3) municipal district governments of local authorities (as agencies), (4) town government executive agencies and (5) bureaus of local authority associations. A person employed by a local administrative agency is a local government officer. Public servants are classified as (1) officials, (2) support staff and (3) nonstaff public servants. An official is a person elected or appointed to office in an administrative agency. The total number of public servants in Estonia is approximately twenty-five thousand: four thousand three hundred local government officers, plus civil servants in county governments and central government institutions, including regional central government institutions.

The municipal council approves the structure, staff and salary rates of public servants of local administrative agencies. Salary scale is one of the most broadly debated issues in Estonian public administration. In the 1990s three different approaches have been used. Initially, the government established salary rates that were dependent on the size of the local authority. After the adoption of the constitution prescribing budgetary independence of local authorities, wealthier local authorities began using salary rates established by their councils. The government subsequently decided that only local authorities receiving subsidies from the state budget must use centrally established salary rates. In 1996, however, this requirement was abolished. Differences in local government officer salaries increased dramatically—currently from EEK 2,000 to EEK 8,000 per month (though the monthly salary of the mayor of Tallinn is EEK 21,600). Thus, reestablishing a system by which local authorities receiving subsidies from the state budget (currently close to ninety-five percent) have to use the centrally established public service salary rates has gained support.

An Estonian citizen at least eighteen years of age with at least a secondary-level education, legal competence and proficiency in Estonian may be employed as a local government officer.

Upon assuming a public position, an official takes the following written oath before the person who has appointed him or her: "I swear to be faithful to the constitutional order of Estonia and to perform conscientiously and accurately the functions that the office entrusted to me. I am aware that the law prescribes liability for a breach of duties." A person who takes the oath signs its text, which is enclosed in the individual's service record. As a rule, competitions are held for filling public service positions. The head of a municipal administrative agency may also announce public competitions for other offices. Under the Public Service Act, civil servants receive additional remuneration for length of employment, academic degrees and proficiency in foreign languages. Local government officers have no statutory right to such remuneration, but the municipal council may decide to establish such terms using the rates provided in the Public Service Act. An official is entitled to personal leave up to thirty-five calendar days. If an official has been in public service for at least three years, he or she is granted one additional day of personal leave for the third and each subsequent year in service, up to a total of ten calendar days. An official also receives state pension. An official is required to submit to the authorized person or administrative agency an annual declaration of his or her financial situation, including information on his or her assets, sources of income, et cetera. The personal income declaration is submitted by a deadline and according to procedures established by the municipal council.

Relations between local authorities and central government agencies are based on the law and special contracts. Local authorities cannot delegate their tasks, authority or funds allocated to them pursuant to the law. Municipal councils have the right to submit proposals to the government for the adoption or amendment of laws and other legislation. The county governor supervises the activities of local authorities, the State Audit Office supervises the use and disposal of state assets transferred to the local authorities, and the legal chancellor supervises conformity of legislation passed by local authorities with the constitution and other laws.

Local authorities may, for the expression, representation and protection of common interests and for the performance of common functions: (1) cooperate, (2) grant authority to another local authority for this purpose and (3) form unions and associations of local authorities. In the interest of cooperation, local authorities may found joint agencies by contract. A foundation agreement is the basis for formation of a union of local authorities; a union operates pursuant to the law and the registered articles of the union. The representative body of the union or, upon its authorization, another body has the right to conclude contracts on behalf of the union with central government agencies to assume responsibility for certain state tasks. The union of local authorities undertakes such tasks if all municipal councils represented in the union give their consent.

The tasks of a local authority, unless assigned to other persons by law, include organization of social assistance and services, welfare services for the elderly, housing and utilities, water supply and sewage, provision of public services and amenities, physical planning, public transport within the local authority and maintenance of municipal streets and roads. Local authorities are also

responsible for supervising kindergartens, primary and secondary schools, special interest schools, libraries, community centers, museums, sports facilities, shelters, homes for the elderly and the handicapped, health care institutions and other agencies owned by the local authority. Legislation may prescribe covering specific costs of such agencies from the state budget or other sources. In addition to the above tasks, local authorities address local issues assigned to them by law and state tasks assigned to them by law or undertaken by a contract concluded between an authorized central government agency and the municipal council.

The division of tasks between the central government, including the regional level, and local authorities is still a topical issue, although much has been accomplished in this area. In early 1998 thorough research into this issue was initiated, which should touch upon the allocation of financial resources for tasks assigned to local authorities. Today there is no reliable information on the cost of such tasks; thus, there is no guarantee that all local authorities have the capacity to fulfill them.

5. Local Finance, Economic Development

Like most Central and East European countries, Estonia experienced economic decline during the first five years of economic reform. The fall in gross domestic product (GDP) began in 1990 and continued until the end of 1994. In 1996–97 Estonia witnessed particularly rapid economic growth. Table 2.2 illustrates the economic structure of the country in 1997.

Table 2.2
**Revenue Structure of
Selected Estonian Local Governments, 1997 [%]**

	Tallinn (415,000 inhabitants)	Tartu (101,000 inhabitants)	Pärnu (52,000 inhabitants)	Rakke ^a (2,500 inhabitants)
State Grants	—	6.8	8.4	32.3
Shared Revenues	71.0	70.8	57.9	43.5
Local Taxes	0.6	0.4	0.3	—
Credits	16.0	6.6	11.9	—
Other	12.4	15.4	21.5	24.2

a. Rural municipality.

A cornerstone of Estonia's fiscal policy is the principle of a balanced state budget, excluding foreign and domestic loans. Estonia pursues a cautious policy with regard to financing public expenditure with foreign loans. In fact, the total amount of external loans of the state must not

exceed seventy-five percent of state budget revenues in any year. Similarly, government guarantees on loans must not exceed fifteen percent of state budget revenues. During a fiscal year, new external loans must not exceed fifteen percent of state budget revenues; the State Assembly must approve all loans. As of January 1996 state loans accounted for 7.6 percent of Estonia's GDP. Thus, Estonia satisfies the requirement for joining the third stage of the European Monetary Union, according to which state loans must not exceed sixty percent of GDP. By February 1996 Estonia had contracted eighteen foreign loans totaling USD 288 million. Creditors disbursed USD 189 million, and Estonia made interest payments in the sum of USD 17.5 million. Furthermore, the government guarantees five foreign loans totaling USD 117 million. Until now, Estonia's principal creditors have been the World Bank and the International Monetary Fund, but cooperation with other important financial institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank and the Nordic Investment Bank, recently has increased. These loans mainly finance infrastructural improvement: energy, road maintenance, health care, environmental protection, air traffic services, water supply and sewage systems. The first foreign loan repayment started in 1996 and will culminate in the years 2000–03.

