

Estonia

Key facts and issues

Estonia is a unitary country with a population of 1.3 million. Subnational governments are responsible for 24.1% of government expenditure, ranking Estonia the 11th most centralised country in the OECD with regards to public spending. It is the least decentralised country in the OECD with regards to taxation, as subnational tax revenue is only 1.6% of general tax revenue. Estonia is only moderately urbanised, with 43% of its population living in predominantly urban regions. Over the last decade, the share of the population in predominantly urban areas has increased at the fastest pace in the OECD. Estonia's predominantly urban regions are producing 61% of Estonia's GDP.

Estonia's GDP per capita in 2015 (around USD 28 000) is 32% below the OECD average. Estonia's inter-regional disparities in GDP per capita among small regions (TL3), as measured by the Gini index, are the 8th highest in the OECD, despite having declined since 2000. In seven out of eleven regional well-being dimensions (TL3 regions), the region of North Estonia (which contains the capital city Tallinn) performs better than the rest of the country. This region ranks in the top 20% of OECD regions in terms of the well-being dimensions of jobs (unemployment and employment rates), access to services (broadband) and education (share of workforce with at least secondary education). Regarding life satisfaction, however, all Estonian regions are in the bottom 20% of OECD regions. Estonia's largest inter-regional disparities are found in jobs (employment and unemployment), access to services (access to broadband) and civic engagement (voter turnout). Estonia has the third largest inter-regional disparities among OECD countries in terms of health (mortality rates and life expectancy).

Estonia: regional, urban and rural development policies

Policy Area	Enabling Document, Strategy, or Framework	Strategic Objectives and Means	Lead Ministry, Agency or Committee
Regional	National Regional Development Strategy (RDS) 2014-2020 National Spatial Plan: Estonia 2030+	Focus on regional economic drivers, rural-urban linkages through infrastructure - transport and public services, as well as region-specific clusters and improvement of development capacity at local level	Ministry of Finance (Regional Development Department)
Urban	National Regional Development Strategy (RDS) 2014-2020 National Operational Programme for Cohesion Policy Funds 2014-2020	Emphasis on sustainable urban mobility (i.e links between centres and the hinterland), improving urban public space and child-care facilities; as well as emphasis on investing in insufficiently developed urban environments and promoting sustainability	Ministry of Finance (Regional Development Department)
Rural	Estonian Rural Development Plan (ERDP) for 2014-2020 National Regional Development Strategy 2014-2020	Agriculture and rural economies, strong support for environmental sustainability and direct support to agricultural production	Ministry of Rural Affairs

General policy approach

Estonia's regional policy is focused on the living and business environment in urban and rural areas, as well as the better use of regional assets and a greater cohesion and development capacity among regions. The policy is managed by the Ministry of Finance. The orientation has been moving a bit away from infrastructure and public services towards a stronger focus on economic development and employment based on regional strengths, for instance supported by a new regional competence centres programme. Urban policy instruments have a transport and revitalisation focus. Rural policy seeks to improve local community-based developmental activities, access to services (including e-solutions) and jobs (including mobility/teleworking solutions). Municipal capacity building through conducting state and territorial administration reform (i.e. mergers of municipalities), trainings, etc. is also in progress to better anticipate demographic and other challenges.

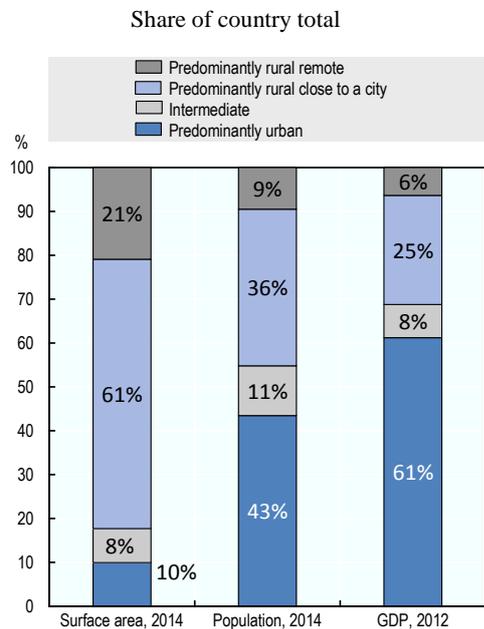
Recent policy changes

- In mid-2015, the responsibilities for regional development moved from the Ministry of the Interior to the Ministry of Finance.
- Since 2014, the new Regional Development Strategy shifted focus from infrastructure and public services to regional entrepreneurship and employment, facilitating region-specific growth sectors, and with a greater emphasis on local capacity and cross-sectoral policy co-ordination.
- In that strategy, there is also a greater emphasis on rural-urban linkages, through co-operation and connections, as well as a joint planning aiming at making county centres engines for the wider hinterlands in terms of jobs and service delivery.
- The Spatial Plan Estonia 2030+, enacted 2012, aims to improve the environment in cities and sparsely populated areas, promoting multimodal transportation and a mix of energy-savings and renewable energy use.
- To strengthen the administrative and developmental capacity of local governments in order to deal with future challenges, including demographic trends and increasing efficiency of the state administration, a municipal merger programme is in place, starting with voluntary mergers.

