

Unpacking Administrative Capacity for the Management of EU Structural Funds in Small and Large Municipalities: The Estonian Case

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ABSTRACT

The objective of the article is to analyse the administrative capacity of the municipalities in Estonia for the management of the EU Structural Funds (SF). I argue that small municipalities in Estonia have not been able to use the EU SF support as effectively as large municipalities because their administrative capacity has been weaker and their co-financing possibilities have not been sufficient. I hypothesise that SF have increased competitiveness of all NUTS 3 regions in Estonia. The theoretical part of the article is based on the issue of the development of small municipalities and literature related to aid allocation and the Europeanisation process. The size of local government is the main analytical dimension in this article. Municipalities with less than 5000 inhabitants are considered small, and those with 5000 or more inhabitants are large municipalities. The article is based on a qualitative research conducted among Estonian municipalities in 2011.

Keywords: European Union; regional policy; structural funds; administrative capacity; absorption capacity; local government

1. Introduction

European Union (EU) regional policy supports job creation, competitiveness and economic growth in order to reduce the large economic and social disparities in the EU. The EU Structural Funds (SF) and the Cohesion Fund (CF) are the main instruments for the implementation of the EU Regional Policy. The SF are the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The ERDF has existed since 1975 for the structural adjustment of regional economies and for enhancing competitiveness throughout the EU (Katsarova, 2007). The ESF was established in 1957 for supporting employment and participation in the labour market (MISA 2012). In the EU-27 the convergence objective of the EU Regional Policy covers 84 regions in 18 Member States with per-capita GDP of less than 75% of the Community average (European Commission 2012).

Municipalities started to receive substantial amounts of foreign assistance only after the accession of Estonia to the EU in 2004. Municipalities in Estonia have received support in the amount of over 300 million euros from the SF and the CF during the period 2004-2013 (Structural Funds Database 2013). The accession to the EU and the EU support have had a positive impact on the economic development of Estonia: since year 2004, the real GDP per capita in Purchasing Power Standards in Estonia has increased from 57% of the EU-27 average to 67% in 2011 (EUROSTAT 2013).

The main principles of the EU Regional Policy are programming, partnership, additionality, subsidiarity, monitoring, evaluation and concentration. Programming is one of the most important principles – it implies that the main element of policy making is a strategic development plan that covers all activities in the region (Mändmets 2000, 48). Partnership means that all partners at the national, local and regional levels participate in the preparation and implementation of the programmes (ibid., 48). Additionality means that each Member State must allocate its own co-financing for the regional programmes. Subsidiarity means that programmes must be administrated at an appropriate governance level (ibid., 49). Monitoring and evaluation should show whether the programmes are effective and efficient; whether there is adequate administrative capacity to implement the programmes and whether the activities are eligible and correspond to the EU policies (ibid.). Concentration implies that the EU support should be directed to concrete policy priority objectives and the EU support must be directed to selected geographical regions (ibid., 50).

Robert Shotton has stated that the EU SF transfers to Objective 1 Cohesion countries¹ had an important macroeconomic effect; however, the long-term benefit depends on how effectively the EU SF support the integration of the economy into the EU single market (Shotton 2000, 107). The SF support schemes are the main instruments that contribute to the Europeanisation process and develop the European policy model that is based on partnership for preparing and implementing development projects (Helvacioğlu and Arzu 2008, 434).

Merit Tatar also emphasises the importance of well-performing sub-national governments by stating that effective implementation of the EU regional policy assumes that both local and regional governments perform according to the EU practices and norms (Tatar 2010, 202).

The objective of the article is to analyse the administrative capacity of the municipalities for the management of the EU Structural Funds since 2004. I define the administrative capacity of the municipalities for the management of the EU SF as the ability of the municipalities to participate in the programming process of the EU SF; to prepare high-quality project applications; to provide required co-financing to the projects; to implement the projects effectively; to monitor the achievement of the project objectives and to evaluate the impact of the SF projects. The municipalities' absorption capacity of the EU SF has been investigated earlier by Merit Tatar. No research data exist on how small and large municipalities have absorbed the SF and whether there are any differences in the administrative capacity of the large and

¹ Objective 1 Cohesion Countries: EU regions whose average per capita GDP has been less than 75% of the EU average.

small municipalities for the management of the SF in Estonia. This article is intended to fill this gap. It is based on the survey conducted among Estonian municipalities in 2011. In section 2 of the article the author gives an overview of the theoretical framework for foreign-assistance allocation and for the development of small and large municipalities, in section 3 unequal regional development in Estonia and in section 4 the regional development measures in Estonia are discussed; section 5 gives an overview of the previous studies. In section 6 the author focuses on the research methods and in section 7 on the results of the survey.

2. Theoretical Framework: Foreign Assistance Allocation and Development of Small and Large Municipalities

Wright and Winters highlight that foreign aid is exogenously affected by political institutions and in countries with a sizeable aid-to-GDP ratio, aid endogenously determines the form of those institutions (Wright and Winters 2010, 75). The Europeanisation process also foresees that states adapt their regional development institutions according to the requirements of the EU Regional Policies in order to implement regional development support schemes that are financed by the EU foreign assistance (Helvacioğlu and Arzu 2008, 434). The foreign aid-to-state budget ratio in Estonia has increased considerably from 4.1% in 2002 (Ministry of Finance 2001) to 17.3% in 2011 (Ministry of Finance 2011b). The Estonian public-administration structures at the national and local levels have also been adjusted according to the requirements established for the implementation of the EU SF measure. For example in Tallinn City Chancellery the International Projects Department was established for the coordination of foreign assistance projects.

I also hypothesise that SF have not increased regional disparities in Estonia but have increased competitiveness of all NUTS 3² regions in Estonia. I argue that in the Estonian case, small municipalities in Estonia have not been able to use the EU SF support as effectively as large municipalities because their administrative capacity has been weaker and their co-financing possibilities have not been sufficient. Local municipalities can be defined as corporations that connect (registered) inhabitants and organisations established by them, based on territorial principle (Geomedia 2011, 5). In this paper municipalities with less than 5000 inhabitants are considered small and those with 5000 or more inhabitants are large municipalities in Estonia.

The general administrative capacity of municipalities in Estonia has been studied by the Ministry of the Interior of the Republic of Estonia since 2007. For this purpose the consulting company Geomedia has prepared the administrative capacity index (ACI) of local municipalities in Estonia. ACI measures six components that describe the administrative capacity of the municipalities based on two dimensions: territorial dimension (cities and rural municipalities) and self-government (See Table 1).

² The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU for the purpose of: the collection, development and harmonisation of EU regional statistics; socio-economic analyses of the regions and framing of EU regional policies. NUTS 1: major socio-economic regions. NUTS 2: basic regions for the application of regional policies. NUTS 3: small regions for specific diagnoses (EUROSTAT 2011).