Privatization has been one of the main priorities in restructuring the Estonian economy. In 1994 only 67.5 percent of all business revenue came from the private sector; by 1996 and 1997 this figure respectively was 78.0 percent and 86.2 percent. In 1996, the private sector accounted for 63.8 percent of total revenues in transport, warehousing and communications; 82.7 percent in manufacturing; 89.5 percent in real estate, rental and business services; 97.5 percent in construction and 98.6 percent in wholesale and retail trade. From 1993 to 1997 the ownership of 472 enterprises and structural units was privatized for a total purchase price of EEK 4,389 billion. Investments worth EEK 4,319 billion and jobs for 56,154 people have been guaranteed. The purchasers assumed liabilities of the enterprises for a total of EEK 2,160 billion. From 1991 to 1997, 1,348 properties were sold at auction for a total purchase price of EEK 605 million.

Table 2.3
**Subnational Government Expenditures as Percentage of GDP
in Estonia, 1994–97**

Year	%
1994	11.9
1995	11.7
1996	11.3
1994	10.5
1998	11.9

Table 2.4
**Subnational Government Expenditures as Percentage of
 General Government Expenditures in Estonia, 1994–97**

Year	%
1994	33.1
1995	31.4
1996	29.8
1997	28.1
1998	30.6

An independent municipal budget is composed of all revenues and expenditures for one fiscal year. Draft budgets, approved budgets, amendments and reports are published as public information. Municipal budgets are drafted taking into consideration the local development plan. Initiators of amendments to a budget or draft budget resulting in a decrease in revenue or an increase or reallocation of expenditure must provide information on the sources of revenue necessary to cover such expenditure.

The municipal fiscal year, like that of the state, starts on 1 January and ends on 31 December. A majority of local authorities receive allocations from the state budget; thus, the state budget must be approved first. At times, the state budget was not approved by the beginning of the year; consequently, in 1994 a decision was made to start the municipal fiscal year three months later—that is, on 1 April. Soon it became clear that although information on state budget allocations for the first nine months of the municipal fiscal year was available, it was impossible to predict this amount for the last three months. As a result, the former system was reinstated in January 1996, according to which the municipal and state fiscal years coincide.

The main sources of municipal revenue are as follows:

- shares of centrally established taxes;
- allocations/subsidies from the state budget;
- municipal taxes;
- loans;
- rental of municipal property;
- revenue on municipal property sales.

Throughout the 1990s there have been significant changes in the share of centrally established taxes paid to municipal budgets, as illustrated by table 2.5. Currently, the following proportions are allocated to municipal budgets:

- fifty-six percent of personal income tax;
- one hundred percent of land tax;

- twenty percent of oil shale utilization tax, seventy percent of tax on construction materials and twenty percent of water utilization tax.

Table 2.5
**Share of Centrally Established Taxes
 Paid to Municipal Budgets in Estonia, 1991–99 [%]**

Year	Personal Income Tax	Corporate Income Tax ^a	Value Added Tax ^b	Land Tax ^c	Natural Resources Utilization Tax ^d
1991	100	35	up to 3	—	varies
1992	100	35	up to 3	—	varies
1993	100	—	—	50	varies
1994	52	—	—	50	varies
1995	52	—	—	50	varies
1996	56	—	—	100	varies
1997	56	—	—	100	varies
1998	56	—	—	100	varies
1999	56	—	—	100	varies

- Teachers' salaries were paid from municipal budgets when part of corporate income tax was paid to municipal budgets.
- Municipal councils had the right to establish local value added tax (VAT) with a rate of up to three percent when the centrally established VAT rate was nine percent; local authorities were denied the right when the VAT rate was centrally established at eighteen percent.
- Land tax was formally introduced in 1993. Initially, only fifty percent of this tax was paid to municipal budgets; municipal councils had the right to establish the tax rate between 0.8 and 1.2 percent of the centrally established estimated taxable value of land, which depended on location and utilization. Since 1996 land tax is paid to municipal budgets in full, and municipal councils have the right to establish the tax rate between 0.5 and 2.0 percent of the centrally established estimated taxable value of land.
- The amount of natural resources utilization tax paid to municipal budgets varies; for example, in 1993 fifty percent of the oil shale utilization tax was paid to municipal budgets, but later the corresponding amount was twenty percent.

Personal income tax constitutes, on average, ninety-two percent of the total tax revenue paid to municipal budgets, whereas tax on land and on natural resources utilization constitutes six and less than two percent respectively. For example, natural resources utilization tax makes up two-thirds to three-quarters of municipal budget revenue in the rural municipalities of Ida-Viru county, such as Maidla, Mäetaguse and Vaivara, since several oil shale mines are located on their

territories. In economically weaker rural municipalities, such as Varbla, where there are few natural resources and a small workforce, the tax on land constitutes more than one-third of the centrally established taxes. The total amount of the three above taxes collected per person in the rural municipality of Mäetaguse in 1996 was EEK 5,332, whereas the corresponding proportions in the rural municipalities of Vaivara and Maidla were EEK 4,993 and EEK 4,307 respectively. These figures were about two times higher than those of Tallinn, and the corresponding numbers on the islands of Piiressaare and Kihnu were only EEK 216 and EEK 463.

Rural municipalities with small tax bases receive equalization allocations from the state budget. The aim is to achieve a situation in which there are no municipalities in which total revenue—that is, three centrally established taxes plus allocations from the state budget—is less than ninety percent of the country's average tax base. The principles of distributing state budget allocations are based on the Rural Municipality and Town Budgets and State Budget Correlation Act and on a special formula is used for calculating the allocation.

The Rural Municipality and Town Budgets and State Budget Correlation Act permits the allocation of subsidies, both general purpose and special purpose, from the state budget to local authorities. General purpose subsidies are allocated through a subsidy fund, the objective of which is the appropriation of supplementary resources to local budgets. The size of the subsidy fund in the draft state budget and its distribution among local authorities is determined by an agreement between authorized representatives of local authorities and their associations and the government. If no agreement is reached, the government determines the size and distribution of the subsidy fund.

The appropriation of the subsidy fund is determined by the distribution equation:

$$T_n = (m \times ak - an) \times 0.9 \times en$$

where T_n = subsidy allocated to local authority;

m = subsidy level coefficient;

ak = average level of appropriations and receipts in Estonia allotted from state taxes to the municipal budgets in the fiscal year in EEK per capita;

an = average level of appropriations and receipts allocated from state taxes to municipal budgets in the fiscal year in EEK per capita;

en = population of the local authority;

0.9 = this coefficient indicates that ninety percent of revenues are supplemented.

The subsidy level coefficient “ m ” is derived from the size of the subsidy fund and indicates the amount of per capita income from state taxes that can be channeled to a municipal budget compared to the average to provide resources from the subsidy fund. Almost ninety-five percent of rural municipalities and towns receive allocations from the state budget; unsubsidized local authorities include, for instance, Tallinn and its surrounding rural municipalities that receive a high proportion of personal income tax and the rural municipalities in Ida-Viru county that receive a high proportion of natural resources utilization tax. The 1999 state budget included EEK 734.177 million allocated as subsidies to local authorities on the basis of the above formula. In addition to allocations from the state budget, there is a regional subsidies fund (EEK 55

million); decisions on how to use these resources are made by county governors together with representatives of the corresponding county's local authority unions. Resources are also available from a special fund (EEK 5 million) intended for local authorities operating under objectively more difficult circumstances, such as those located on islands. Thus, the total amount of subsidies allocated to local authorities in the 1999 state budget was EEK 794.177 million.