Estonia: Main regional, urban and rural development policy tools

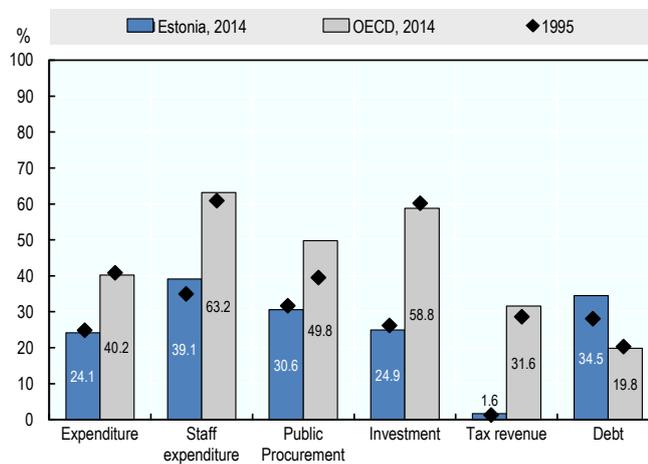
Policy Instrument	✓	Examples
Transport Infrastructure investments and systems of cities	✓	Infrastructure investments are supported through various grant schemes from ERDF for specific infrastructure projects such as cycle roads, access roads to railway stations, etc.
Other Infrastructure investments	✓	Mainly public service infrastructure, concerning notably primary care, social and educational infrastructure and utilities, improving living conditions of households in sparsely populated areas; internet broadband in rural and sparsely populated areas; programmes are mainly built around grant schemes from ERDF
Service delivery (subsidies for public services)	✓	<i>Regional:</i> Subsidies for public transport services are allocated from the state budget <i>Rural:</i> the LEADER programme as well as agricultural and rural development programmes allocate funds for this purpose, supporting entrepreneurship and diversification
Business development/ innovation support	✓	Funding regional investor services; development of regional competence centres; counselling for firms through county development centres, as well as other grant schemes to businesses through ERDF fund
Urban renewal	✓	Grant schemes from ERDF for neighbourhood revitalisation through public service delivery, renovation and mobility enhancement
Urban form and land use	✓	Some grant schemes from ERDF are addressed to investments on quality public space and sustainable urban mobility, also in order to curb some undesirable effects of urban sprawl
Sustainability policies	✓	Urban: Sustainability is partly targeted through grant schemes from ERDF focused on facilitating sustainable urban mobility and centre-hinterland cycle road linkages Rural: Rural Development Program has various programs on specific aspects of rural life and environmental sustainability, such as endangered species support, local value-chains and sustainable and eco-friendly agriculture
Rural-urban linkages	✓	Improving urban-rural mobility systems, through constructions of cycle and pedestrian roads, for example.
Clusters/technology platforms/ centres of expertise	✓	<i>Regional:</i> A grant scheme to establish and develop regional competence centres based on region-specific resources and know-how
Special economic zones		
Rural landscape preservation	✓	The Rural Development Programme aims at the restoration of historic walls and semi-natural habitat, as well as protection and investment in forests as amenities
Skills/training programmes	✓	Regionally planned initiatives to increase entrepreneurship and employment, funded by ERDF
Capacity building for sub-national governments	✓	<i>Regional:</i> Trainings, counselling and an open call for studies and development projects to improve the capacity of local and regional actors in the fields of local and regional strategic planning and provision of services are made available. Some funds are earmarked for mergers <i>Rural:</i> Technical assistance through the Regional Development Programme.