Table 1: Components of the administrative capacity index of municipalities

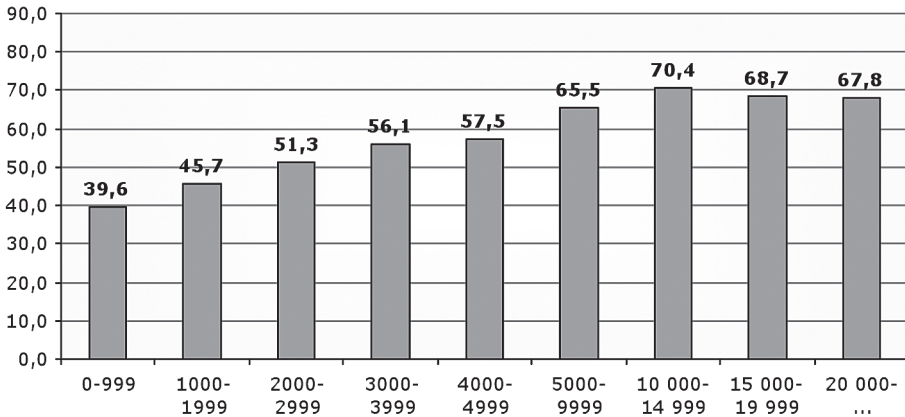
Dimension	Defining component	Characterising components	
Territorial (cities and rural municipalities)	population and land	local economy	welfare of population
Self-government	organisation of municipality	financial status of municipality	services of municipality

Source: Geomedia 2011, 6.

ACI does not show the quality of local services, how economically the municipality is managed, and it does not take into account the real needs of the municipalities (Geomedia 2011, 6). The index measures the capacity to deliver services in the following four major fields of activity: education, social protection and healthcare, free time and economy and environmental protection (ibid., 13).

During the period 2007-2010, the ACI of municipalities of Estonia has varied from 85.8 points to 14.8 points; for example the Viimsi municipality has had the highest index, followed by the Rae Municipality and the capital city Tallinn (ibid., 18). The Top 10 list of the municipalities with high ACI also includes Tartu and Kuressaare city, meanwhile the Õru municipality has the lowest ACI: 14.8 (ibid.). The ACI shows that regionally the administrative capacity of municipalities decreases from the North-West towards South-East Estonia (ibid.).

The administrative capacity of a municipality depends strongly on the number of inhabitants. The Geomedia study indicated that in the Estonian case 5000 inhabitants is an important threshold concerning the sufficient administrative capacity of municipalities (ibid., 20). The Geomedia research showed that in these municipalities, where the number of inhabitants was 3000-4000 or 4000-5000, the ACI of municipalities did not differ significantly (ibid.). ACI in the municipalities with less than 5000 inhabitants showed that the Otepää municipality had the highest ACI, followed by Tõrva city and Põltsamaa city (ibid., 19). The ACI decreases sharply when the size of a municipality is less than 3000 inhabitants (ibid., 20). Among the municipalities with less than 2000 inhabitants the Padise municipality has the highest ACI (62.8 points), followed by the Emmaste (60.3 points) and Imavere municipalities (60.2 points) (ibid.).

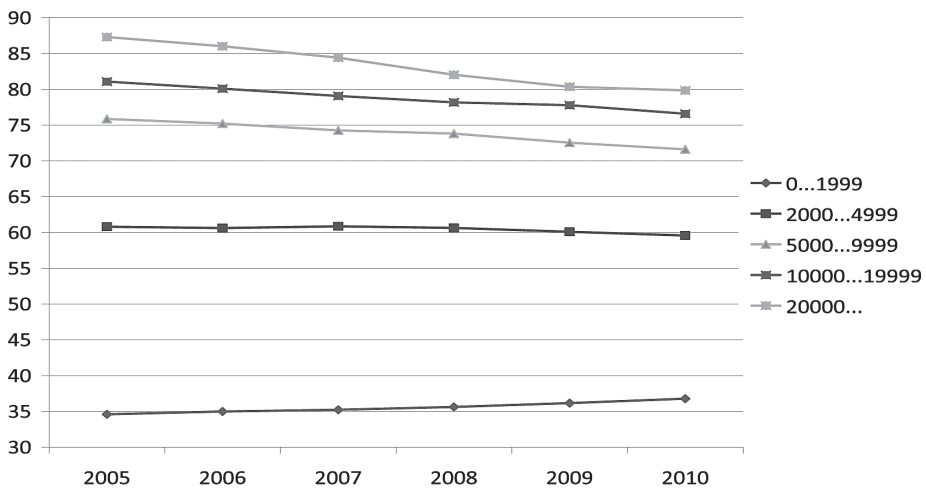


Source: Geomedia 2011, 20.

Figure 1. **2007-2010 ACI of municipalities based on the number of inhabitants of the municipalities**

There is tendency that the ACI becomes lower when the municipality is located in the borderland (Geomedia 2011, 21). During period 2007-2010, the ACI difference between municipalities decreased (ibid., 24). The municipalities that have less than 2000 inhabitants and the municipalities located in the borderland have improved their ACI – this shows the positive impact of the Structural Policies on the development of the smaller municipalities (ibid.). However, during this period all other size groups of the municipalities lost ACI points. (ibid.).

Tallinn is economically the most successful municipality. In the Top 10 of the economically most successful regions, there are also Tartu, Kuressaare and Pärnu city as well as the Jõhvi municipality (ibid., 28).



Source: Noorkõiv 2011.

Figure 2. **2005-2010 ACI of municipalities based on the number of inhabitants of the municipalities**

Territorial fragmentation has been a problem in many Central and Eastern European countries because small local governments have a higher unit cost of the services than large municipalities and small local governments are in general too weak to implement policies effectively (Swaniewicz 2004, 3).

Dahl and Tufte have stated that when we look at the capabilities of the political systems, we have to concern ourselves with socio-economic variables, because the nation's capacity for survival and effectiveness depends more on the size of its key resources like wealth, trade, skilled workers or college graduates than on the size of its territory or population (Dahl and Tufte 1973, 20). According to Dahl, if citizens participate in the decision-making process, they fully control decisions of the polity, but this process is effective only when the number of citizens is small (*ibid.*, 21). System capacity indicates that polity can respond to citizens only when it is completely autonomous (*ibid.*). In nation-state systems capacity means that the nation state must be autonomous, and only the nation state can respond fully to collective preferences (*ibid.*, 22). At the same time citizen effectiveness is demonstrated via participation of citizens in democratic decision-making by electing representatives (*ibid.*). Dahl states that the small autonomous unit is optimal for the good life; however, gains to large units are offset by disadvantages (*ibid.*, 28). For small municipalities it is easier to adapt to the local needs (Larsen 2002, 320). Voter turnout, organisational participation and direct contact with politicians is greater and citizens are more interested in local politics in small municipalities (Larsen 2002, 330; Swaniewicz 2004, 20). In small municipalities citizens are more motivated to participate because each individual vote will have more weight (Swaniewicz 2004, 4). People can develop stronger local identification in a small homogenous community (*ibid.*). Public-choice or localist theories state that the small size of municipalities makes it possible to build good and active relationships between citizens and municipality (*ibid.*, 9). Dahl and Tufte also argue that small units are homogenous, but larger units are likely to be more diversified (for example parties and organised groups are larger and more active in large communities) (Anckar 1999, 1; Swaniewicz 2004, 4). Political parties are more significant in territorially consolidated Northern European countries than in territorially fragmented Southern Europe (Swaniewicz 2004, 4). Dag Anckar suggests that small units are homogenous only in terms of attitudinal diversity, but in terms of ethnic and religious diversity there is no significant difference between small states and large states (Anckar 1999, 2).