In addition to general purpose subsidies the state budget also includes special purpose subsidies. The total amount of special purpose subsidies in the 1999 state budget was EEK 116.341 million, including:

- subsidies for maintenance of homes for the elderly and the handicapped—EEK 36.341 million;
- subsidies for transport companies to compensate for reductions offered to students of municipal schools—EEK 40 million;
- benefits for schoolchildren—EEK 30 million;
- benefits for students of municipal art and music schools—EEK 10 million.

The state budget also includes resources for investments. In 1999 EEK 433.035 million was assigned for this purpose:

- for projects short-listed by the State Assembly on the basis of government and State Assembly proposals—EEK 213.035 million;
- for counties, the use of which was decided by county governors together with representatives of local authority unions of each county—EEK 170 million;
- for maintenance of municipal streets and roads—EEK 50 million.

In 1994 the joint committee of the associations of local authorities was established; since then annual negotiations between the government and the joint committee have been held to decide upon the principles of subsidizing local authorities from the state budget and the amount to be allocated each year. In 1999 the negotiations ended without a mutually acceptable agreement.

One of the characteristics of democratic local governance is the right to impose municipal taxes. In June 1991 a government regulation granted this right, provided the Ministry of Finance confirmed such decisions. The above regulation did not include a list of taxes that local authorities could establish or any other conditions. The constitution, adopted about a year later, prescribed that only laws establish municipal taxes. On 21 September 1994 the Municipal Taxation Act was adopted, prescribing procedures for the implementation of and requirements for nine local taxes. Under the act, municipal councils have the right to fix the rates of the following:

- poll tax—imposed on all citizens aged eighteen to sixty-five; municipal councils also have the right to grant relief from such tax;
- corporate income tax—imposed at a rate of one percent in addition to the corporate income tax paid to the state budget;
- sales tax—imposed at a rate of up to two percent of the price of goods and services sold;
- tax on advertising and public notices—during election campaigns, political parties are exempt from this tax;

- tax for closing roads and streets—imposed on legal persons and individuals who close roads for repair or other reasons;
- tax on motor vehicles—associations of local authorities consider it necessary to establish this tax nationwide;
- boat tax—imposed on the owners of boats, yachts and launches over twelve meters;
- tax on domestic animals;
- entertainment tax—imposed on organizers of entertainment events.

In Tallinn, for example, only three of the above municipal taxes have been levied: on advertising and public notices (revenue generated in 1998 was EEK 9 million), on closing roads and streets (EEK 3 million) and on motor vehicles (EEK 27 million). The total revenue generated by taxes constituted only 1.6 percent of Tallinn's total gross revenue in 1998. Some local authorities have imposed taxes on sales or on domestic animals, but the total proportion of municipal taxes still does not exceed one percent of a municipal budget. Several taxes have not been imposed by any of the local authorities and thus remain only theoretical. An important reason behind this is the philosophy of municipal taxation. Local taxes should be an important instrument for exercising active economic policy in addition to generating revenue for municipal budgets. However, local authorities could lose a significant part of their labor force by establishing diverse poll tax rates. The concept of administrative reform indicates the necessity to work out new principles of municipal taxation, followed by better legislation regulating this area.

Table 2.6
Sources of Local Government Revenue in Estonia, 1997 and 1998

Type of Revenue	1997	1998
Taxes	60.6	54.1
Personal Income Tax	55.9	49.1
Land Tax	4.4	4.2
Gambling Tax	0.0	0.0
Local Taxes	0.3	0.8
State Tax	0.1	0.1
Miscellaneous Income	1.3	0.4
Revenue from Property	5.5	5.5
Revenue from Alienation of Property	2.7	2.3
Revenue from Exploitation of Property	1.6	1.7
Financial Income	0.4	0.5
Income from Economy	3.7	3.7
Total Income	71.6	64.3

Table 2.6 (continued)
Sources of Local Government Revenue in Estonia, 1997 and 1998

Type of Revenue	1997	1998
Residual Revenue to Cover Expenses	0.2	2.4
Settlement of Accounts and Transfers	25.0	25.4
Subsidies from State Budget	24.5	22.5
Transfers from Other Local Budgets	0.5	1.5
Loans	3.2	7.9
Total	100.0	100.0

SOURCE: *Aasta kohalike omavalitsuste kinnitatud eelarve koond* (Regional Statistics of Estonia 1998) (Rahandusministeerium, 1997), 229.

The structure of local expenditure varies significantly among local authorities. There are no clear regularities or connections concerning, for example, the size of the municipality. Clearly much depends on traditional areas of expenditure. In general, these are education (thirty-seven percent of local revenue); public transport, housing, et cetera (twenty-one percent); and administration (eleven percent) as shown in Table 2.7. Local authorities cannot grant or secure loans, with the exception of student loans.

Table 2.7
Municipal Budget Expenditures in Estonia, 1997 and 1998

Expenditures	1997			1998
	%	Total [EEK millions]	EEK per Capita	%
Administration	10.6	721	500	10.6
State Defense and Public Order	0.4	24	17	0.4
Social Sphere	55.8	4,065	2,813	59.5
Education and Science	36.6	2,553	1,767	37.4
Culture and Art	6.6	537	372	7.9
Sports and Recreation	1.5	133	92	1.9
Public Health	1.4	108	75	1.6
Social Security	9.7	734	508	10.7
Economy	21.4	1,417	979	20.7
Other Expenditures	0.7	21	7	0.3

Table 2.7 (continued)
Municipal Budget Expenditures in Estonia, 1997 and 1998

Expenditures	1997			1998
	%	Total [EEK millions]	EEK per Capita	%
Total , of which:	88.5	6,250	4,325	91.5
Compensation of Employees	21.9	1,468	1,009	21.5
Investments	9.2	829	574	12.1
Capital Repairs	6.5	612	424	9.0
Settlements of Accounts and Transfers	1.9	132	91	1.9
Transfers to Other Local Budgets	1.8	115	80	1.7
Payment of Loans	9.7	445	308	1.6
Total Expenditure	100.0	6,830	4,727	100.0

One-tenth of all local authorities spend more than twenty-five percent of their revenue on administration—in Alajõe rural municipality the percentage is fifty-five; in the town of Suure-Jaani, forty-eight. Oru rural municipality, Rapla rural municipality and the town of Viljandi spend the least on administration—four, seven and seven percent respectively. Ants Leemets, advisor to the minister of finance, says that each person living in Estonia pays EEK 600 a year on average to cover municipal administrative costs; in one-fifth of the local authorities this amount is more than EEK 1,000 per person. Though education is the principal responsibility of Estonian local authorities and the main area of municipal expenditure, fourteen rural municipalities and two towns spend more on administration than on education. Such discrepancies indicate that effective administrative-territorial reform has not been realized fully in Estonia.

