

**MULTILEVEL GOVERNANCE**  
The Dynamics of EU Cohesion Policy  
The Preparation for EU Structural Funds in Estonia

**OEUE Phase II**  
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## **ORGANISING FOR EU ENLARGEMENT:**

### *Challenge for the Member States and the Candidate Countries*

The Dublin European Institute, University College Dublin,<sup>1</sup> was awarded, in 2001, a research contract under the EU's Fifth Framework Programme<sup>2</sup> to carry out a comparative study of the impact of the EU on the structures and processes of public policy in six small countries: **Ireland, Greece, Finland, Estonia, Hungary** and **Slovenia**. The Project's partnership, under the direction of Professor Brigid Laffan, Dublin European Institute, University College Dublin<sup>3</sup>, includes: Professor Dr. Wolfgang Drechsler, University of Tartu; Professor Teija Tiilkainen, University of Helsinki; Professor Calliope Spanou, University of Athens; Professor Attila Ágh, Budapest University of Economic Sciences and Public Administration; and Professor Danica Fink-Hafner, University of Ljubljana.

The aim of the research project was to deepen our understanding of the processes of Europeanisation in a number of the existing member states and some of the candidate states.

The research project encompassed the following three objectives:

- The conduct of research which offers immediate policy relevance to key stakeholders in the enlarging Union;
- The conduct comparative, theoretical and empirical research on the management of EU public policy making in three existing member states – Ireland, Greece and Finland – and three candidate states – Estonia, Hungary and Slovenia;
- The shedding light on the capacity of smaller states to adjust and to adapt to the increasing demands of Europeanisation on their systems of public policy-making and thus to identify the barriers to effective, efficient and accountable management of EU business.

### **Research Strategy**

The research design consisted of two phases and within each phase, two levels of analysis. **Phase I** analysed the management of EU business at the macro level of the core executive and was complemented by a micro case study of a recent policy negotiation using decision analysis. **Phase II** of the research broadened the analytical focus to encompass other levels of government – the EU and sub-state – through multi-levelled governance. Here attention was centred upon the emergence of policy networks and the interaction between public actors and the wider civil society in specific, discrete policy sectors.

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<sup>1</sup> National University of Ireland, Dublin (University College Dublin).

<sup>2</sup> European Commission, Community Research Fifth Framework Programme (Socio-Economic Research).

<sup>3</sup> This project forms part of the Governance Research Programme, Institute for the Study of Social Change, University College Dublin, [www.ucd.ie/issc/](http://www.ucd.ie/issc/) and [www.ucd.ie/govern/intex.htm](http://www.ucd.ie/govern/intex.htm).

**Methodology**

The study employed two specific methodologies: historical institutionalism and rational institutionalism in a new and innovative fashion. The use of combined perspectives provided a theoretically innovative and new approach to the study of the Europeanisation process. Both approaches could be used as they were applied to different elements of the empirical research.

**Academic and Policy Implications**

This study's findings provide insight into the manner in which diverse state traditions, institutions and political and administrative cultures influence national adaptation to EU governance and how the interface between national policy processes and the Brussels arena is managed. It is expected that these findings will assist those making and managing policy, thus facilitating adjustments to the changing European Union while also contributing to the growing academic debate on Europeanisation.

At various stages during the course of this project the research findings and analysis were presented to a range of stakeholders and academics to facilitate feedback and enhance the analytical process. Further details about the Organising for EU Enlargement (OEUE) project are available on the project web site [www.oeue.net](http://www.oeue.net), along with i) the Project Report, ii) the OEUE Occasional Papers and iii) a selection of papers by the research partners which draw on various aspects their project research.

## **AUTHORS**

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Leno Saarniit is a research fellow with the Department of Public Administration, University of Tartu. Her publications address the application and use of public service codes of ethics with particular reference to Estonia. Leno Saarniit's research interests include public ethics and environmental policy.

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Kadri Kallas is a doctoral student and research fellow with the Department of Public Administration, University of Tartu. Her MA thesis addressed Technological Change and Institutional Development of Social Policy after World War II. Comparative political economy, public policy and state philosophy are among Kadri Kallas' research interests.



## **ABSTRACT**

The preparations for the implementation of the EU structural funds has been one of the largest joint projects of Estonian government in terms of officials and the different functions involved. This has been a further example of accession to the EU triggering changes and initiatives in the development of Estonia's public administration that might have not occurred otherwise or at least not so fast. Elaboration of the National Development Plan had to take place under a set of principles not yet rooted in the national policy elaboration process. Participation of social partners in the elaboration of the NDP has not been a challenge for the government but maybe even more so for the partners themselves.



## **INTRODUCTION**

The aim of current paper is to analyse the multileveled governance of EU policies in Estonia. More specifically, the paper concentrates on how Estonia has responded to and managed European pre-accession policies in the area of regional policy, with an emphasis on institution building from 1991 up to today. It will thus be a discussion of how Europe hits policymaking and implementation at home (Laffan 2003: 3).

Theoretical approach developed by Héritier *et.al* (2001, cited from Laffan 2003), which is adopted in this paper on multilevel governance, draws on several assumptions. The first being that the need for policy adjustments in member states depends on the scope of variances in the general EU policy and respective policy in particular member state. Secondly, member states will experience a considerable pressure to adjust to the European policies, if there are large differences in the policies. Thirdly, Knill (2001) has pointed to the administrative and reform capacity as the essential factors regarding whether or not European policy is implemented in a member state (cited from Laffan 2003: 2).

As Kungla has concluded, little regard was given to candidate countries' preferences or objections (2002; 17) from the part of Commission in elaboration of accession partnerships that served as umbrella documents for planning and financing pre-accession adjustment activities. This corresponds to the Brusis' hypothesis that whereas accession requirements set higher standards than those of the *acquis*, the candidate states experience a stronger pressure of Europeanisation than member states (2002: 535).

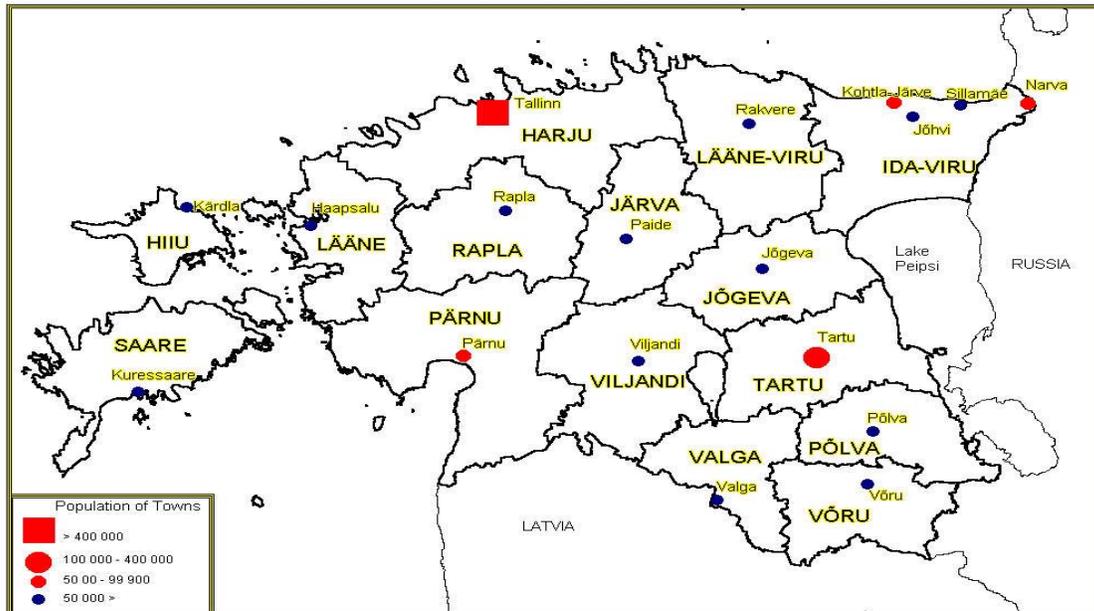
The paper is organised as follows. First part introduces local and regional government system in Estonia. Next part summarises the systems of implementing pre-accession aid. We will then proceed with the discussion of the preparation process for applying structural funds beginning with 2004. Final part of the paper analyses political aspects of the process, administrative ability of the country to implement EU regional policies and democracy-efficiency nexus. Research for this paper consisted in extensive documentary analysis and consultative interviews with central government officials.