Dahl and Tufte also state that the issue of size and democracy is a trade-off between citizen participation and system effectiveness or, in their terminology, this was a trade-off between "citizen effectiveness" and "system capacity" (Cameron 2013, Larsen 2002, 319). They focused mainly on the problem-solving capacity of the political system rather than service provision (Cameron 2013).

Larsen refers that there are many advocates who support municipal mergers by claiming that small municipalities are not able to perform all required tasks (Larsen 2002, 318). Opponents of mergers at the same time argue that municipal mergers are not desirable because local democracy may suffer in larger units, and they are afraid that the opportunity cost of the increased effectiveness will be less democracy (Larsen 2002, 318).

For the Estonian context it is highly important to reflect on what Elvi Ulst stressed already in the early 2000s. I agree with Elvi Ulst's argument that in order to

increase effectiveness in the public sector there is the need to decentralise decision-making and the responsibility at the same time with increasing administrative capacity of municipalities (Ulst 2000, 16). The following measures can be used for this purpose: (1) voluntary merger of small municipalities that have weaker administrative capacity, (2) public-private partnership agreements, (3) delegation of functions and allocation of public resources only to those municipalities that are able to fulfil the respective functions (Ulst 2000, 16).

Estonian municipalities are mandated by Estonia's central government to deliver the same full list of public services regardless of size, but many municipalities do not have the ability to fulfil their mandate (OECD 2011, 48). Some municipalities do not have the need to deliver some services due to a lack of demand; still local authorities try to provide as many of the mandated services as possible, but due to tight budgets the service quality suffers (ibid., 49). Municipal typology (rural, county-centre or urban) and capacity should be considered when determining how and which services should be provided (ibid.). Estonia's government should give more rights to municipalities to decide which services are needed most by the citizens of these municipalities (ibid.).

Taking into account that in Estonia, as in many other Central and Eastern European (CEE) countries, the territorial fragmentation is high, I see that people in small municipalities have a strong sense of local community; however, the general administrative capacity for implementation of local policies in smaller municipalities is weak as in most of the CEE countries.

3. Unequal Regional Development in Estonia

The Estonian case shows that regional development is unequal. The Estonian local municipalities that are located near the capital city of Tallinn have the highest income per capita; for example, the Viimsi municipality that is located close to Tallinn received 795 euros income tax per capita while the Piirisaare municipality that is located in the Tartu county received only 129 euros income tax per capita (Sepp 2011, 22). More active and productive economic activity has concentrated in large cities where a critical mass of inhabitants lives; the lack of productive jobs and low entrepreneurial activity outside the Tallinn and Tartu city regions inhibits the economic development of the state as a whole (ibid., 10).

Demographic processes show that the Estonian population tends to move to the largest city regions of Tallinn and Tartu (ibid., 4). The population of Harju County already amounted to 40.7% of the whole Estonian population in 2010; however, some small peripheral municipalities (Püssi town and Tudulinna) have lost 13-15% of their population during the last few years (ibid., 2-4). The mobility of Estonian people around regional centres has become more intensive and the distances longer (ibid., 6). 60% of the people who live in rural areas work in cities (ibid., 14). Outside Harju and Tartu County the role of the county centres as growth centres has remained weak. Therefore, one of the main challenges of the regional development policy in Estonia is the strengthening of the regions and the regional centres outside the Tallinn and Tartu regions; otherwise, urbanisation complicates the provision of public and private services in regions which have a declining and aging population (ibid., 22).

4. Allocation of the EU Structural Funds in Estonia

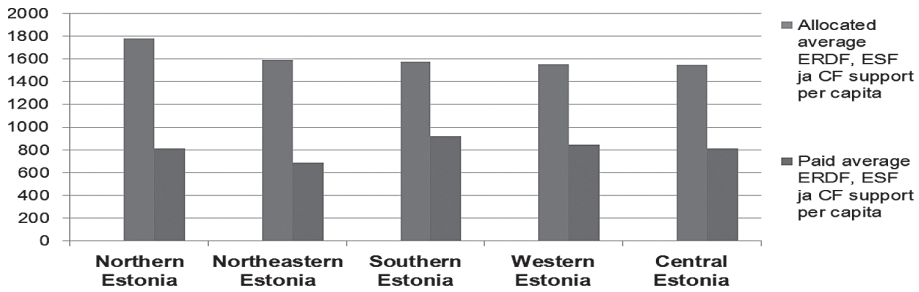
In the Estonian case, the brief period of independence has been characterised by institutional turbulence, which has led to a centralised style of regional policy-making (Kettunen and Kungla 2005, 353). In Estonia the programming of the EU SF has been centrally coordinated by the Ministry of Finance. The Minister for Regional Affairs has been responsible for the preparation of regional development measures that have been financed from the SF. The SF programmes have promoted growth, competitiveness and employment at the local, regional and national levels in Estonia.

Since 2000, foreign-assistance programmes have allocated a total of 5.6 billion euros of foreign aid to different projects in Estonia. 4.4 billion euros (78%) of this support have already been reimbursed to these projects (Ministry of Finance 2013). The Structural Funds support has most benefited the development of three counties: Harju County 28%, Tartu County 10% and Ida-Virumaa County 8% (SF Central Register, 17 December 2010).

During the first programming period 2004-2006, Estonia absorbed 99% of EU support from the European Social Fund, the European Regional Development Fund and the Guidance section of the EAGGF and the Financial Instrument for Fisheries Guidance (Ministry of Finance 2013). During the programming period 2004-2006, the EU SF support for Estonia was only 371 million euros and Cohesion Fund support was 428 million euros (*ibid.*). During the first programming period, the European Union allocated ERDF funds for the regional development in Estonia in the framework of the National Development Plan 2004-2006 (NDP). In the framework of NDP, ERDF support to economic and regional development projects was 231 million euros (*ibid.*).

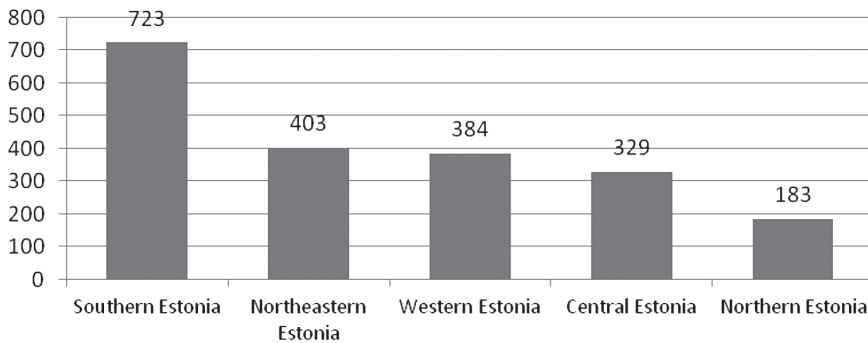
The EU SF and CF support for Estonia during the period 2007-2013 has been much larger, more specifically 3.4 billion euros (*ibid.*). The ERDF budget of the Operational Programme for Developing Living Environment (OP) for balanced regional development has been 389 million euros (*EARK* 2010, 141). The set-up of the measures of the OP shows that the Ministry of the Interior allocates ERDF support mainly to less competitive municipalities. At the same time, the Ministry of Environment prioritises the investment of ERDF funds into the water supply and sewage system, first and foremost, of larger municipalities. The Ministry of Education and Science supports investments into schools that are located out of cities as of first priority.