The central government has attempted to diminish relatively vast regional differences. In 1994 the government approved the concepts of a regional policy, and in 1999, a strategy for regional development. The following trends characterize national regional policy as introduced in these documents:

- moving away from national policy towards policy that takes into account the needs of various regions;
- greater coordination of policy in various sectors, thereby stimulating regional development;
- stimulation and increasing effectiveness of local initiatives;
- diversification of methods;
- flexibility in implementation measures;
- moving from compensatory measures towards stimulatory measures;
- increasing financial support for regional policies;
- assessment of the compatibility of regional support policies with EU standards.

The notion of municipal property was first introduced in the 1989 Local Self-government Foundation Act and was developed further in the 1993 Local Government Organization Act. A municipal council establishes procedures for possession, use and disposal of municipal assets—properties—in its statutes. A local authority may sell property that was transferred to it by the state free of charge if such property ceases to be necessary or has become unsuitable for the performance of municipal functions. A local authority has the right to preempt the transfer of structures located within its administrative territory to legal persons if such structures were, in whole or in part, used by an educational, health or cultural institution for not less than one year prior to the transfer.

A local authority may establish municipal agencies, which are not legal persons, for the provision of services; be a shareholder in a commercial undertaking of significance to the local authority; form foundations; and be a member of a nonprofit association.

The following analysis concerning the main problems related to municipal budgets is based on a review by Veiko Tammearu, head of the municipal budgets department in the Ministry of Finance, and Tiit Kirss, deputy managing director of the Association of Estonian Cities.

1. Division of tasks between local authorities and the government

Though most of the tasks of local authorities are prescribed by law and are negotiated between the government and the joint committee of the associations of local authorities today, no further clarifications have been institutionalized. Many discrepancies exist between legislation and implementation, especially in areas concerning social welfare and health care.

2. Insufficient financing for and poor quality of social services

The European Charter of Local Self-government prescribes that local authorities have the right to command a sufficient share of the state budget to fulfill their responsibilities, the details of which are specified by legislation and the constitution. Insufficient financing makes it difficult for Estonian local authorities to guarantee the necessary quality of social services.

3. Instability of the state budget

Regulations specifying procedures for transferring appropriations and subsidies from the state budget to municipal budgets have constantly changed during recent years. Therefore, it has been very difficult for local authorities to plan their budgets with a long-term perspective.

4. Insufficient local revenue

Local revenue covers but a tiny proportion of municipal budgets. Therefore, local authorities can rarely influence their revenue, which depends mainly on the decisions of the central authorities.

In order to be able to exercise their statutory responsibilities—to solve local problems based on independent decision making—the share of local revenue in municipal budgets should be much greater; the simplest means to meet this objective would be to introduce the municipal income taxes referred to above.

5. *Disagreements with the Internal Revenue Service*

Local authorities lack sufficient control over personal and corporate income taxes, which should be paid to their budgets through the Internal Revenue Service. Local authorities, however, do not have access to lists of taxpayers. This complicates the planning and drafting of municipal budgets.

6. *Obscurity of the division of tasks and responsibilities between the state and local authorities*

Law determines the rights of local authorities in different areas, and several laws (Elementary and Secondary School Act, Social Welfare Act, Planning and Building Act, et cetera) regulate their tasks. In addition to statutory responsibilities, local authorities are charged with tasks that have not been assigned by legal measures to any other party. The Public Health Act, for example, prescribes that the state address only special medical services; this means that the provision of general health care is the task of local authorities, yet most hospitals are under central government administration. Considering the size of Estonian local authorities, they should set up alliances for the administration of hospitals (one for each district, in most cases), through which maintenance, construction and renovation expenses can be shared (currently, such costs in practice are covered by the Ministry of Social Affairs). Medical treatment expenses are paid through the system of state health insurance.

A similar problem exists with homes for the elderly and the handicapped, which are financed mostly by the Ministry of Social Affairs, even though the law stipulates that they should, as a rule, be owned by local authorities and financed from municipal budgets. Over the past few years, local authorities have established new, smaller nursing homes that are, indeed, financed from their budgets.

As for fire prevention, the tasks of different levels are not defined very clearly. In practice, some fire prevention units are affiliated with local authorities and others are managed by state agencies, yet all are financed from the state budget.

7. *Local investment*

Eleven laws assigning tasks to local authorities presume that they will absorb both current expenses and capital outlays for a given area. At the same time, negotiations between the joint committee of the associations of local authorities and the government have concluded that major investment funds for local authorities be appropriated from the state budget. Considering, however, the

paucity of funds available, local authorities have found it necessary to allocate other budgetary resources for major investments. The scarcity of funds could cause serious problems in the near future, as infrastructural restoration is expected to necessitate great investment.

A recommendation for the division of tasks is the transfer of shelter and sustenance support payments to local authorities, which would enable them to use the funds more effectively, since they may better assess local need for such assistance. Yet the transfer of support payments should be approached with caution, since the greatest need is usually in municipalities with the lowest income base, which could lead to difficulties in keeping payments proportionately equal nationwide.

8. *Division of tasks between different administrative levels*

The separation of intergovernmental responsibilities theoretically is based on various criteria. For example, services to residents should be offered at the administrative level closest to them, while keeping in mind the cost effectiveness of service provision through those administrative units that have both the finances and infrastructure to manage its delivery. The primary criterion in dividing tasks has been the desire to shift as many public services as possible from the state level to the local authorities, which are assumed to be the best level for assessing the actual needs of the population. In the process, conflict has arisen in translation from legislation to practice. On the one hand, as noted earlier, legislation assigns more tasks to local authorities than they actually perform. On the other hand, local authorities have allocated funds for tasks that fall under the state's jurisdiction, yet are not addressed appropriately. Law enforcement is one area in which this occurs.

From the point of view of economic effectiveness, Estonian local authorities are, as a rule, too small for each to offer secondary education and to build its own nursing homes. Thus, in many of the rural districts, one secondary school and one nursing home are maintained by several local authorities. Also to be considered here is the country's relatively low population density; districts with small populations can have territories of three thousand square kilometers on average. Some of the existing district hospitals and vocational schools obviously could serve an area even larger than the average district in Estonia.

For these reasons it would be difficult, even in the future, to turn over hospitals to local authorities and finance them according to the scheme outlined by legislation. The question is, of course, if the need for an agreement among fifteen to twenty local authorities within a district on how to share hospital maintenance and renovation costs can be achieved without budgetary stability. One possible solution would be to cover such costs from the state health insurance budget regardless of whether the hospital is state-owned or belongs to one or even several local authorities.