## **TERRITORIAL ORGANISATION OF THE STATE**

Estonian constitution adopted by the popular vote in 1992 foresees a one-level local government system with rural municipalities or towns. Fifteen counties, formerly regional level local government units, were transformed to central government's administrative units at places (Kungla 1999a: 112-3). Municipalities became the only units in Estonia that are independent bodies of self-government

and have directly elected councils. Currently, there are 241 local government units in Estonia, 39 towns and 202 rural units. Ten percent of municipalities have a population less than 1000 residents, 40 % between 1000 and 2000, and 20 % between 2000 and 3000 residents (Ulst 2000: 10).

**Figure 1** Counties and major towns in Estonia



According to the constitution, local governments have to resolve and manage “all local issues” (Constitution of the Republic of Estonia, art. 154). Local Government Organisation Act also provides for that municipalities have the right to take initiative and resolve all other local questions that are not imposed by law on any other body as well as carry out tasks that have been delegated to them by law. However, in latter case, central government has also to provide corresponding finances.

**Table 1** Tasks of Local Government in Estonia

Field	Tasks
Education	construction, operation and maintenance of primary and secondary schools, kindergartens and art schools, sport facilities, houses of culture and community centres; vocational, hobby and sport schools
Health	capital investment and maintenance of municipal hospitals and polyclinics
Roads	Maintenance of local networks and town streets
Public transport	organisation and maintenance of public transport within the municipality
Fire protection	fire protection and emergency services
Libraries, museums	Maintenance of local libraries, cultural centres and museums
Water and sewage	provision, operation and capital expenditures
Sanitation	garbage collection and street cleaning
Housing	housing maintenance and communal services
Public utilities	district heating
Social welfare	care for the elderly, home visits and other social services; youth work; maintenance of shelters
Environment	local environment issues, physical planning

Source: Kungla 1999: 7; Local Government Organisation Act, art. 6.

After formal abolishment of regional level local government units, municipalities have been provided the right to form other units of local governments (Constitution of the Republic of Estonia, art. 155). They have widely used county level associations as a form of cooperation in order to handle questions and problems, which require common action or joint resources. Remarkably, the legal status of the local government associations is non-profit organisation (Siseministerium 2001).

As regards the balance of tasks and finances of local governments in Estonia, Drechsler (1999a) has noted "the classic central-governmental pattern to burden the municipalities with too many tasks for their tax base and then to say that they cannot finance them is also the tactic in Estonia." Particularly, the argument of financial incapability has been used to justify the plans for forced merger of local government units (*ibid.*, see also Kungla 2002: 21) .

Table 2 provides an overview of local governments' revenue sources and shares in total budgets. Municipalities receive a fixed 56 % share of personal income tax and 100 % of land tax collected. They have the right to levy local taxes from a closed list of 9 items provided by the law. However, only 0,6 % of total tax income was collected from local taxes in 2001 (Reiljan *et.al* 2002: 17), since municipalities' initiative to levy local taxes is reduced by the fact that state transfers are negatively related to tax incomes (*ibid.* 18).

**Table 2** Local government revenue sources and their shares in budget

<b>Revenue source</b>	<b>Share in budget in 2002</b>
Independent income from local taxes, fees, charges and property management	18 %
Incomes from statutory (shared) taxes	45 %
Transfers from state budget (earmarked or not)	32 %
Loans	5 %

*Source:* Kungla 1999: 117, Reiljan *et al* 2002: 15-17 and 51, Ulst 2000, see also Local Taxes Act.

The amount and division of lump-sum transfers (called levelling fund) and earmarked transfers from the state budget to municipalities which is their second-important revenue is decided upon each year independently during negotiations between the central government and a delegation of the representatives of local governments' unions (Kungla 1999a: 113). Only 10 % of local governments do not qualify for statutory lump-sum transfers.

In the end, several tasks delegated to local governments, such as maintenance of local roads, implementation of unemployment insurance, and paying of teachers' salaries have still no or insufficient financial coverage from the central government (Reiljan *et.al* 2002, p. 6). While lacking a stable legal income basis, it falls difficult for local governments to develop strategic (investment) plans, too.

Estonian county governments resemble most to the traditional French prefects (Drechsler 1999: 110). Counties are headed by county governors. County governments' main task is to represent the interests of the state in the county and care for its comprehensive and balanced development (Government of the Republic Act). Second part of their functions comprises counselling of local governments and supervision their legal acts.

In current governmental organisation, county governments do not possess over significant financial means to achieve "balanced development of the county" which is one of their main tasks. In the 2003 state budget, allocations to county governments' budgets were a two percent share from the state budget. Also, county governments' status is highly controversial since though they have to represent state's interest in the counties and exercise legal supervision over the legal acts of municipalities, they also in fact represent local governments' interests at the government.

According to Kungla (2002: 15), introduction of one-tier local government system in early 1990s testified to the high priority and importance given to the idea of self-determination and democracy at the lowest level of organisation of common life (see also Schöber 1999). As Drechsler has

repeatedly pointed out (1999, 2000, 2002), this principle is threatened since local government reform proposals have occurred in mid 1990s. Debates started as if local self-governments with their present size were not capable of carrying out the tasks relied with them, were financially inefficient and, therefore, should merge or be merged into larger units (see, e.g., Siseministerium 2001, p. 3). Proposals for local government reforms including rearrangement of county borders were presented both by ministers as well as individual politicians, the issue was extensively discussed in the press. In 1995, a clause was added to Administrative-Territorial Organisation Act that made the voluntary merger of municipalities possible. Later on, efforts were taken to encourage voluntary merger of local governments with granting them financial assistance (Reiljan *et.al* 2002: 10).

Drechsler has argued that the reasons for planned enforced merger of municipalities could be found in the central government's genuine conviction that "citizens and especially politicians on the local level are not capable of taking care of their own business to an acceptable degree" (Drechsler 1999a). However, this argumentation may also reveal conscious steps towards centralisation of the government system as it has been a trend – quite the opposite to the Western Europe – in Central and Eastern Europe (Bailey and de Propris 2000: 10).

Two out of three Estonian recent governments have declared the administrative reform to be one of their primary goals. After involvement of county governments and then local governments into elaboration of reform plans, the coalition government of Reform Party, **Pro Patria** and Moderates drafted a government order in June 2001 that foresaw establishment of 108 local government units instead of existing 247. The reform was, however, never carried out since the opposition from the side of local governments, certain political parties and county governments was rather strong. Out of 225 municipalities who were proposed to merge other local government units 52 % disagreed and 30 % agreed conditionally. The next coalition agreement, signed between the Reform Party and the Centre Party in January 2002, declared the administrative territorial reform plan to be failed and expressed its support to voluntary merger of local governments.

EU membership is clearly used as an argument to justify the desire for larger local government units (Drechsler 1999). In the explanation letter to the government order, the NPAA was cited to argue for larger local government units' enhanced capacity of absorption of EU structural funds. Using "Europe of regions" arguments in domestic policymaking is a very example of how Europe hits home and how politicians turn to EU policies and political directions to render strength to their local political arguing. Hix and Goetz (2001: 12) mark this as exit-option arguing.