SF support has increased the competitiveness of all NUTS 3 regions in Estonia since the accession to the EU (see Figure 3). The allocated average ERDF, ESF and CF support per capita was high (1780 euros per capita) in the Northern Estonia NUTS 3 region during the period 2004-2012. The distribution of the SF support between regional centres has been more unequal: the county centres in Southern Estonia have received on average 723 euros ERDF, ESF and CF support per capita while for example Tallinn in Northern Estonia has received only 183 euros ERDF, ESF and CF support per capita during the period 2004-2012 (*ibid.*) (see Figure 4). The SF support has enabled an increase of the living quality in these less developed regions.



Source: Author's calculation based on SF Central Register 27 March 2012.

Figure 3. ERDF, ESF and CF support for NUTS 3 regions in Estonia 2004-2012 (euros per capita)



Source: Authors' calculation based on SF Central register 27 March 2012.

Figure 4. Allocated ERDF, ESF and CF support in regional centres (euros per capita)

5. Previous Studies about Administrative Capacity of the Municipalities to Absorb EU SF in Estonia

The EU researchers have emphasised that effective implementation of the EU Regional Policy at the regional and local levels depends foremost on the administrative capacity of regional and local governments to absorb the SF (Tatar 2010, 202). Shotton has turned attention to the so-called “absorption trap”. It means that there is a danger to focus on absorption without insisting on structural change and to use established structures even when these are not adapted to the requirements (Shotton 2000, 108). There are not many surveys conducted for investigating the absorption capacity of the EU funds in the municipalities of Estonia.

The main previous survey in this field was conducted by Merit Tatar in Estonia in 2005. She investigated the main problems that restricted local governments from using the EU Structural Funds (Tatar 2010, 204). Merit Tatar found

in the survey that with regard to the SF, the absorption capacity of the Estonian municipalities was weak, for example 44% of the respondents did not have a staff with the competences to work with the EU issues and apply for the EU funds (ibid., 209).

The 2005 survey revealed that the main reasons why municipalities decided not to apply for structural funds were the following: lack of necessary co-financing, too high project-preparation costs, red tape, non-existence of appropriate measures and lack of project-management skills (ibid., 211). In 2005, only 11% of the municipalities had a special position in the administration of the municipality for the development and implementation of the EU SF projects, and in 44% of the municipalities officials were dealing with the EU SF projects in addition to their everyday job (Innopolis 2005, 15).

Tatar proposed that taking into account the absorption capacity problems of the peripheral and smaller municipalities and better capacity in larger municipalities, the SF may have been one reason for greater disparities in the country (Tatar 2010, 220). I do not agree with this conclusion. I argue that SF have not increased the regional disparities in Estonia, taking into account that since 2004 the majority of municipalities (87%) in Estonia have benefited from the EU SF support (Structural Funds Database). The Ministry of the Interior also highlights that the distribution of regional development support between counties has decreased unequal regional development (Sepp 2011, 24). Regional development measures have supported investments into infrastructure and development activities in less developed regions; however, the problem has been that the measures of the other policy areas have been directed mainly to the most developed regions without having balancing impact on regional development (ibid., 26).

6. Research Methods and Data

The article is based on research that was carried out by the author among Estonian municipalities in November-December 2011 and interviews with municipalities and administrators of the EU SF that were made in Estonia in March 2012. By the time of the research, the preparations for the next EU SF programming period 2014-2020 had started.

The research was conducted in two stages. In the first stage the main questionnaire was sent to all 168 heads of municipalities that, based on the data derived from the SF Register of Estonia, had received the EU SF support for municipality administration from ERDF, ESF and CF during the period 2004-2010; 57 responses (34%) were received. In the second stage of the research a separate shorter questionnaire was sent to the remaining 58 heads of the municipalities in order to find out whether they had benefited from the EU SF; 24 responses (41%) were received. Taking into account that Estonia has 226 municipalities, all together 81 municipalities from 15 counties replied to the questionnaire, which represents 36% of the municipalities. 10 cities out of 33 (30%) and 71 parishes out of 193 (37%) replied to the questions. Most of the municipalities (80%) that participated in the survey were small with a population of fewer than 5000 inhabitants; only 16 municipalities that participated in the survey were larger municipalities with a population over 5000 inhabitants.

According to NUTS classification of regions³, one third of the respondents belonged to Western Estonia, one-third to Southern Estonia, 16% to Northern Estonia, 15% to Central Estonia and 7% to North-Eastern Estonia.⁴

The interviews with the development specialists, the heads of municipalities and administrators of the EU SF were made in March 2012. For the interviews, a total of 7 municipalities were selected from 6 different counties in Estonia based on the fact that they did not respond to the survey questions (incl. 3 interviews with large municipalities that had over 5000 inhabitants and 4 interviews with small municipalities that had less than 5000 inhabitants). Out of the 7 municipalities that were interviewed, 2 municipalities had not received EU SF support and 5 municipalities had received EU SF support. The main purpose of these interviews was to discuss the involvement of municipalities in the programming process of the EU SF and the main problems with the implementation of the EU SF projects.

This is a qualitative research, and it is based mainly on the self-assessment of the heads of the municipalities of how they perceive their administrative capacity for the management of the EU SF. This research gives additional information regarding the administrative capacity for absorbing the EU SF in municipalities in Estonia; the research highlights the main bottleneck, i.e. why some of the municipalities have not been able to effectively use the EU SF support.

7. Research Findings and Discussion

7.1 Administrative Capacity of City Governments and Rural Municipality Governments for the Management of EU SF in Estonia

During the research, the municipalities were asked to self-evaluate their administrative capacity to use the EU SF. Almost half (46%) of the municipalities found that their administrative capacity for using the EU SF was good and 37% of the municipalities found that their administrative capacity for using this support was average. Only 12% of the municipalities evaluated their administrative capacity for the management of the EU SF as very good.

The survey revealed that by 2011, only 15% of the municipalities had created a position for the management of the EU SF projects. However, the proportion of the municipalities that employ the EU SF project managers has increased slightly as compared to the 2005 survey: 20% of large municipalities employed EU SF project managers. This finding confirms that the capacity of municipalities to employ the EU SF project managers is still quite low.

Half of the municipalities hire specialists who prepare the EU SF project applications. 11% of all municipalities use part-time specialists for the preparation of new

³ NUTS3 regions in Estonia (Statistics Estonia 2013): EE001 Põhja-Eesti (Harju County); EE004 Lääne-Eesti (Hiiumaa County, Lääne County, Pärnu County, Saare County); EE006 Kesk-Eesti (Järva County, Lääne-Viru County, Rapla County); EE007 Kirde-Eesti (Ida-Viru County); EE008 Lõuna-Eesti (Jõgeva County, Põlva County, Tartu County, Valga County, Viljandi County, Võru County)

⁴ The highest response rate was in Valga County, where 62% of the municipalities responded to the questionnaires, and the lowest response rate was in Põlva County, where only 7% of the municipalities replied to the questionnaires.

projects. Only 20% of the municipalities outsource the preparation of project applications to contracted experts. This shows that the majority of municipalities have preferred to develop in-house competences for the development of new project applications.

Only 37% of the specialists who deal with the development of the EU SF project applications in municipalities have received special training in this field; 28% of the municipalities confirmed that only some of their development specialists who deal with the preparation of the EU SF projects have received special training, and 21% of the municipalities declared that their specialists have not received any special training for the development of new projects. During the interviews, development specialists in small and large municipalities stated that they would need more training in the field of project management.