A significant principle in dividing tasks between different levels is the necessity to guarantee a consistent level of quality nationwide. For reasons mentioned earlier, shelter and sustenance

support payments to residents and teachers' salaries thus far have been financed from the state budget, though it would have been more beneficial to place such payments under municipal financing, where payroll expenses and the number of personnel could be regulated within local budget constraints. If the objective is to guarantee a uniform statewide service, the amount of shelter and sustenance support should be proportionate to the number of people needing it.

6. Next Steps in the Transition Process

The following steps are needed to modernize local government further:

- amend existing legislation;
- draft a new model or models for municipal management;
- improve municipal financial management, especially tying the local tax base to local economic activity;
- introduce changes in administrative-territorial division;
- solve organizational problems, such as improving cooperation among local authorities.

In principle, there are two alternatives for developing local government in Estonia: improvement of the present system or a decisive step towards a democratic but effective local government system at a new qualitative level. The first alternative involves the improvement of existing legislation; the second is described in the above principles for continuing administrative reform. The implementation of the latter, however, depends on the political will of the members of the State Assembly to be elected in March 2000.

The Local Government Organization Act is inconsistent due to numerous amendments and does not reflect the rapid changes of society. In spring 1996 a group of experts initiated work on a draft of the new Local Government Act, which was to be submitted to the government before the municipal elections in autumn 1996, but it was not completed in time. In spring 1997 the government established a committee to work out the principles for continuing administrative reform. At the initial stages, the committee proposed significant changes to the local government system; thus, it was no longer practical to continue work on the draft of the new Local Government Act. The principles were submitted to the government in early 1998 and on 16 February 1999 were approved. The draft law was not submitted to the State Assembly both because general elections will be held on 7 March 2000 and because the draft is nothing more than an attempt to correct the mistakes of the old system rather than taking qualitative steps towards a new model of local government. Work on the draft will resume after the general elections with the prospect of adoption and implementation after the 2002 municipal elections.

The concept of administrative reform envisages modernization of public administration, taking into account the recommendations of the European Commission's "Agenda 2000" concerning Estonia's possible accession to the European Union. The main principle of the concept is accelerating administrative-territorial reform and strengthening local authorities (dividing

responsibilities following the principle of subsidiary and improving public services and their accessibility). Resulting from the problems faced in the practical development and conceptual trends of administration, the status of the capital is clarified and state supervision over it is established. Concerning the county level, law prescribes only state governance. The issues of legal, economic and organizational cooperation among local authorities must be resolved at the regional level; unregulated development results in many inconsistencies.

The difference in the size of Estonian local authorities and in organization and development of political parties at the local level are impossible to eliminate even by administrative-territorial division. Thus, local authorities of different sizes implement various municipal management models. At the same time, it is important to realize that the development of local government in Europe during the post-World War II period has moved towards unification, and the centuries-old principle “*Stadtluft macht frei*” is no longer valid. Implementation of different management models requires extending not only the rights of certain local authorities but also their responsibilities.

According to the public administration development concept, three management models may be implemented:

- adopt direct democracy instead of representative democracy;
- entrust the council *in corpore* with the responsibilities of the collective executive body; or
- transfer the tasks of the collective executive body to the board of the council.

Direct democracy should be practiced in small local authorities. There are countries in Europe where such practice is guaranteed by the constitution—in small local authorities no council is elected, and important matters are decided by public meetings, referendums, et cetera.

In small rural municipalities or towns, the council could also fulfill the tasks of the municipal government. This would mean an extended workload for the council and more frequent meetings. The functional way of thinking opposes the implementation of this model, but at the local level the council should have the capacity to make decisions on all significant issues. Implementation of such a management model solves the problem of division of tasks at the local level arising from obscure legislation. Rural municipalities and towns establish a clear division of tasks in their statutes. According to the statutes of Tallinn, the city government fulfills the tasks intended for local authorities by law unless the city council decides otherwise. The statutes of Pärnu establish that all the tasks delegated to local government units by law that do not belong to the sole competence of the city council are fulfilled by the city government. Such a management model makes it possible to separate political and administrative management.

It would be practical for the council board to fulfill the tasks of political municipal government, especially in big towns where political parties are well organized at the local level. The Tallinn city council approved such an approach in spring 1999; the political watershed dividing the council and city government resulting from the Local Government Organization Act should

divide the city government and the municipal administration. Implementing such a management model also settles the issue of ensuring nonpolitical “municipal managers” as has been suggested in discussions and interviews. The Tallinn city council in its decision to support the idea of combining the offices of council chair and mayor rejected the notion of municipal manager. Clearly, it is necessary to clarify by law the tasks of municipal managers as well as procedures for their appointment, dismissal, et cetera.

The precondition for implementation of the above municipal management models is clarification of several related issues in order to ensure their functioning without discrepancies. First and foremost, it is necessary to decide if, in a small country like Estonia, it is practical to implement different management models at the local level. If the answer is affirmative, the next step should be to decide if all of the above models should be used. Related to this issue is that of municipal control. It is considered necessary to establish internal municipal audit offices similar to the State Audit Office; municipal audit should be obligatory.

The principles for continuing administrative reform prescribe reorganization of administrative-territorial division in two stages: at the first stage, before the next municipal elections in 2002, amalgamation is voluntary; during the second stage government agencies authorize amalgamation of inefficient local authorities. However, thorough research needs to be conducted before reorganization of the administrative-territorial division can take place.

Personal income tax should be divided into two parts: state and municipal. Municipal councils should be given the right to raise or lower the municipal personal income tax rate. Natural resources utilization tax should not be paid to municipal budgets, since the revenue collected does not depend on the activities of local authorities. If natural resources utilization taxes are paid to municipal budgets, they should be allocated as special purpose grants. A new local taxation concept and corresponding legislation are necessary. The associations of local authorities have initiated the establishment of a joint municipal credit union in order to negotiate international loans on more favorable terms, since local banks charge high interest.

The principles for continuing administrative reform propose maintaining the one-level local government system. Regional cooperation will remain an essential issue, even if the country’s administrative-territorial division is changed radically. Debates continue on whether or not new legislation should include provisions concerning local cooperation. If the answer is affirmative, then the question is to what extent law should regulate municipal cooperation. The issue is especially significant since regional unions play an important role in allocating state budget funds among local authorities. It is also unclear today if such unions are private or public institutions. This issue should have been settled in autumn 1989 by the Nonprofit Associations Act, but the State Assembly postponed this determination.

Another topical issue is creating and encouraging competition among local authorities. Today competition is evident in determining municipal salary rates, but other spheres would benefit

from the introduction of market agents. Regardless, there is room for improvement in the professional qualifications of local government officials and politicians. Estonia has a strong network of institutions providing training for local government staff, which was developed without central government guidance. Yet there are not enough trainers with sufficient theoretical and practical knowledge or locally compiled teaching materials. Still, the most serious problem is the shortage of municipal financial resources to support such training. Time and again, the issue has been raised that the training of local officials and politicians should be covered partially by allocations from the state budget. Yet when this topic is discussed, the civil service points to the statutory budgetary independence of local authorities.