Brusis (2002) has made an attempt to identify the preferred ways of organising regional administration in candidate countries and has admitted that Commission has not explicitly expressed its preferences. However, he concludes that Commission's remarks reveal its primary

support to democratically elected regional self-government units with rather strong financial autonomy (ibid. 542). Today, there are no regional level self-governments in Estonia with elected councils. Even if the country is too small for a two-tier local government system, the absence of a regional level democratic government poses problems especially because of the lack of a balance between central and local governments' power (Drechsler 2000, see also Bailey and de Propriis 2002: 12).

Introduction of regional level local governments with elected councils was considered in the last plan of administrative reform proposed by the new minister responsible for regional affairs in the summer 2003. However, in autumn 2003, the idea was discarded. It was instead declared that county level self-government should be strengthened with empowering local government county level associations and making membership therein mandatory.

The stumbling of the reform of territorial administration clearly reveals that the central government is not interested in having strong regional authorities (Drechsler 1999a).

## **LEGACY OF PRE-ACCESSION AID**

### **Pre-accession aid until 1998**

Until spring 1998, PHARE<sup>4</sup> was managed under the Centralised Implementation System (CIS) that was operated by the Commission Services at Headquarters. There was no central body in Estonian central government structure that had been *directly* responsible for implementation of the assistance. On the EU side, the task of administration of multi-country programmes as well as of community initiatives was also divided between different structural units of the Commission. This is also the reason why no comprehensive information is available as to the local management systems of EU multi-country and horizontal programmes and the applicant's ability to absorb the funds committed. OMAS reports on a foreign adviser's unsuccessful attempts to collect standardised donor information and the failure to establish a foreign assistance database in the Ministry of Finance in 1996 (OMAS Consortium 1999, p. 6). Some of these programmes – but not all – were appointed local contact (partially, programme implementing) units either in a ministry, state agency, foundation or else that intermediated contacts between the applicant and the respective unit responsible for the programme at the Commission. (See box 1 for Estonian time-line engagement with the EU and box 2 for an example of Estonian participation on pre-accession programs.)

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<sup>4</sup> A French acronym for Plan for Co-ordinated Aid to Poland and Hungary, established by the Council regulation no 3096/1989.

**Box 1** Time-line of engagement of Estonia with the EU regarding pre-accession

1993	EU launches decision regarding enlargement into Central and Eastern Europe, Copenhagen criteria approved.
December 1993	Working group established by the Estonian government to study the political, economic, social, legal, financial and other issues relating to Estonia's possible accession to the EU
July 1994	- Free Trade Agreement concluded between the EU and Estonia
June 1995	- Europe Agreement or Association Agreement signed between the EU and Estonia
November 1995	- Estonia officially applies for the EU membership
March 1998	- Accession conference between Estonia and EU opened in Brussel
December 2002	- Accession negotiations concluded in Copenhagen
April 2003	- Accession Treaty signed in Athens
September 2003	- Popular vote in Estonia on joining the EU

*Source: Kattel et al 2003*

**Box 2** Frameworks and programs of PHARE assistance to Estonia

PHARE National Plan

Multi-country (horizontal) programmes SIGMA, LSIF (1998-1999), Consensus III (1999), Access 2000, TAIEX

Baltic-Sea region cross 1995-2002 border co-operation

Community initiatives 5<sup>th</sup> Framework Programme Leonardo da Vinci, Raphael, Socrates, Youth for Europe, Drug Dependence and Health Promotion

*Source: Rahandusministeerium 2003:18-20; see also Rahandusministeerium 1999: 3-6, OMAS Consortium 2001: 5.*

Nevertheless, from 1991 to 1992 formal co-ordination of EU assistance to Estonia was the duty of the Department for Foreign Economic Relations in the Ministry of Economic Affairs. In late 1992, Foreign Assistance Group was created in the Department for Foreign Loans and Assistance in the Ministry of Finance. In 1994, it was renamed the Assistance Co-ordination Unit (ACU). ACU has been responsible for the programming and annual planning of PHARE assistance and the co-ordination of PHARE and G-24 support (OMAS Consortium 1999: 4).

However, the role and position of the ACU have been rather unclear during the centralised implementation of the EU assistance. As OMAS Consortium has pointed in its PHARE evaluation report, in fact the unit had no legal base, did not appear on any of the Ministry of Finance's structure schemes (OMAS Consortium 2001, p. 6) and was not commensurate with the level and nature of the decisions that had to be made for appropriate and transparent planning (OMAS Consortium 1999: 7 footnote 18).

### **Implementation of pre-accession aid after 1998**

In 1997, Estonian government started to set up local institutions for the adoption of the Extended Decentralised Implementation System (EDIS) – the central piece of PHARE administration reform in 1998 and the main implementation mechanism of ISPA<sup>5</sup> and SAPARD<sup>67</sup>.

Estonian system of EU aid implementation has since then by large three levels, a clear cut differentiation is though not reasonable: these are line ministries, Ministry of Finance and the Office of European Integration at the State Chancellery. The main responsibility for the coordination, applying for, and managing the use, monitoring and evaluation of external assistance was laid with the Ministry of Finance and more precisely its Foreign Financing Department (FFD). Minister of Finance had been the national aid co-ordinator since 1992 (OMAS Consortium 2001, p. 6). In spring 1998, the Central Financing and Contracting Unit (CFCU) became finally operative whereas preparations for its establishment were started already in 1994.

Further institutional units required by the decentralised implementation system were – as recommended by the Commission (1998) - also located at the Ministry of Finance. These comprise the National Fund, Financial Control Department and the Supervision Bureau. A Joint Monitoring Committee, four Sub-Committees and nine Sector Monitoring Sub-Committees exercise the monitoring task of PHARE programmes. The Central Co-ordination and Programming Unit (CCPU) was established in the FFD to co-ordinate the programming of EU assistance in line-ministries and

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<sup>5</sup> ISPA is the acronym for The Instrument for Structural Policies for Pre-Accession, established by the Council regulation no 1267/1999.

<sup>7</sup> SAPARD is the acronym for Special Accession Programme for Agriculture and Rural Development, established by the Council regulation no 1268/1999.

to elaborate national planning documents of EU financial aid. A description of the PHARE programming under EDIS is provided in the box 3 and the formal structure in appendix 1. The first stage of assistance implementation system comprises line-ministries. Whereas CCPU is in charge of technical revision and collection of PHARE project proposals, OEI from the Estonian part and the EC Delegation in Estonia from the EU part do the ex-ante evaluation of the project proposals.

Since 1999, Estonia was also entitled to receive aid from ISPA and SAPARD. ISPA implementation system (see appendix 2) positions closer to PHARE than to SAPARD (see appendix 3) regarding its scope of decentralisation and application of the new rules of administering structural funds. Whereas the latter is administered fully according to the principles of EDIS, European Commission still exercises ex-ante control over ISPA projects' tender dossiers, final evaluation reports of tenders, and confirms supply contracts.

**Box 3** Description of PHARE programming in 2001

April 2000	Foreign Financing Department at Ministry of Finance informs the line-ministries on the results of proposals' assessment
May	Line-ministries submit to the FFD the <i>logframes</i> matrices of project applications (in English)
June	Work groups (line-ministries, Ministry of Finance, OEI, EC Delegation) analyse <i>logframes</i> of PHARE 2001 project applications
July	Line-ministries submit project descriptions ( <i>fishes</i> ) with appendices to the FFD (in English) Discussion of PHARE 2001 project proposals in the Subcommittee of the Committee of Senior Civil Servants Confirmation of the main and reserve short list of PHARE 2001 project proposals (both for 2001 and 2002) in the Ministers' Committee (**)
September	FFD, OEI and EC Delegation control the technical quality of the projects and give to line-ministries their comments
October	FFD submits PHARE 2001 projects to the Commission
November	The Commission gives its comments to the projects
January 2001	Ministries continue specifying their needs for PHARE 2002-2003 external assistance PHARE 2001 projects in the PHARE Management Committee
March	Financing Memorandum signed by the Minister of Finance and the Head of the EC Delegation in Estonia
September	Twinning covenants approved
October-	PAA-s start their activities

\*\* PHARE Programme Ministers'committee, established with Government order no 279 from 4 April 2000, RTL 2000, 43, 629.