The administrators of the EU SF said that the quality of many project applications of the municipalities has been insufficient; therefore, the Implementing Agency has provided significant additional training to municipalities in order to improve the quality of the projects. The Implementing Agency suggested that local government associations should organise more project-management trainings for the municipalities.

During the interviews, the municipalities were asked whether they would be interested in LEADER⁵-type measures, where one project manager can administrate many projects from different municipalities in one region. Small municipalities confirmed that they were interested in this arrangement, because a small municipality alone cannot offer a full-time job for recruiting its own project manager.

Municipalities can ask for advice from regional economic-development centres that are located in all Estonian counties. Regional economic-development centres provide services for the preparation of the EU SF projects of the municipalities. From all 57 municipalities that participated in the research, 86% responded that they used the services of the regional economic-development centres (see Figure 5). Small municipalities need more advice from the regional-development centres than large municipalities: 50% of the small municipalities responded that they always or sometimes use services of the regional economic-development centres. At the same time 73% of large municipalities responded that they never or very seldom use consulting services of these development centres (see Figure 5). This finding suggests that the administrative capacity of large municipalities is strong, and they need very little support from regional-development centres, while the administrative capacity of the small municipalities is weaker and they need additional know-how from the consultants of the regional development centres for applying for the EU SF support.

⁵ LEADER: Links Between Activities Developing the Rural Economy. LEADER increases the capacity of local rural community and business networks to build knowledge and encourage innovation and co-operation.

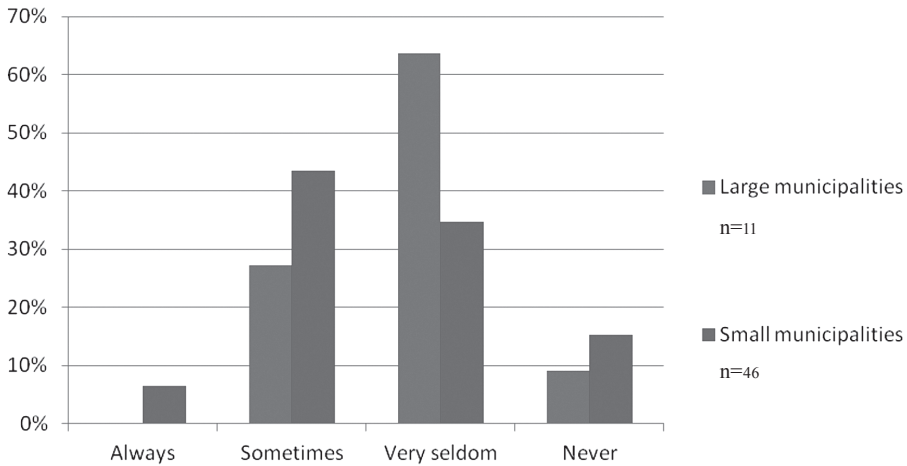


Figure 5. Frequency of large and small municipalities' use of the services of the regional economic-development centres for the preparation of EU SF project applications in Estonia

The survey showed that in 64% of large municipalities the administration was mainly responsible for initiating new EU SF projects. In small municipalities the administration was almost two times less active in generating new SF projects than in large municipalities. In small municipalities, besides the administration, also the council of the municipality, non-governmental organisations and other interest groups promoted the new EU projects (see Figure 6). This shows that administrations in large municipalities have strong administrative capacity to initiate strategically important EU SF projects. In small municipalities the preparation of new SF projects depends more on non-governmental organisations and other interest groups than in large municipalities.

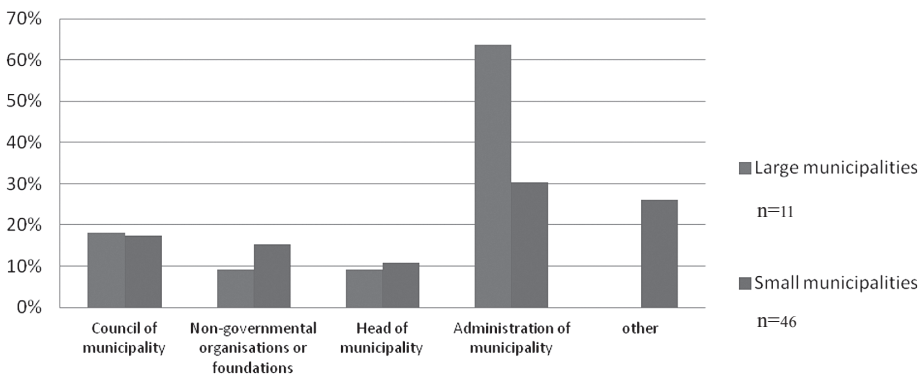


Figure 6. Initiators of the project ideas for applying support from the EU SF

Municipalities that have received EU support during two last programming periods confirmed during interviews that they had gained experience in project management. Most of the municipalities were satisfied that the ministries had elaborated Operational Programmes and the EU SF measures for period 2007-2013 that corresponded well to their needs.

Municipalities still admitted that the administration of the EU SF in Estonia was too complicated because there were too many different legal acts regulating the administration of the EU SF. In addition, municipalities do not like that the administrative system of the EU SF is too fragmented and reporting is too complicated. There are 11 different 2nd-level intermediate bodies for organising ESF and ERDF assistance applications in Estonia (Ministry of Finance 2011a). The mid-term evaluation of the current programming period has revealed that the Implementing Agencies are not aware of the regional development priorities; the Implementing Agencies deal only with the allocation of the EU support to specific sectors based on the measures established by the Government (Reincke 2011, 6). Municipalities have expressed the opinion that ERDF and ESF Implementing Agencies still work more effectively and have a faster decision-making process than the Estonian Agricultural Registers and Information Board, which is responsible for the implementation of the Common Agricultural Policy measures and the measures for fisheries market organisation that are financed from the European Agricultural Guarantee Fund (the EAGF), and the agriculture and rural development measures that are financed from the European Agricultural Fund for Rural Development (the EAFRD) (Ministry of Agriculture 2008).

Municipalities have had a generally positive cooperation experience with non-governmental organisations for the implementation of the SF projects. The administrators of the EU SF find that non-governmental organisations have gained a lot of practical knowledge for the implementation of projects, and municipalities have learned a lot from the cooperation with non-governmental organisations.

Municipalities also cooperate with the associations of local municipalities, members of the Parliament of Estonia and use direct personal contacts for lobbying during the programming of the EU SF. Municipalities should also cooperate more with other municipalities in Estonia. However, so far, cooperation between municipalities has been limited because very often they have seen each other as competitors for the EU SF resources.

7.1.1 Administrative Capacity of Large Municipalities for the Management of EU SF

Most large municipalities assessed their administrative capacity as good or very good. Large municipalities have better co-financing possibilities and more competent staff for the management of the EU SF projects. In case of need, they outsource external expertise. The majority (75%) of large municipalities employ full-time specialists who are responsible for preparing new project applications. The city of Tallinn has established a separate International Projects Department in the Tallinn City Chancellery for the co-ordination of the foreign-assistance projects of the administrative agencies of the city of Tallinn.