In the early 1990s the obligatory soviet-type registration of one's place of residence was abolished in Estonia, but to date no laws regulating this area have been adopted. Many politicians and officials hold the opinion that it would violate citizens' constitutional rights and freedoms. Conversely, all residents need to pay personal income tax, exercise their right to vote and apply for social care and benefits if necessary.

Representatives of local authorities in Estonia should be given the opportunity to play a more significant part in the European integration process; today their contribution is practically nonexistent.

Recent Publications on Local Government in Estonia (in English)

Government Activity Plan for Joining the European Union. Tallinn, 1996.

Estonian Candidacy for Membership in the European Union: International Business Handbook. 1998–1999.

Congress of Local and Regional Authorities of Europe Working Group. "The European Charter of Local Self-government." Second questionnaire on the responsibilities of local authorities. Reply from Estonia by Sulev Mäeltsees, 21 September 1998.

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Annex 2.1

Major General Indicators

Size of territory	45,227 square kilometers		
Population density	32 inhabitants per square kilometer		
Population (1 January 1998)	1,453,844		
Urban	1,006,654 (69 percent)		
Rural	447,190 (31 percent)		
	1996	1997	1998
Pensioners (thousands)	374.3	370.5	366.9
Schoolchildren (thousands)			
Basic (forms 1–9)	184.2	184.8	185.8
Secondary (forms 10–12)	36.8	37.8	38.3
Major ethnic divisions			
Estonians	65.1 percent		
Russians	28.1 percent		
Ukrainians	2.5 percent		
Belarusians	1.5 percent		
Finns	0.9 percent		
Per capita GDP at current prices (by income approach)			
1995	EEK 40,705 (DEM 5,088)		
1996	EEK 52,446 (DEM 6,556)		
1997	EEK 64,913 (DEM 8,114)		
Real domestic product			
1991–92	14.2 percent		
1992–93	8.5 percent		
1993–94	2.7 percent		
1994–95	4.3 percent		
1995–96	4.0 percent		
1996–97	11.7 percent		
State budget and municipal budgets			
1996	EEK 18,070 million		
1997	EEK 18,474 million		
1998	EEK 22,329 million		

Unemployment rate (annual average)

1994	7.6 percent
1995	9.7 percent
1996	10.0 percent

Inflation Rate

The rate of inflation (equal to growth in consumer prices) has fallen significantly in recent years. The rate of inflation was 28.9 percent in 1995, 14.8 percent in 1996, 12.5 percent in 1997, and was estimated to be 6.5 percent in 1998. Several factors explain the high level of inflation: the liberalization of administered prices of public goods (central heating, electricity, housing and transport), the increase in international prices and the consumers' basket. The fixed exchange rate policy (the EEK is pegged to the DEM) has reduced the effects of input inflation, and Estonian monetary policy and conservative fiscal policy have contributed effectively to bringing inflation down. This policy will be pursued in the coming years. During the next three to four years the objective is to reduce the inflation level substantially.

State independence regained	20 August 1992
Independence Day	24 February (1918)
Constitution adopted by referendum	28 June 1992
Member of United Nations	17 September 1991
Member of Council of Europe	13 May 1993

Capital	Tallinn (population 415,299 as of 1 January 1998)
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National currency	<i>Eesti kroon</i> [EEK] 1 <i>kroon</i> = 100 <i>sentid</i>
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The kroon was issued on 20 June 1992 and is pegged to the German mark at the rate 1 DEM: 8 EEK.

Annex 2.2

Population, Settlements and Administrative Units

The average number of inhabitants in Estonian local authorities is 5,713. The average number of inhabitants in rural municipalities is 2,212, and in towns, 21,468. The average territory of a rural municipality is 215 square kilometers. The median population of Estonian local authorities is 2,000. Excluding the local authorities with the largest and the smallest number of inhabitants—Tallinn and Ruhnu, with 415,299 and 63 inhabitants respectively—the average number of inhabitants is 4,104. In 216 local authorities (85 percent of the total), the number of inhabitants is less than 5,000. The total population of these municipalities is 337,530—23 percent of the total population of the country.

Table 2A.1

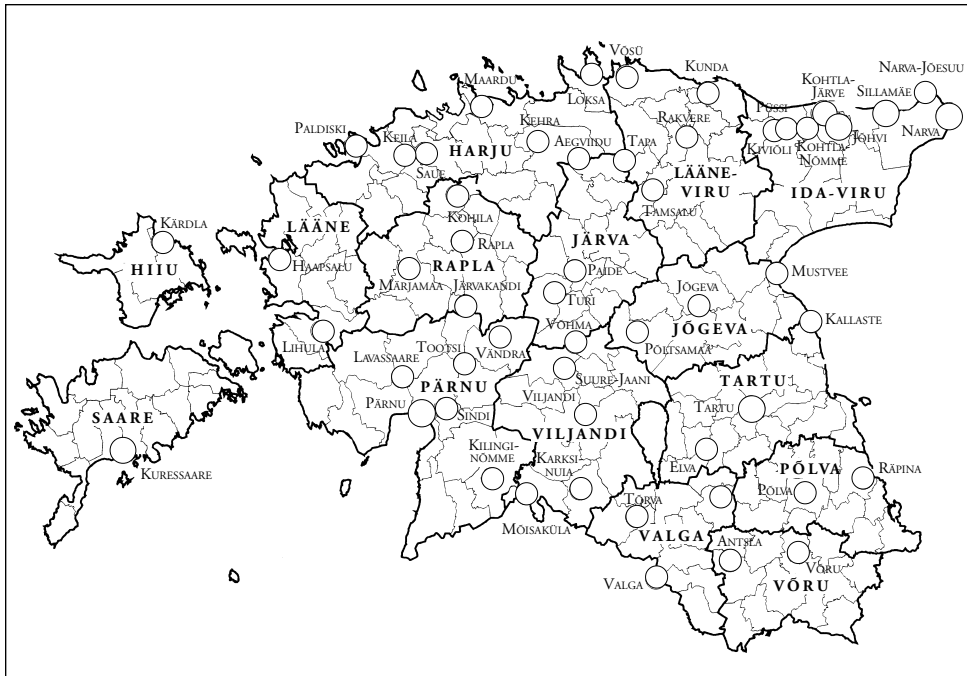
Number of Settlements by Population Size Categories in Estonia, 1 January 1998

Population Size Categories	Number of Settlements	%	Population	%
0–1,000	4,460	97.9	381,127	26.2
1,001–2,000	46	1.0	66,939	4.6
2,001–5,000	26	0.6	88,624	6.1
5,001–10,000	8	0.2	60,299	4.1
10,001–50,000	10	0.2	161,469	11.1
50,001–100,000	3	0.1	179,110	12.2
100,001–1,000,000	2	0.0	516,276	35.7
1,000,001+	—	—	—	—
Total	4,555	100.0	1,453,844	100.0

Table 2A.2
Number of Municipalities by Population Size Categories in Estonia, 1 January 1998