Source: Ministry of Finance, Foreign Financing Department, 2003.

SAPARD is the first EU assistance instrument in Estonia that has been fully administered based on the rules of the programming period of 2000-2006 (see appendix 3). A completely new, independent institution Agricultural Registers and Information Board (ARIB) was established under the government area of the Ministry of Agriculture in July 2000 with a view to administer the domestic as well as EU financial assistance to farmers and rural areas. ARIB was the first

implementing agency in the accession countries, whose management and financial control systems were declared to meet the minimum criteria set out in Council's regulation 1266/1999.

**Allocated funds and success achieved**

Table 3 provides an overview of the structural funds' assistance provided to Estonia from 1991 to 2001 and box 4 describes the results of a case study on the use of the assistance. The trend brought out by Bailey and De Propris (2002) that those regions who experience the highest need

#### **Box 4 Case study: Jõhvi Business Incubation Centre**

*Pilot Project Nr 2 of the PHARE Special Preparatory Program for Structural Funds of European Union for Estonia (SPP): Development of Regional Co-operation Network for Innovative Entrepreneurship (1999-2001).*

The aim of the pilot project was to establish a business incubation centre (BIC) in Ida-Viru county, North-East Estonia. The region is the main site of the main mineral resource of Estonia – oil-shale, and hosts most of Estonia’s energetic volumes. Due to major industrial changes, the region is characterised by highest unemployment rates (18 %) in the country and a low level of entrepreneurship and activity of small and medium size enterprises (SME) cannot undo the loss of jobs in big industries. The region has the highest ratio of Russian speaking population.

Implementing agency of the project was Tartu Science Park, whereas the project engaged partners from the Estonian Ministry of Economic Affairs, Estonian Regional Development Agency, Estonian Technology Agency, Ida-Viru County Government, Jõhvi town Municipality and Ida-Viru Employment Agency.

The goals of the project was to create an effective information and co-operation network for transferring both the innovation support experience of Tartu Science and advanced research and development (R&D) potential of Estonian universities to the business and educational community of Ida-Virumaa, in order to support the development of high-technology entrepreneurship in this region. Tenants of the BIC had to be potential and beginning entrepreneurs and interest groups, who aim at improving entrepreneurship.

Project implementation and success was hindered by several problems. First of all, an organisational support network of central, regional and local actors was lacking for the smooth functioning of the BIC. Lack of competent and motivated people in the target area did not enable to address this issue effectively enough.

Next challenge was to lay a basis for a sustainable development of the BIC which called for further refinements in its financial projections and creating of long-term commitment from the side of all partners of the project. An agreement was reached that Enterprise of Estonia would take over the property and operation of BIC after the termination of the project. Also, Johvi Town Government supported the center financially. The centre was officially opened in April 2001. Starting from May 2001, JBIC has been operated and financed by Enterprise Estonia Ida-Viru Agency.

Analyses show that the creation of the Johvi BIC consisted mainly in creating a physical space. BIC was launched in the premises and with infrastructure of regionally outstanding quality but the actual tool, an organisation with experience, which should have started working toward the goals set was missing. The first tenant admission rounds and training cycle indicated the interest and will of local public partners to use the incubation instrument in the best possible way but also a noticeable tepidity from the side of local entrepreneurs towards becoming an incumbent. National-level institutions developed doubts in the market capacity of the BIC, and in administrative capability of its staff to guarantee it the sustainability.

These controversies were, at least partially, connected with the lack of common vision what the incubation really is about, insufficient specifically targeted financial support measures for the start-up companies as well as difficulties in choosing the optimum marketing and PR tools for the Johvi BIC.

Source: [www.park.tartu.ee/greenpaper](http://www.park.tartu.ee/greenpaper), Kompus-van der Hoeven et al 2003.

of regional assistance are usually able to benefit the least, holds for Estonia, as well. Only a third part of the EU pre-structural funds' aid is used in economically and socially least developed regions. Furthermore, the share of the problem area of Ida-Viru, Jõgeva, Tartu, Võru, Põlva and Valga counties has been a thin 16 % (NDP 2001-2004: 100). The share of South- and North-Eastern counties and islands in PHARE CBC programmes has been only 35 %.

**Table 3** Overview of the funds allocated to Estonia by the European Commission in 1991-2001 (million EUR)

<b>Applicant Ministry</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001**</b>	<b>Total</b>
Ministry of Economic Affairs	0,47	3,93	2,5	6	3	9,5	2,5	0,75	2	5,45	5,2688	36,1
Ministry of Justice				0,6		1		1,49		0,684	0,6	3,774
Ministry of Social Affairs			1,5		2,9		2		3,17	2,578	1,461	12,148
Ministry of Education		1	2,4	5	3,2	4	4,9	2,8		6,14	2,92	29,44
Ministry of Finance	0,9	3,7	2,45	5,1	2,4	3,5	5,3	2,66	1,5	3,1	2,584	30,61
Ministry of Internal Affairs				3	3,3	5	5,1	0,138	3,5	1,39	5,281	21,428
Ministry of Transport and Communications		0,3	0,3		1,5	2	5	9,32	1,05			19,47
Ministry of Environment		3,25	0,65	2,5	3,5	1	3,3	6,502	14,05	7,871	0,8	42,623
Ministry of Foreign Affairs					0,8							0,8
Ministry of Agriculture	3,2	0,35	0,9	0,3	2,4	3	2	4,25		1,98	6,545	18,38
State Chancellery			1,3		1	2	5				1,3	9,3
Project Preparation Facility (PPF)									2			
Participation in the Community programmes								0,59	0,8	3,38	2,585	4,773
ACCESS										0,9		0,9
<b>PHARE TOTAL</b>	<b>4,57</b>	<b>12,53</b>	<b>12</b>	<b>22,5</b>	<b>24</b>	<b>31</b>	<b>35,1</b>	<b>28,5</b>	<b>28,07</b>	<b>33,476</b>	<b>29,345</b>	<b>261,091</b>
<b>ISPA</b>										<b>24,635</b>	<b>40,452</b>	<b>65,087</b>
<b>SAPARD</b>											<b>12,345</b>	<b>12,345</b>
<b>Total funds allocated by the Commission</b>										<b>58,11</b>	<b>82,143</b>	<b>338,523</b>