The survey showed that large municipalities have had better opportunities for training the officials than small municipalities. A quarter of the large municipalities stated that they sometimes use the services of the development centres. Large municipalities admitted that they have also cooperated with other smaller municipalities in Estonia. However, the fact that large municipalities very often have different interests than small municipalities makes it very difficult to find project partners among small municipalities.

Large municipalities have established project teams for the management of large investment projects that have received SF support. The administrators of the SF highlight that large municipalities have gained valuable practical experience for the implementation of projects and the advantage of large municipalities has been that they have performed independent controls over projects and they have made more impartial decisions for the management of projects than small municipalities.

Bureaucracy has been a disadvantage for large municipalities. Decision-making in large municipalities takes more time than in small municipalities. The responsibility of large municipalities for achieving the objectives of the project is not high when the project team members are over-occupied with other obligations.

7.1.2 Administrative Capacity of Small Municipalities for the Management of EU SF

During the survey, 54% of small municipalities evaluated their administrative capacity as good or very good. The main problems that relate to the administrative capacity of the small municipalities are inadequate co-financing possibilities, lack of specialists and the too high minimum project-budget size for development projects that has been established by the government.

Small municipalities often do not have sufficient financing even for covering the project preparation costs or for recruiting specialists for the project development. Interviewees argued that in a small municipality a development specialist would be likely to face difficulties on the job because in a small municipality he or she might not have enough specialists from whom to ask advice. The lack of competent public-procurement specialists complicates especially the implementation of construction projects in small municipalities. Only 42% of small municipalities have full-time specialists who prepare project applications. In small municipalities the share of untrained officials has been large: 26% of all small municipalities confirmed that their officials had not received any special training for the preparation of project applications. Many small municipalities are still highly dependent on few key persons (including the heads of municipalities) who prepare project applications.

Small municipalities use the services of development centres more than large municipalities: half of the small municipalities stated that they consult with the development centres for the preparation of projects. Taking into account that regional development centres can also provide training for municipalities for the preparation of the EU SF projects, in my opinion, small municipalities should cooperate more with development centres in order to improve their competences for developing new projects.

The “Estonia 2020” competitiveness strategy will become the basis for the EU SF planning process in the next programming period 2014-2020.⁶ The respondent from the Karksi rural municipality stated during the interview that “the municipality was not consulted enough during the preparation of ‘Estonia 2020’. There are not many places in Estonia that will remain regional centres: Tallinn, Tartu and Pärnu; the rest of Estonia is entirely neglected as if it did not exist.” Another interviewee from the Kärla municipality was of the opinion that “despite the fact that the ‘Estonia 2020’ strategy was sent for commenting to the municipality, it is still quite weak. It supports urbanisation. This strategy does not say anything about the development of Estonian small islands, and it does not foresee the establishment of the Saaremaa Bridge.”

Small municipalities are interested in cooperating with the associations of local municipalities for lobbying for the next programming period of the EU SF 2014-2020; they expect the Government to take more into account the opinions of the associations of local municipalities during the preparation of national regional-development programmes.

7.2 Matching the Supply of EU Structural Funds Support to the Needs of Municipalities

Most of the municipalities that responded to the questionnaire had received most EU support for developing infrastructure and the educational sector. The municipalities have already identified what their most important financing needs are to be supported from the EU SF during the next programming period 2014-2020. 69% of the municipalities who responded need most EU support during the next period for the development of infrastructure and 20% of the municipalities need additional investments into education. Large municipalities stated that they needed most additional investment into infrastructure (incl. investments into local roads, infrastructure in industrial areas, tourism infrastructure, public transport, environmental economy) and the educational sector during the next programming period. At the same time, smaller municipalities confirmed that they also needed further investments into local roads, environment, energy efficiency and EU support for social welfare and health care during the next programming period. All municipalities need additional EU support for infrastructure development.

Some small municipalities find it difficult to decide for which projects the EU SF support should be requested because they are not aware of the development priorities of the county. Therefore, these small municipalities expect the Government to provide a vision for the development of the whole county. However, so far, the central government has not defined to what extent regions should specialise, and how (Sepp 2011, 12). According to the Mid-term Evaluation Report of the EU SF 2007-2013, the solution can be that in sectors where municipalities are main beneficiaries Government involves the county level more in the decision-making during the pro-

⁶ “Estonia 2020” is Estonia’s strategy for achieving the “Europe 2020” objectives. “Estonia 2020” was approved by the government of Estonia on 28 April 2011 (Government Office 2011).

gramming of EU Structural Funds in order to make sure that regional development needs are taken into account (Reincke 2011, 6).

The results of the survey reveal that 86% of the municipalities have been satisfied with the SF measures, but 14% of the municipalities could not take advantage of the possibilities that the EU SF offer because these measures did not correspond to their needs.

The analysis of the allocation of ERDF and ESF support during the period 2004-2013 between the municipalities of Estonia shows that 197 Estonian municipalities (87% of all municipalities) received financing decisions for using the Structural Funds and these municipalities had used ERDF and ESF support amounting to a total of 329 million euros by 1 March 2013 (Structural Funds Database 2013). The statistics indicates that the largest municipalities have received on average significantly more ERDF and ESF support than the smallest municipalities. The largest municipalities that have more than 20,000 inhabitants have received on average more than 23 million euros ERDF and ESF support per municipality (See Table 2). At the same time the smallest municipalities with less than 2000 inhabitants have received on average 0.57 million euros ERDF and ESF support per municipality (Structural Funds Database 2013).

Table 2: **Average ERDF and ESF support for municipalities during period 2004-2013**

Size of municipality (No of inhabitants)	Mean (Average EDRF and ESF support in euros)	N (Number of municipalities)
Less than 2000	571774	96
2000-4999	1055524	60
5000-9999	1746516	24
10000-19999	4392053	12
20000 and more	23169240	5
Total	1668472	197

Source: Author's calculation based on the data of the Structural Funds Database.

The analysis shows that in small municipalities the Structural Funds support per capita has been higher than in large municipalities: for example ERDF and ESF support per capita in small municipalities that have less than 2000 inhabitants has been 466 euros, but in large municipalities with more than 20,000 inhabitants the Structural Funds support has been on average 201 euros per capita (See Table 3). This finding indicates that an average taxpayer in a small municipality has benefited more from the EU Structural Funds support than the average taxpayer in a large municipality.

Table 3: Average ERDF and ESF support per capita for municipalities during period 2004-2013

Size of municipality (No of inhabitants)	Mean (Average ERDF and ESF support per capita in euros)	N (Number of municipalities)
Less than 2000	466	96
2000-4999	346	60
5000-9999	273	24
10000-19999	319	12
20000 and more	201	5
Total	390	197

Source: Author's calculation based on the data of the Structural Funds Database.

7.3 Monitoring and Evaluation of EU Structural Funds Projects in Municipalities

Municipalities have not turned enough attention to the monitoring of their projects. The majority of municipalities (77%) answered that they did not establish a project-monitoring committee for the implementation of the EU SF projects. Small municipalities have been less eager to establish monitoring committees than large municipalities. Over 80% of small municipalities responded that they have not established a monitoring committee for the implementation of the EU SF projects, and only 9% of small municipalities use monitoring committees (See Figure 7).