Population Size Categories	Number of Municipalities	%	Population	%
0–1,000	24	9.4	17,029	1.2
1,001–2,000	100	39.4	152,100	10.5
2,001–5,000	95	37.4	294,488	20.2
5,001–10,000	20	7.9	133,372	9.2
10,001–50,000	10	3.9	161,469	11.1
50,001–100,000	3	1.2	179,110	12.3
100,001–1,000,000	2	0.8	516,276	35.5
1,000,001+	—	—	—	—
Total	254	100.0	1,453,844	100.0

Figure 2A.1
Administrative Map of Estonia in 1998



Annex 2.3

Major Laws on Public Administration and Local Government

The following laws regulate public administration and local government in Estonia (presented in the order of adoption; date of adoption is given in brackets):

- Local Government Council Election Act (19 May 1993)
- Local Government Organization Act (2 June 1993, later amended on several occasions)
- Rural Municipality and Town Budgets Act (16 June 1993)
- Local (Municipal) Taxation Act (21 September 1994)
- Rural Municipality and Town Budgets and State Budget Correlation Act (25 October 1994)
- Territory of Estonia Administrative Division Act (22 February 1995)
- Public Service Act (came into force on 1 January 1996)
- The Government of the Republic Act (came into force on 1 January 1996)

Annex 2.4

Municipal Council Competence

The responsibilities delegated to municipal councils include:

1. approval and amendment of the municipal budget and approval of reports on the implementation thereof;
2. imposition of local taxes and amendment of tax rates;
3. establishment of procedures for granting local tax incentives paid to the municipal budget;
4. imposition of duties;
5. establishment of procedures for the granting of benefits;
6. establishment of procedures for possession, use and disposal of municipal assets;
7. approval, amendment and repeal of municipal development plans;
8. taking of loans and assumption of other proprietary obligations;
9. approval, amendment and repeal of the statutes of the local authority;
10. submission of requests or provision of opinions concerning the alteration of boundaries of the local authority or the change of name of an administrative unit and the settlement of proprietary or other disputes pertaining thereto;
11. formation and liquidation of municipal districts and determination of the competence and approval of the statutes thereof;
12. determination of the number of seats in the municipal council to be elected at the next municipal elections;
13. determination of the number, boundaries and common numeration of electoral districts; determination of the number of mandates in each electoral district; formation of the election committee and division committees and appointment of the chair and alternate members of such committees in its territory;
14. election of the chair and deputy chair(s) of the council;
15. election and release from office of the mayor;
16. confirmation of the appointment to and release from office of the municipal government and the members thereof;
17. expression of no confidence in the chair of the council, mayor, member of the municipal government or chair of a council committee;
18. determination of remuneration to members of the municipal government;

19. formation and liquidation of council committees, election of chairs thereto from among council members and approval of the membership of such committees;
20. determination of remuneration to the chair and his or her deputies;
21. determination of the amount and procedures for compensation to council members for expenses incurred in the performance of tasks assigned to them by the council and for loss of salary in their principal jobs;
22. establishment of procedures for representation of the local authority;
23. establishment of funds and foundations of the local authority;
24. election of lay judges;
25. election of a representative or representatives of the council to the electoral body of the president of the republic pursuant to the constitution;
26. approval, amendment or repeal of municipal building regulations;
27. submission of applications for the expropriation of property;
28. initiation, adoption and repeal of master plans;
29. acceptance of draft master plans and notification of the public thereof;
30. repeal of detailed plans.

Annex 2.5

Responsibilities of Administrative Tiers

Table 2A.3
Specific Functions of Local Government Units in Estonia

Functions	All Municipalities	Central Administration
I. EDUCATION		
1. Preschool	X	
2. Primary	X	
3. Secondary	X	
4. Technical		X
5. Higher Education		X
II. SOCIAL WELFARE		
1. Nurseries	X	
2. Kindergartens	X	
3. Welfare Homes	X	
4. Personal Services for the Elderly and Handicapped	X	
5. Special Services (for the homeless, families in crisis, etc.)	X	
6. Social Housing	X	
III. HEALTH SERVICES		
1. Primary Health Care	X	
2. Health Protection		X
3. Hospitals	X	X
4. Public Health	X	
IV. CULTURE, LEISURE, SPORTS		
1. Theaters	X	X
2. Museums	X	X
3. Libraries	X	X
4. Parks	X	
5. Sports, Leisure	X	X
6. Cultural Centers	X	X

Table 2A.3 (continued)
Specific Functions of Local Government Units in Estonia

Functions	All Municipalities	Central Administration
V. PUBLIC UTILITIES		
1. Water Supply	X	
2. Sewage	X	
3. Electricity		X
4. Gas		X
5. Central Heating	X	
VI. ENVIRONMENT, PUBLIC SANITATION		
1. Refuse Collection	X	
2. Refuse Disposal	X	
3. Street Cleaning	X	
4. Cemeteries	X	
5. Environmental Protection	X	X
VII. TRAFFIC, TRANSPORT		
1. Roads		X
2. Public Lighting	X	
3. Public Transport	X	
VIII. URBAN DEVELOPMENT		
1. Town Planning	X	
2. Regional/Spatial Planning	X	
3. Local Economic Development	X	
4. Tourism	X	X
IX. GENERAL ADMINISTRATION		
1. Authoritative Functions (licenses, etc.)		X
2. Other State Administrative Matters (electoral register, etc.)	X	X
3. Local Police		X
4. Fire Brigades		X
5. Civil Defense		X
6. Consumer Protection	X	X

Annex 2.6

Details of Local Functions

Note: This review is based on the analysis made by Märt Moll, consultant to the Association of Estonian Cities.

Tasks fulfilled by local authorities in Estonia:

1. *Education*

Under the Local Government Organization Act, rural municipalities and towns are responsible for maintaining preschool institutions (kindergartens), schools (forms 1–9), secondary schools (forms 10–12) and special interest schools (for example, music schools). About ten other laws and more than twenty decrees regulate the fields for which local authorities are responsible, including:

- a) seeing that the salaries of principals, their deputies and directors of studies are transferred to their accounts;
- b) organizing school transport;
- c) further training of teachers and other personnel;
- d) organizing methodological assistance to educational institutions;
- e) vocational counseling of children and youth;
- f) financing out-of-school activities within the local authority and the county;
- g) providing schools with special outfits, furniture, technical equipment and teaching materials;
- h) paying the salaries of teachers and other personnel;
- i) subsidizing public transport in the county within the limits of the reductions provided for schoolchildren;
- j) maintaining boarding schools and hostels;
- k) financing further training of other personnel.

2. *Cultural Work, Sports, Issues Related to Youth*

Under the Local Government Organization Act, rural municipalities and towns are responsible for the maintenance of libraries, community centers, museums, sports facilities, et cetera. About ten other laws and more than twenty decrees regulate the fields for which local authorities are responsible, including:

- a) purchasing teaching materials, exhibits, equipment;
- b) purchasing books;
- c) subsidizing athletes;
- d) organizing and financing cultural and sports events in their own rural municipality or town or at the county level together with other local authorities;

- e) keeping an account of memorials and other objects of historic preservation;
- f) following requirements for historic preservation;
- g) organizing extracurricular events;
- h) vocational counseling;
- i) organizing other public events.