## **PREPARATION FOR THE STRUCTURAL FUNDS**

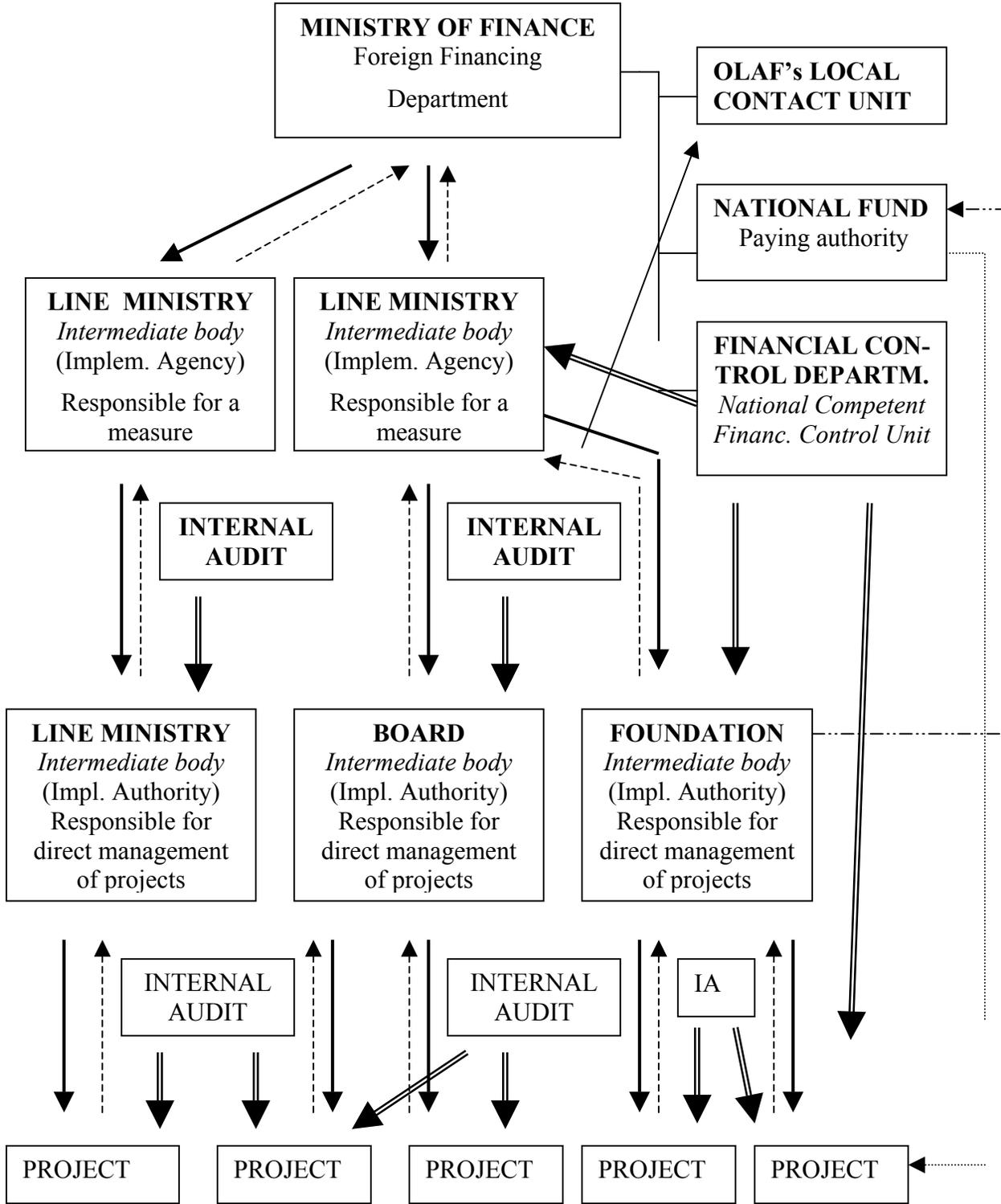
### **Organising for Structural Funds' implementation**

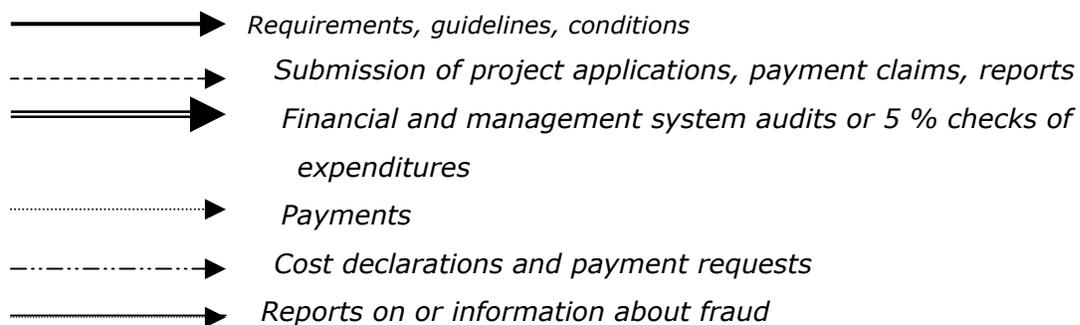
Estonian first single planning document, the National Development Plan (NDP) was submitted to the European Commission in November 1999. In the second version of the NDP, it is stated that this was "the first step preparing Estonia for obtaining and using the structural aid" (NDP 2001-2004, p. 9). In April 2001, the government of Estonia approved the document "Basic Principles for Preparing the Implementation of the European Union Structural Funds and Cohesion Fund Support" and the accompanying action plan of elaboration respective programming document.

By the time when Estonia started preparations for implementing structural funds, several structures required for that in the Council regulation no 1260/1999 were in place and functions carried out as those had been established for applying pre-accession aid. Following the pre-accession aid management structure the Basic Principles' document designated Ministry of Finance to the managing authority of structural funds in the sense of Council regulation No 1260/1999. Similarly, other units being hitherto involved in the administration of PHARE and ISPA programmes at the Ministry of Finance would continue to carry out their central functions: Financial Control Department would act as the Competent National Financial Control Authority and be responsible for auditing the management and financial control systems of intermediate bodies as well as for carrying out the five percent documentary checks of expenditures; Monitoring unit of the FFD would be responsible for organising monitoring and evaluation of the projects. National Fund was designated to the paying authority of the NDP. A central and comprehensive information system was nonexistent at this point of time and had to be developed. Direct implementation of the NDP would be the responsibility of ministries and state agencies or foundations. (See figure 2 for the whole implementation structure.)

Basic Principles' document provided also the preliminary distribution of responsibilities between line-ministries in respect of administering structural funds. Structural units of European integration in line-ministries had mostly had experiences in on-going and grass-root level project management such as launching the calls for project proposals, on-the-spot visits and approval of expenditures. Now the task was to spread out by 2004 the experience and knowledge in management EU assistance that had been accumulated in these units while implementing PHARE, ISPA and SAPARD to the implementing authorities and agencies in charge of applying structural funds. During the time when accession countries still received pre-accession aid but were working towards starting to implement structural funds, respective structural units in line ministries were working parallel to each other with the former starting to fade out now if having not been appointed similar tasks at applying structural funds. Most often, they were. However, cooperation between the two units during the preparation for structural funds has been varying.

**Figure 2** Structural Funds' implementation structure in 2004-2006





Whereas at the level of Ministry of Finance primarily some restructuring of the central units was needed to implement structural funds, line-ministries had to start build up their structures and functions of implementing authorities and agencies. The process was characterised by incremental hiring of new staff, revision of the statutes of the agencies and elaboration of procedures at each level of structural funds implementation.

In the Basic Principles document, Central Coordination and Programming Unit (CCPU) in the Foreign Financing Department at the Ministry of Finance was appointed to the responsible body for elaboration of the programming document and hence, the whole system of structural funds' administration. CCPU had been closely involved in administration of pre-accession aid, too. For the sake of simplicity and because of the whole territory of Estonia is designated as a NUTS level II region (i.e., an objective 1 area), Estonia opted for a single planning document, the national development plan instead of a combination of a community support framework and action plans. This option foresees establishment of only one managing authority and monitoring committee. It also allows for larger flexibility in making changes to the planning documents during the implementation stage (Järvik 2003, p. 61).

Drafting of the NDP for the remaining 2004-2006 programming period began in August 2001 (Kallas 2002). On August 8<sup>th</sup> 2001, Minister of Finance gave the decree No 417 of establishing two working groups, one responsible for monitoring the implementation of the Basic Principles document, the second for methodological advice in elaboration of the single planning document.