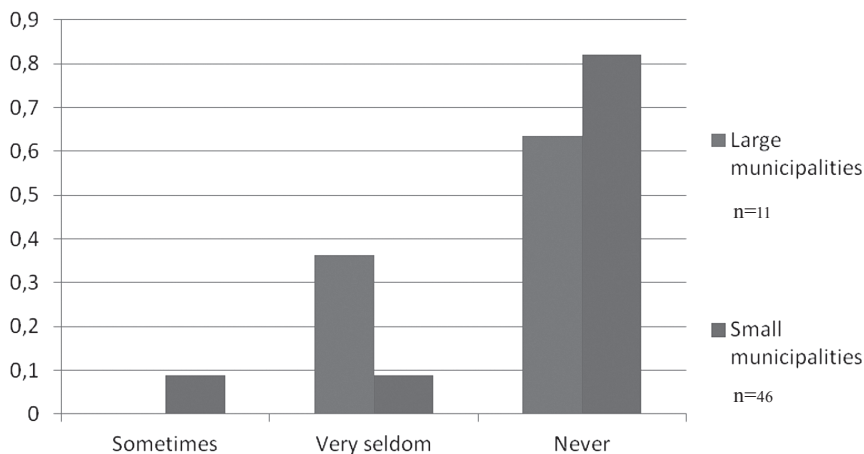


Figure 7. Use of monitoring committees for the implementation of the EU SF by the local governments

Most of the municipalities (83%) responded that they always achieved the objectives of the projects, and only 12% of them answered that they did not achieve the objectives of the projects; 5% of the municipalities did not answer this question. Large municipalities were more optimistic since they all answered that they always achieved the objectives of their EU SF projects; at the same time, 68% of small municipalities found that they had achieved all objectives of the projects.

Municipalities use evaluation of the EU SF more than monitoring. The majority (90%) of the municipalities have evaluated the social-economic impact of their EU SF projects. There is no big difference between large and small municipalities: approximately 30% of both large and small municipalities always evaluate the impact of the EU SF projects (see Figure 8). This finding indicates that municipalities are interested in evaluating the socio-economic impact of the completed projects in order to learn lessons and prepare the next projects better.

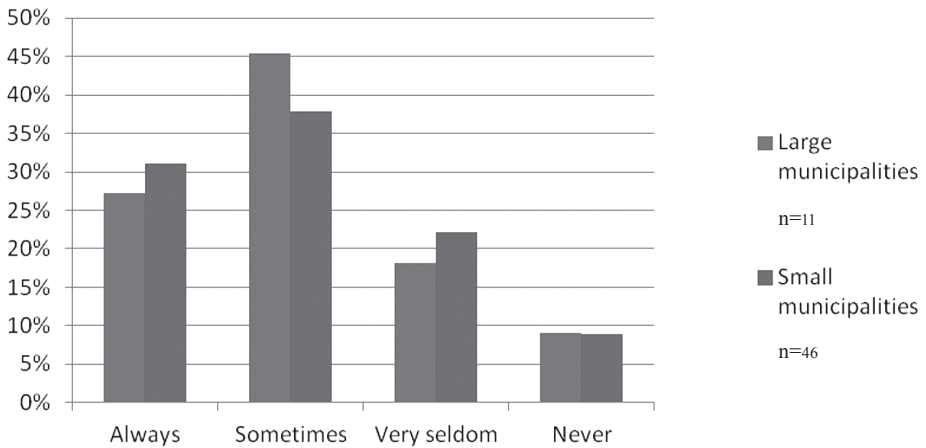


Figure 8. Evaluation of the socio-economic impact of the EU SF projects by local governments

All municipalities that responded agree that the EU SF projects have improved the quality of the living environment in their municipality. Half of the municipalities stated that the EU SF projects have increased the entrepreneurship in their municipality. One third of the municipalities could not say whether the projects had had any impact on the entrepreneurship and 18% of the municipalities said that these projects did not influence entrepreneurship. 75% of large municipalities responded that the EU support has had a positive impact on the entrepreneurship, but only 44% of small municipalities stated that the EU support has developed entrepreneurship in their region. Most of the municipalities (65%) were sure that their EU SF projects had increased employment in the municipalities.

Small municipalities may have difficulties in evaluating the impact of the projects on the development of entrepreneurship and employment because these small-scale projects can have only minor impact on local socio-economic development.

7.4 Co-financing Possibilities of Large and Small Municipalities

In 2009, the economic growth was a negative -13.9% in Estonia (Ministry of Finance 2010, 4). Due to the financial crisis, the municipalities had to cope with decreased budgets, and this has had a negative impact on the co-financing capacity of the municipalities in the middle of the current EU SF programming period. Half of the municipalities responded that the co-financing capacity of the municipality decreased considerably during economic recession; therefore, the municipalities used less EU support than planned. Only one third of the municipalities were able to co-finance the EU SF projects as planned at that time.

After the economic recession, the Estonian economy started to grow, and the economic growth in 2010 was already 3.1% (Ministry of Finance 2011c, 7). However, the results of the research indicated that only 5% of the municipalities found that their capacity to co-finance the EU SF projects has been very good. Most of the municipalities stated that their co-financing capacity was either average (40%) or good (32%). 23% of the municipalities responded that their co-financing possibilities were below average or not satisfactory.

The analysis shows that small municipalities have allocated more co-financing per capita for the implementation of the EU Structural Funds projects than large municipalities. For example municipalities that have less than 2000 inhabitants provided on average 141 euros co-financing per capita for their ERDF and ESF projects during the period 2004-2013. Large municipalities with more than 20,000 inhabitants invested on average only 44 euros per capita in co-financing the ERDF and ESF projects during the same period (See Table 4).

Table 4. Average co-financing per capita for ERDF and ESF projects provided by municipalities during period 2004-2013

Size of municipality (No of inhabitants)	Mean (Average co-financing per capita provided by municipality)	N (Number of municipalities)
Less than 2000	141	96
2000-4999	150	60
5000-9999	105	24
10000-19999	92	12
20000 and more	44	5
Total	134	197

Source: Author's calculation based on the data of the Structural Funds Database.

The research showed that most of the municipalities (79%) that responded had not received co-financing from the state budget. Only 8 municipalities confirmed that they had received some co-financing from the state budget.

The research indicated that the majority of municipalities (84%) have taken loans to co-finance the EU SF loans. The size of the municipality has not had any impact on the loan burden of the municipality: equally 84% of small and large municipalities have taken loans for co-financing the EU SF projects.

Subsection 34 (4) of the Local Government Financial Management Act states that if the six-fold difference between the revenue and costs of the municipalities' main activities is smaller than 60% of the revenue of the municipality during the reporting year, the net debt obligation of the municipality can be up to 60% of the revenue from main activities of the reporting year. Subsection 34 (5) of the same Act says that net debt obligation can be higher if the municipality has taken extra loans for covering the costs of the bridge financing (Kohaliku omavalitsuse üksuse finantsjuhtimise seadus 2010).

The research showed that 61% of the municipalities found that they should be able to take more loans for co-financing the EU SF projects than is allowed by the law. Small municipalities are more hesitant to take new loans: 27% of small municipalities responded that they are not interested in increasing their loan burden and 13% of small municipalities could not say whether there is a need for more possibilities for taking new loans. At the same time, 73% of large municipalities are of an opinion that they should have the right to increase their loan burden (See Figure 9).