Maintenance and management of museums at the central and regional levels is the responsibility of either the Ministry of Culture or the Ministry of Education. Local authorities can assume responsibility for maintaining and managing museums under special contract concluded with the responsible ministry, whereby maintenance and management costs are covered from the budget of the ministry in question. The state budget provides resources for the annual payroll of four people in the central library of each county.

3. *Health Care*

Local authorities are responsible for the maintenance of health care and other related institutions. The field is regulated by about ten other laws and decrees under which local authorities are responsible for applying for funding, financing, organizing and supervising the use of financial resources of health care institutions, including:

- a) paying the salaries of the municipal doctor and other personnel;
- b) applying for funding for special purposes, organizing and supervising the use of those resources;
- c) covering maintenance costs of health care centers;
- d) creating favorable conditions for family doctors' activities;
- e) organizing and financing further training of personnel;
- f) organizing and keeping an account of activities and reports;
- g) meeting health protection requirements;
- h) organizing medical care for people without state medical insurance;
- i) covering the medical treatment costs of individuals without state medical insurance.

When a state hospital is transferred to a municipality, the local authority in question also receives the necessary financial resources for its maintenance. The state budget resources allocated for covering the medical costs of people without state medical insurance are deposited in a special account of the Ministry of Social Affairs. The corresponding costs of local authorities are covered according to submitted invoices.

4. *Social Care*

Under the Local Government Organization Act, rural municipalities and towns are responsible for organizing social assistance and providing social services, organizing care of the elderly and maintaining shelters and homes for elderly people. The field is regulated by six other laws and close to twenty decrees, under which local authorities are responsible for:

- a) organizing and financing provision of food for the needy;

- b) applying for funding, organizing and supervising the use of allocated resources, including paying salaries of social workers, supervisors and other personnel;
- c) providing home services;
- d) ensuring guardianship of minors, the elderly and the handicapped;
- e) social counseling;
- f) providing flats for those needing social care;
- g) paying remuneration to families who care for individuals in need of assistance;
- h) calculating and paying cost of living allowances (subsistence allowances);
- i) allocating and paying additional social benefits;
- j) completing the documents necessary for an individual to receive his or her pension;
- k) providing training for the unemployed and people seeking employment;
- l) working out a development plan for the local social care system;
- m) keeping the local social register;
- n) organizing relief work.

5. *Technical Areas*

Technical areas are regulated, in addition to the Local Government Organization Act, by almost twenty other laws and thirty decrees, under which local authorities are responsible for:

- a) housing and public services by
 - 1) planning, guiding, organizing and financing these areas;
 - 2) organizing maintenance of housing and construction of blocks of flats;
 - 3) establishing or choosing companies to fulfill the above tasks;
 - 4) issuing licenses for such activities, providing services, et cetera;
 - 5) organizing, coordinating and financing surveys;
 - 6) organizing street lighting and the lighting of public buildings;
- b) public transport by
 - 1) organizing school transport, including financing school bus services and subsidizing county public transport within the limits of reductions provided for schoolchildren;
 - 2) organizing public bus lines;
 - 3) choosing transport companies and issuing relevant licenses;
 - 4) confirming local bus fares and subsidizing local transport companies;
 - 5) participating in the organization and financing of public transport in the county;
- c) maintenance of public areas, including municipal streets and roads, by
 - 1) creating municipal gardens and parks and other green areas;
 - 2) organizing the maintenance of municipal streets, roads, squares and green areas in summer and winter;
 - 3) planning and maintaining cemeteries;
 - 4) planning and administering streets, squares and roads, and maintaining and constructing municipal roads;
 - 5) applying for funding for the maintenance and construction of state roads;

- 6) planning and organizing traffic;
 - 7) setting up traffic signs, traffic lights and fences and marking municipal streets and roads;
 - 8) organizing parking;
 - 9) supervising the use of municipal roads;
- d) territorial planning, construction and construction supervision, as well as working out municipal development plans by
- 1) drawing up a general plan;
 - 2) drawing up a detailed plan;
 - 3) issuing construction permits;
 - 4) organizing construction work;
 - 5) organizing construction supervision;
 - 6) organizing the examination of newly constructed buildings and facilities;
 - 7) organizing public tenders for design and construction work;
 - 8) working out and improving municipal development plans;
 - 9) together with other local authorities, confirming county plans and development plans.

6. *Emergency Services, Civil and National Defense, Public Order*

These areas are regulated, in addition to the Local Government Organization Act, by thirty decrees under which local authorities are responsible for:

- a) rescuing people and property and protecting the environment in the case of fire, natural and other catastrophes, explosions, traffic and other accidents;
- b) organizing supervision of fire services;
- c) providing emergency services;
- d) concluding contracts with emergency units of companies, associations of voluntary firefighters or state emergency institutions for providing emergency services;
- e) additional financing of emergency services under concluded contracts;
- f) adopting public order regulations;
- g) supervising public order;
- h) organizing civil defense;
- i) organizing civil defense training, establishing and managing a municipal civil defense fund;
- j) handling issues related to mobilization of the army and supplies during a state of emergency or a war.

7. *Utilization of Nature, Natural Resources, Water, Air, Soil Improvement, Environmental Protection and Waste Management*

These areas are regulated, in addition to the Local Government Organization Act, by more than sixty decrees under which local authorities are responsible for:

- a) organizing utilization of natural resources;
- b) concluding contracts on utilization of natural resources;

- c) organizing environmental valuation of facilities by experts;
- d) renovating and maintaining municipal soil improvement facilities;
- e) organizing utilization of municipal natural resources;
- f) organizing utilization of natural resources managed by the municipality;
- g) organizing management of municipal forests;
- h) organizing waste management;
- i) organizing utilization of bodies of water in the territory of the local authority;
- j) land management;
- k) organizing land valuation.

8. *Fulfilling the Tasks Delegated to Municipalities by the State, Including Implementing Reforms*

This area is regulated by more than ninety decrees under which local authorities are responsible for:

- a) handling applications concerning restoration of expropriated property;
- b) estimating the value of the above property, organizing restoration and compensation if property is not restored;
- c) handling privatization of apartments;
- d) handling applications concerning purchase and rent of land and placement of plots of land;
- e) handling procedures concerning determination of estimated taxable value of land;
- f) applying for funding for special purposes for the above areas, organizing and supervising the use of those resources;
- g) organizing and financing training of personnel;
- h) gathering data for property and land reform-related registers;
- i) organizing an account of the activities of the area;
- j) gathering and forwarding data to various state registers;
- k) registering births, deaths, marriages and divorces;
- l) keeping an account of men to be called into military service and reserves;
- m) gathering and submitting data for various statistical reports.