For every priority planned in the NDP, a separate working group was created that was run by a responsible ministry. There were also working groups established for discussing the organisation of horizontal functions such as general administration, finances, monitoring, auditing, legal affairs and information technology.

## NDP and its implementation system

At the outset, Estonian NDP was divided into five priorities and 31 measures to reach those (see table 5). However, during the negotiations with the Commission, the number of measures was decreased by three. Whereas the elaboration of NDP was priority-centred, implementation is measure-centred. For each priority, there was a ministry appointed that was responsible for the coordination of its elaboration (see table 4). These ministries were called implementing authorities (1<sup>st</sup> level intermediate bodies). For each measure, an implementing agency was appointed (2<sup>nd</sup> level intermediate bodies).

**Table 4** Priorities of Estonian NDP 2004-2006

	<b>Priorities</b>	<b>Ministry responsible for elaboration of the priority</b>	<b>Nr of measures</b>	<b>Funds involved</b>
1	Human Resource Development	Ministry of Social Affairs	4	ESF
2	Competitiveness of Enterprises	Ministry of Economic Affairs and Communications	4	ERDF
3	Rural Development and Agriculture	Ministry of Agriculture	12	EAGGF (Guidance), FIFG
4	Infrastructure and Local Development	Ministry of Finance	6	ERDF
5	Technical Assistance	State Chancellery	2	ERDF

Source: NDP 2004-2006, pp. 201-270.

The fact that NDP priority areas are based on economic sectors or objectives, not structural funds (ESF, ERDF, FIFG, EAGGF), their respective EU administrative structures or local regions poses high expectations on data collection and its adequate break down for reporting, as well as complicates communication. The Commission prefers to communicate with one particular unit or person responsible for a fund's implementation.

In the NDP it is stated that its general goal is "rapid and sustainable socially and regionally balanced economic development" (NDP 2004-2006, p. 81). However, as regards the contents of NDP and the system set up for structural funds' implementation, one of the significant features is that the regional element (concentration principle) is only very weakly developed in the development plan. There are no regions-based priorities nor are there central regional bodies responsible for structural funds' implementation, which might be presumed by the EU cohesion governance mode.

In May 2002 the division of Estonian territory into NUTS regions was decided (Government regulation No 136 from 7 May). According to the regulation, whole territory of the country corresponds both to a NUTS I and NUTS II region. There are 5 NUTS III regions: Northern Estonia, Central Estonia, North-Eastern Estonia, Western Estonia and Southern Estonia. Every single county out of 15 corresponds to a NUTS IV and each municipality to a NUTS V region.

However, the division of the country into present five NUTS III regions does not follow areas' traditional centres except for the Western Estonia. Based on the sneaking administrative reform that has taken place in territorial structuring of government agencies while cabinet has been arguing over the reform, four regions have emerged with centres in Tallinn, Jõhvi, Tartu and Pärnu. According to the current classification, there are two NUTS III regions consisting only from one county – Northern Estonia and Eastern Estonia, and one consisting of six counties. Tallinn is a centre only to Northern Estonia, i.e. Harju county and herewith central Estonia is disconnected from its traditional centre. Central Estonia as a NUTS III region is an artificial creature that joins counties with no traditional centre or strong internal connections. Lääne-Viru county is disconnected from its historical partner, Ida-Viru county which now makes up an independent statistical region. Further, Viljandi county is counted to Southern Estonia instead of usual Western Estonia. Because of the traditional co-operation lines of counties are rather different, there is no strong basis to expect these regions to become real units of targeted regional development.

While starting to prepare for the implementation of structural funds, Estonia had to make a major choice whether to build the system around public institutions or to prefer contracting the functions to the private and third sector (Järvik 2003, p. 61). Also, it had to be decided whether the implementing system should be centralised or decentralised and to what degree would it be possible to rely on the European integration, foreign relation, etc. departments that administered PHARE projects so far in line-ministries. Due to the experiences in managing pre-accession aid, it was decided to use the existing public sector institutions. As Järvik points out, according to member states' experiences, the more the existing division of functions and tasks is followed, the better the outcome would be (ibid., p. 62).

As far as NDP's (also geographically) centralised implementation system is concerned, the biggest exception is Agricultural Registrars and Information Board (ARIB) that is going to administer rural development and agriculture priority. ARIB is also the only new separate institution established for direct application of EU structural funds. The agency is located in Tartu, regional centre of Southern Estonia. Based on current planning documents, regional decentralisation of structural funds implementation is possible only through local outposts of state agencies responsible for implementation of particular measures. Some of measure level intermediate bodies have appointed consultants into their local agencies. Establishing of County Development Centres is only in the process.

Another feature of the NDP is that in terms of financing, large infrastructure projects prevail over human resource development and social sphere. According to Järvik (2003, p. 68), both the rather centralised NDP implementation system as well as the financing priorities are designed while keeping in mind the poor ability of regions and local governments to manage structural funds' aid. Further, current plan of financing takes into account the co-financing ability of state and local government bodies. As regards the latter, the plan reflects their current maximum co-financing capacity (Järvik 2003, pp. 64-65). However, it has been a political strategy to invest into "hard" objectives, i.e. physical infrastructure in the first programming period open to Estonia. Financial assistance that is going to be assigned to Estonia in the next programming period will be dependant upon the success of absorbing and using the aid in the first period. It is presumed that administering of a small number of large projects will more likely succeed than this of a large number of small projects. Thus, investments into physical infrastructure has been a very conscious and thought through approach in the NDP. Box 5 provides the results of a case study on planning the measure on research and development promotion.

To sum up, NDP is a centralized institution both in terms of its objectives as implementation system.

### **Coordination and management capacity**

Although the functioning and smooth application of procedures elaborated for applying structural funds' aid is only to be tested, analysis of programming process might cast some light on possible systematic deficiencies in the whole system and its capacities.

Problems in the elaboration process of NDP concerned delays by the general coordinating unit of the Ministry of Finance such as preparing the NDP's strategic base, beginning of the ex-ante evaluation and financial planning. Reasons for delays were several, including the late beginning of the Special Preparatory Program Plus. There also occurred difficulties in putting together the SWOT analysis and controversies in the decision process as well as contradictions in the information given from the Ministry of Finance (Keskaik 2003). Several revisions of the decision whether to elaborate a separate law on structural funds has characterized the development of the necessary legal framework (Järvik 2003, p. 86). Finally, Structural Funds Act

### **Box 5 Case study on the NDP: Measure 2.3 Promotion of Research, Technology Development and Innovation**

Measure 2.3 is one of four measures in Estonian NDP's priority no 2 – Promoting Competitiveness of Enterprises. The priority addresses the problems of poor cooperation between universities, research institutes, and enterprises, weak innovation supporting infrastructure and low expenditures to research and development in Estonia (0.7 % from GNP) that hinder country's economic growth. Specific objectives of the measure 2.3 are:

1. To create critical mass of R&D in a number of existing industries and to set up new technology-intensive sectors of activity.
2. To increase cooperation between the science and business sectors in applied research and to reinforce the capacities of R&D institutions to manage innovation process
3. To stimulate increased funding and conducting of R&D, technology transfer and innovation in Estonian enterprises
4. To establish financially sustainable technology and innovation infrastructures and support services to support Estonian businesses in innovation activities
5. To generate a wide awareness of innovation as a key driver of economic growth

The Ministry of Economic Affairs and Communication (MEAC) developed the measure in cooperation with the Ministry of Education and Science, Estonian Research and Development Council, University of Tartu and Tallinn Technical University and consulted socio-economic partners.