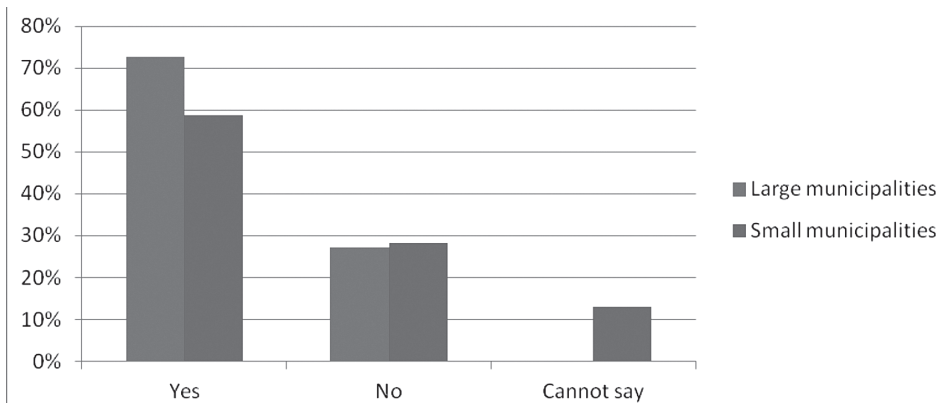


Figure 9. **Municipalities' opinion regarding increasing possibilities for taking more loans for co-financing the EU SF projects**

The municipalities that cannot take more loans have very limited possibilities to co-finance new SF projects during the next programming period, especially if the co-financing rate will increase. So far, the Government has allocated limited support for co-financing the SF projects of the municipalities from the state budget. Small municipalities would like to receive more co-financing from the state budget for the EU SF projects. One option to increase the co-financing possibilities for municipalities can be a merger with other municipalities.

One conclusion I can draw from my analysis is that municipalities must find co-financing resources from their own budget or take loans; support from the state budget has been very limited. Small municipalities have had a better access to co-financing from the state budget than large municipalities. On average small municipalities have provided more co-financing per capita from their own budget to the Structural Funds projects than large municipalities. However, small municipalities are more reluctant to increase their loan burden than large municipalities. This can be explained by the fact that the possibilities of small municipalities to finance additional loans are worse than those of large municipalities because they have fewer tax payers, and taking into account that there is a trend that many people are moving from small municipalities to large cities, in the long run, the financing capacity of small municipalities may worsen.

Both small and large municipalities stated that there are too many small municipalities in Estonia with weak administrative capacity and insufficient co-financing capacities for implementing the EU SF projects. At present, the administrative and co-financing capacity of some very small municipalities is so low that they are not able to be partners in the SF projects even if they cooperate with each other.

8. Conclusion

Municipalities in Estonia have received support in the amount of over 300 million euros from the EU Structural Funds since its accession to the EU. The objective of the article was to analyse the administrative capacity of the municipalities for the management of the EU SF. The survey was conducted among Estonian municipalities in 2011. One of the conclusions I draw is that small municipalities in Estonia have not been able to use the EU SF support as effectively as large municipalities because their administrative capacity has been weaker and their co-financing possibilities have not been sufficient.

Most of the municipalities have been satisfied with the SF measures, but one fifth of the municipalities could not take advantage of the possibilities that the EU SF offer because the design of the measures did not satisfy their needs. Large municipalities have received on average more EU Structural Funds support than small municipalities. Municipalities have had an incentive to use the EU SF support, because it has helped to improve the quality of the living environment and to create jobs. The quality of many project applications of the municipalities is still low and Implementing Agencies must provide additional consultation to the municipalities for the project development. The survey showed that the proportion of municipalities that employ EU SF project managers has slightly increased since the previous study in 2005. Municipalities found that the administration of the EU SF in Estonia is too complicated because there are too many different legal acts and the administrative system of the EU SF is too fragmented. Most of the municipalities stated that their co-financing capacity was either average or good but almost a quarter of the municipalities responded that their co-financing possibilities were below average. Most of the municipalities have not received any funding from the state budget for co-financing the EU SF projects. Therefore, the municipalities must find co-financing from their own budget or take loans. The majority of both small and large municipalities have taken loans for co-financing the EU SF projects. The municipalities that cannot

take more loans have very limited possibilities to co-finance new SF projects. The research showed that during the next programming period, municipalities need most EU support for the development of infrastructure and education.

The survey showed that large municipalities do not have major problems with their administrative capacity for the management of the EU SF. Large municipalities always achieved the objectives of the projects. The disadvantage of large municipalities has been bureaucracy – decision-making in large municipalities takes more time than in small municipalities.

The effectiveness of SF projects in small municipalities was lower than in large municipalities: two thirds of small municipalities stated that they had achieved the objectives of the SF projects. Almost half of the small municipalities find deficiencies in their administrative capacity for using the EU support. The small municipalities have not had enough incentive to seek for the Structural Funds support because they have budget constraints for co-financing the SF projects, and their development specialists have not received enough professional training for the project preparation, management as well as for monitoring and evaluation that is required for administration of SF projects in a complex legal environment.

The Estonian case study shows that since 2004 the majority of municipalities (87%) in Estonia have benefited from the EU SF support. The EU SF support has increased the competitiveness of all NUTS 3 regions in Estonia. ERDF, SF and CF support per capita has been equally distributed between NUTS 3 regions in Estonia. The Ministry of the Interior has directed most EU SF support to less developed regions while other ministries have ignored the regional dimension during the implementation of their policy measures.

Estonian regions are unequally developed. The “Estonia 2020” strategy unfortunately does not include a plan for the development of less developed regions (including islands) and supports rather the development of regional centres. This may lead to a situation where people decide to leave less developed regions and move to cities where the living quality is higher, thus increasing urbanisation.

The government should involve the county level and associations of local municipalities more in the programming process of the EU SF and delegate more financing decision-making of the EU SF to the county level because at the regional level people are more aware of the development priorities of the municipalities. Taking into account that small municipalities need access to foreign assistance in order to develop local economy and human resources to overcome unequal regional development in Estonia, the associations of local governments and the government should pay close attention to the needs of small municipalities during the preparation of the EU SF programming period 2014-2020. Taking into account that the investment needs of small municipalities are more diversified, it would be worthwhile to elaborate specific investment measures for small municipalities for the next programming period.

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16. Määrus "Nõuetele mittevastavate tavajäätmeprügilate sulgemine tingimused." 2008. *RTL* 23, 356.
17. Määrus "Riikliku arengukava meetme 4.3 'Kutse- ja kõrghariduse ning seda toetava infrastruktuuri kaasajastamine' toetuse andmise tingimused." 2004. *RTL* 70, 1146.
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19. Struktuuritoetuse seadus. 2003. *RT I* 82, 552.
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Meetings and interviews

- Phone interviews with the representatives of the Karksi and Kärla municipalities, 5 March 2012.
- Phone interviews with the representatives of the Kohila, Misso and Orava municipalities, 6 March 2012.
- Written interview with the representative of the Kuressaare City Government, 7 March 2012.
- Tallinn, meeting with the representatives of the EU Structural Funds Implementing Agency Innove, 7 March 2012.
- Tallinn, meeting with the representatives of the International Projects Department of Tallinn City Chancellery, 9 March 2012.
- Written interview with the representative of the EU Structural Funds Implementing Agency Enterprise Estonia, 9 March 2012.

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⁷ Decree No 6 of the Tallinn City Council (21 January 2008).