Activities to achieve the goals of the measure include establishment of Research Centres of Excellence that should focus on strategic research projects and attract international funds, and Competence Centres. The latter will act as a framework for industry-related mid-term R&D projects developed in cooperation with R&D institutions and enterprises, and aim at building long-term intensive cooperation between the two. Additional financial resources will be made available to both individual and collaborative industrial and R&D projects. Funding of a seed capital instrument is considered and innovation awareness program will be initiated. The financial share of the measure 2.3 in the priority will be 53 %, amounting to a 97 584 000 euros over three years. Main implementing body of the measure 2.3 will be Enterprise Estonia, a government agency under the MEAC.

European Commission's comments on the measure 2.3 during the negotiations of the NDP concerned the selection criteria of the projects and pointed to the over-optimism of the measure and its loose focus on the most important and immediate needs and actions. More detailed descriptions of implementation mechanisms of the measure were asked for. European Commission preferred relying on existing structures instead of establishing new ones and was also concerned about possible overlaps with other measures of NDP. Based on the study of the measure 2.3 it can be inferred that although assistance from structural funds for R&D was meant to complement funds from the state budget, now the structural funds assistance is going to substitute state budget money allocated to R&D. In fear of misuse of the funds either by the intermediate bodies or final beneficiaries, Ministry of Finance has been insisting on elaboration of rather strict legal basis. Delays in elaboration of that have been hindering the starting of use of the measure 2.3.

*Source:* Kompus-van der Hoeven et al 2003a.

was passed in the parliament in December 2003. Considering the scope, complexity and number of actors involved in the whole process, a separate act is a preferred option that serves the purpose of clarity and integrity.

Although working groups that were established for handling structural funds' horizontal administration system are still functioning and indicate therefore a further improvement in the inter-ministerial coordination tradition, the skills in effective collective decision-making have to be further worked on in order the coordination did not remain restricted to sharing of information and mere discussion.

Self-analysis of the methodological working group of NDP elaboration shows that the determination of responsibilities, general guidelines for elaboration of NDP and its measures were available and well-prepared during the programming period (Kesksaik 2003). It can be inferred from the working group's analysis that main decisions in the programming period were taken at the deputy secretary general level and the main form of work was informal relations and communicating. Political institutions were informed on the process and progress through inter-ministerial Foreign Aid Commission.

Compared to the EU expectations on structural funds administration, partnership principle and tradition in policy development is only weakly developed in Estonia yet. Because of the time pressure, local governments and the third sector was not encouraged enough by the coordinators to participate actively. As of 2000, public involvement in preparing pre-accession aid implementation has been reported to be "extremely poor" (CEE Bankwatch Network-Friends of Earth 2000, p. 18). In 2001, however, involvement of social partners had improved (Mardiste 2002). Generally, county governments participated in the process more intensively than local governments. Partner organisations in the private or third sector lack often structures at regional level to be discussed with. For instance, at a seminar in 2001 for informing labour market organisations from EU structural policies and their future role there, only two persons representing worker or employer associations were present (Järvik 2003, p. 79). However, the FFD also expressed the opinion that consulting partners from private and third sector is often very time consuming whereas the time is limited, and "you really cannot let every person from the street to comment on the NDP."

Negotiations over NDP between Estonia and the EU started on 8 September 2003 in Tallinn and were concluded in mid-December 2003 while the Commission approved Estonian NDP. Commission's comments to the substantive side of Estonian NDP concerned first of all insufficient emphasis on human resource development and importance laid on horizontal goals such as equal opportunities, local development and integration of ethnic minorities. Also, although the NDP had declared the importance of innovation and information society, these priorities were not

appropriately considered in action plans and some measures were found to be vaguely focused. The Commission also criticised insufficient inclusion of interest groups, NGO-s and municipalities in the elaboration of the NDP which testifies that the Estonia has not yet adopted the EU cohesion governance mode.

According to the NDP negotiated with and approved by the Commission, Estonia is to receive 371.36 million EUR from EU structural funds during 2004-2006, which equals the amount of EU assistance allocated to Estonia all over from 1991 to 2001 (see table 3 above). However, now, the same amount of assistance has to be absorbed in a three times shorter period. The breakdown of the assistance by funds and year will be as shown in table 5.

**Table 5** Breakdown of EU assistance to Estonia by funds and year (*thous. EUR*)

	<b>ESF</b>	<b>ERDF</b>	<b>EAGGF</b>	<b>FIFG</b>
<b>2004</b>	18 532,978	54 746,877	13 061,751	4 082,612
<b>2005</b>	25 023,744	74 421,279	18 621,486	4 009,497
<b>2006</b>	32 563,378	96 807,498	25 115,045	4 377,309
<b>TOTAL</b>	<b>76 120,100</b>	<b>225 975, 652</b>	<b>56 798,282</b>	<b>12 469,418</b>

Source: NDP 2004-2006, pp. 289-290.

All in all, more intensive decentralisation into regions and involvement of the third sector in NDP implementation is indispensable in the (near) future both for democracy as well as efficiency reasons.

## **ANALYSIS**

NDP is one of the most comprehensive development plans Estonia has, even though initiated by the EU and not domestic authorities. Politicians' interest, participation and consciousness about the process of development of the NDP have not been remarkable.

Political questions rising regarding NDP were handled in the Ministers' Foreign Aid Committee or in the cabinet. In accordance with the partnership principle, a list of possible interested partners in elaboration of the NDP was put together in the CCPU (NDP 2004-2006, p. 17) and contacted. Those, who reacted and showed initiative can be divided into three main groups: municipalities and county governments; professional associations; foundations or other third sector organisations. During special events or seminars, environmental organisations, research centres, universities, EU Delegation and others were consulted. List of proposed measures in the NDP was made available for comments to social partners and NGOs in June 2002 before it was presented to foreign experts

(Mardiste 2002a). From 220 comments received during two rounds of collection of comments and suggestions, about half were considered in the final drafting of the NDP (ibid.).

However, no extensive discussion was going on in the media or among the parties as to the desired use of structural funds. Discussions among politicians have been primarily restricted to the parliamentary discussions of the preparation process for implementation of structural funds. However, as it can be inferred from the minutes of the parliament sessions, this did not prevent the existence, essence and importance of NDP to be unknown to at least some of the members of parliament.

Members of the parliament did question the fact that a strategic document of such importance as NDP had to be approved by the government and not by the parliament. The weight of developing the NDP laid clearly with central government officials. Possibilities of parliament to participate in devising the NDP have not been defined nor mentioned in the document itself. With this scheme of elaboration and approving the NDP, there was no sound parliamentary control over what the (financing) priorities of NDP would be and, hence, what would the national responsibilities be in terms of co-financing. Parliament, obviously, had the opportunity to impose its will while voting on the state budget. However, with a majority government this was and is always unlikely. All in all, because of Estonian government was involved in the development process of NDP through a Ministries' Committee, European Commission was far better informed about the process and contents of the NDP than Riigikogu. Based on the two major political discussions that did rise – one concerning the financing of human resource development and the other this of financing fishery measure – it can be concluded that the best advocates of certain sectoral policies in the NDP have been respective ministries, not political parties or interest groups.

Coming to the analysis of bureaucracy, the capacity to administer EU structural funds is usually analysed at the hand of three categories - structures, resources and technology (systems) - along successive stages of programme implementation (EMS Consortium 2003: 23).

As regards the structures for structural funds implementation, those for inter-ministerial co-ordination are in place (such as different working groups, structural funds mailing lists and extranet) and allow for rather good cooperation and change of information. As of today, co-operation and coordination within institutions and especially ministries may be even worse than this between institutions. However, structures for consulting and co-operation with regions and social partners have to be further developed. Functionally, the need of further improvements is strongest in clarifying responsibilities and establishing units of monitoring and evaluation between and within implementing bodies.

The size of Estonian civil service body and administrative costs is obviously the field of highest conflict potential between the EU and Estonian government. Although Commission reports during the pre-accession period continued stressing the insufficient staffing levels and financing of implementation of public functions (European Commission 1999, 2000, 2002), the mantra of Estonian governments has been the freezing of state sector administrative costs. Besides the staffing levels, a very high turnover rate of civil servants has been more serious problem so far. Short organisational memory and experiences of the staff is particularly undesirable considering the immense size and complexity of the structural funds administration system. Furthermore, monitoring and policy evaluation skills are only very weakly developed in Estonia yet. Most likely, carrying out of these functions will be a learning by doing process.

Concern about procedures, manuals and guidelines is a rather new experience for Estonian public sector. Their compiling is often seen as useless waste of time and an example of red tape. Until the meaning and use value of the procedures is not seen, they are put together for presenting to authorised persons from the managing authority or the Commission, if asked. However, progress has been made in working out of procedures and manuals and the awareness of their value is spreading. As regards the flows of finances and reporting thereof, the system has not been properly tested beforehand. Considering the muddle emerged during building up the structural funds financial control and accounting system and multiple revisions thereof, impediments in the system should come as no surprise.

All three categories taken together, the prospective of Estonian public administration to cope with the EU bureaucracy is at best satisfactory. One should not be overly optimistic neither based on Estonian experience with pre-accession aid nor on old new member states' experiences with structural funds implementation (see Bailey and de Propriis 2002: 5). As Bailey and de Propriis (2002) argue, the EU project of getting accession countries ready for structural funds is rather ambitious and includes controversies. Firstly, accession countries have had five years for institution building, which the member states have learned at least twice as long. Or, as OMAS Consortium has put it (2001a, p. 3), at the EU level there has been no attempt at "prior assessment of what is realistically achievable in the context of the present culture and attitudes, and human and financial resources of the candidate countries." Secondly, a bottom-up multileveled implementation system has to be introduced via top-down imposition of EU-like structures on national government (Bailey and de Propriis 2002: 24-26). Thus, the means and ends are rather contradictory.

The implementation system of structural funds in Estonia is rather centralised, both horizontally (by functions and sectors involved) and vertically (regionally). All institutions in charge of these tasks are part of the public sector, either state agencies or state owned foundations. Furthermore, ex-ante evaluators of NDP have pointed to the potential emerge of a "super ministry" (NDP 2004-2006, p. 335) whereas the Ministry of Finance that acts as the managing authority also comprises other

central implementation structures like paying authority, monitoring, auditing and evaluation units. Functions like management, data collection and forwarding, reporting and financial control are all concentrated into two departments of the ministry. Thus, the proper separation of functions is not all too straightforward. However, obviously, in a rapidly changing environment and lack of former experiences with managing foreign assistance in such volumes, centralisation of central functions can be more effective than relying on a multitude of institutions and different systems, which would complicate exercising of control, reporting as well as of monitoring the structural funds' implementation.

However, even if regional bodies are not involved in the administration of the structural funds, their engagement is of ultimate importance in the country's ability to absorb the assistance at the project level. In the end of the programming process, there has probably emerged the understanding that the partnership principle is not just a term or marker of democracy. Partnership along with co-financing principle takes on a very pragmatic role in the process. Involvement of regions and local governments as well as the third sector has to make sure that the NDP addresses the needs and interests of potential beneficiaries and, hence, coincides with their investment interests. Applying of these principles has to guarantee the submission of a sufficient number of viable and sustainable projects. Hence, implementation of structural funds cannot succeed without involvement and support of regions and local governments to NDP priorities (Järvik 2003, p. 64). Not only municipalities' financial basis should be taken into account in devising the planning documents but also their willingness and readiness to contribute to structural funds implementation.

Obviously local governments should be one of the main target groups of the structural funds assistance. However, considering their small size, restricted finances, lacking capacity of project administration, and, not least, poor focus of NDP on specific regions, a lot of potential beneficiaries may have been locked out already before assistance from the funds actually opens for Estonia. Thus, first of all, there is a strong need for improving regional level's ability to write and manage projects.

All in all, there seems to be a consensus among institutions involved in preparing for structural funds' implementation that partnership principle has to be strengthened in the next programming period - both for enhancing the legitimacy of the NDP as well as for practical reasons of co-financing. Compared to programming of pre-accession funds, progress in terms of openness and participation in programming the 2004-2006 period has already been noticed by the non-governmental sector (see Mardiste 2002 and 2002b). Also, in setting up the Monitoring Committee, partnership principle along with balanced participation of men and woman is foreseen (NDP 2004-2006: 315).

So far, however, efficiency considerations in terms of time and smoothness of making decisions have exceeded those of democracy in the programming period. However, as regards the contents of NDP, relationship of these two principles is not that straightforward. Compilers of the NDP have been open to suggestions and recommendations received through ex-ante evaluation and the strategic environmental assessment processes. Several deficiencies like insufficient attention paid to promotion of research and development, changing economic structure of rural areas and promoting cooperation between municipalities have been worked on and progress was made (NDP 2004-2006: 337).

One of the evaluators' main comments to the NDP was that it was more directed at alleviating social tensions than addressing the main problem of Estonia – low productivity – by factors like development of research and development, innovation and hi-tech activities and ensuring that labour force meets labour market needs (ibid. 329).

The preference given to large infrastructure projects in financing NDP is questionable both in terms of democracy and environmental considerations. Evaluations of environmental NGO-s show that large infrastructure and especially transport projects have the biggest negative impact on the environment (Estonian Environmental NGOs on the EU Environmental Policies 1999). Thus, small projects should be preferred which also enhanced the opportunities of financially less viable bodies to apply for structural funds assistance. As of today, however, it seems that solutions offered in the NDP are rather a sign of poor ability of analysis and inconsistencies in setting goals and choosing effective means rather than a conscious response to society's everyday concerns.

Next to partnership, also regional dimension is only weakly elaborated in the NDP both in terms of targeting specific lagging regions and in terms of regional level implementation mechanisms of structural funds. Currently, the NDP lists the measures that contribute to regional development (such as human resource development, promotion of entrepreneurship, restoration of villages and development of transport networks) without addressing any particular regions – with the exception of mentioning Tartu and its surrounding region (NDP 2004-2006: 288). To fill in the gap of regional focus in the NDP, it has been proposed that regions-related criteria should be applied at the selection of projects at least beginning with the next programming period. County level bodies of social partners should evaluate the projects from regional development needs perspective (Järvik 2003: 97). Generally, further analysis of the need and development of regional structural funds implementation bodies is needed. So far, European model of regional implementation has not had a significant impact on Estonian administrative practice.

## **CONCLUSION**

Preparation for implementing EU structural funds has been one of the largest joint projects of Estonian government in terms of officials and different functions involved. Once again it can be said that the accession towards EU has triggered changes and initiatives in the development of Estonian public administration that might have not occurred otherwise or at least not that fast. Elaboration of the National Development Plan had to take place under a set of principles not yet rooted in national policy elaboration process. Participation of social partners in the elaboration of the NDP has not been a challenge for the government but maybe even more so for the partners themselves.

Acting under time constraints put its limits on the possibility of taking full advantage of consulting and detailed planning. Trade off between efficiency and democracy in favour of the first one is felt. Considering the weak development of civil society and organisation of interests the government has been trying to find its way between the necessary and doable. This can explain both the device of centralised structure of structural funds' management as well as expenditure preferences. The accumulated knowledge of how to deal with Europe of this thin layer of Estonian government officials that have been in their positions around half a dozen of years or longer cannot be underestimated in advising and deciding on structural funds' planning documents.

The functioning and smooth application of procedures elaborated is still to be tested. However, more intense participation of social partners, actual introduction of regional aspects in the use of structural funds' assistance and possibly certain decentralisation of their implementation structure are seen as necessary in the next structural funds' planning period.

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