Land, population and economy in rural and urban regions



Subnational government role in public finance

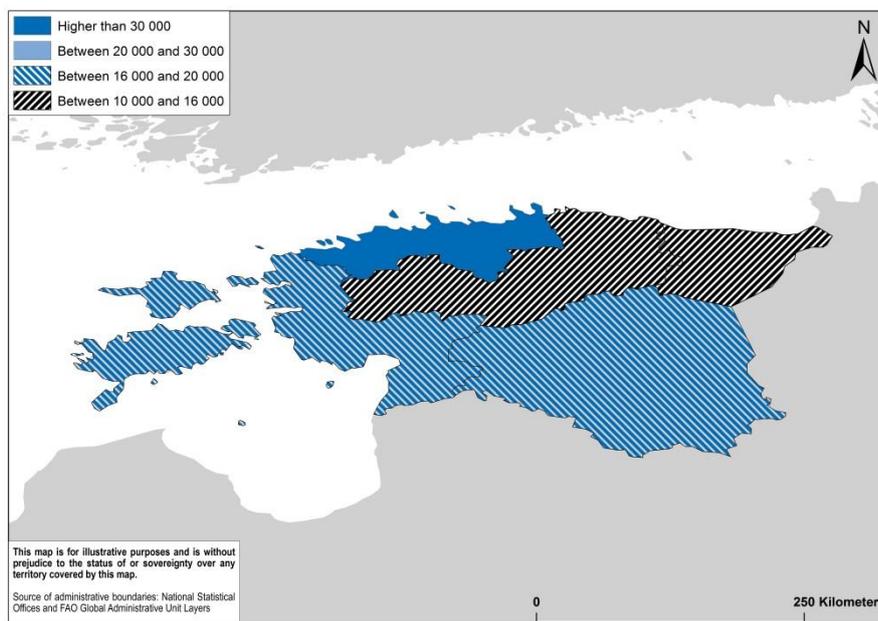
Share of general government



Number of subnational governments

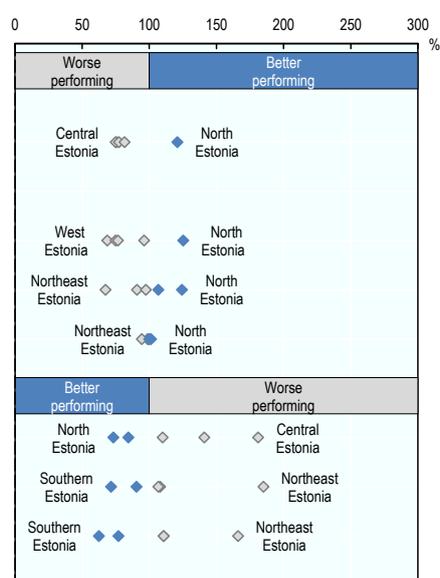
Level	Number
Municipal level	213
Intermediary Level	
Regional or state level	
Total	213

Regional differences in GDP per capita levels, 2013



Note: GDP per capita in constant prices and constant USD PPP (base year 2010).

StatLink <http://dx.doi.org/10.1787/888933420271>

Inter-regional disparities (as a % of the country average)

Variable	Min.	Max.	Country Avg.	OECD Avg.	Disparities up or down since 2001
GDP per worker (2012)	40 201	64 816	53 797	74 520	down
R&D expenditure as a % of GDP (2013)	n.a.	n.a.	n.a.	2.4	n.a.
Share of labour force with tertiary education	26.0	47.4	37.8	32.3	down
Disposable household income per capita (2013)	5 709	10 523	8 459	21 430	down (2008)
Life expectancy (2013)	72.3	77.5	77.3	80	up
Share of workforce with only primary education	6.6	16.3	9.0	25.2	
Unemployment rate	5.3	13.7	8.6	7.3	up
Gender gap in participation rate	-12.8	0.1	-5.4	-15.9	up

Note: Each diamond represents a TL3 region. Unless specified, all data are for 2014. Disparity is measured as the difference between the top and bottom region in the country.

Productivity and catching-up trends among regions

Average annual labour productivity (GDP per worker) growth rate [diamonds] and deviation from the growth rate of the country's productivity frontier [bars], 2000-2013
See country page notes for classification of regions

Only one TL2 region in Estonia

Contribution to labour productivity growth, 2000-13

Percentage contribution to national GDP growth, 2000-13

Only one TL2 region in Estonia

Only one TL2 region in Estonia

Country page notes

Main indicators

OECD average	represents the weighted average of OECD country/region values for the given year or closest year available.
OECD Regional Well-being framework	considers a combination of individual characteristics and local conditions in eleven dimensions that shape people's material conditions (income, jobs and housing) and their quality of life (health, education, access to services, environment, safety, civic engagement and governance, community, and life satisfaction).
Gross domestic product (GDP); GDP per capita; and labour productivity (GDP per worker)	is the standard measure of the value of the production activity (goods and services) of resident producer units. Regional GDP is measured according to the definition of the System of National Accounts (SNA 2008). To make comparisons over time and across countries, it is expressed at constant prices (year 2010), using the OECD deflator and then it is converted into USD using purchasing power parities (PPPs). For regional labour productivity, GDP (gross value added for Turkey) is divided by the number of workers (at place of work) or, for GDP per capita, the number of residents. For comparisons of current (per capita) GDP across countries, GDP for 2015 is converted to USD using PPPs for 2015.
Subnational government role in public finance	is mainly derived from the OECD National Accounts, harmonised according to the new standards of the System of National Accounts (SNA 2008), with the exception of Chile, Japan and Turkey, which are still under SNA 1993. General government includes four sub-sectors: central/federal government and related public entities; federated government ("states") and related public entities; local government i.e. regional and local governments and related public entities, and social security funds. Subnational governments are local (regional and local) governments and state governments (in countries with a federal or quasi-federal government system).
Gini index (regional income inequality)	The Gini index is a measure of inequality in terms of GDP per capita among all regions of a given country, with equal weight for each region. The index takes on values between 0 and 1, with zero interpreted as no disparity.
R&D expenditure	is the total gross domestic expenditure on research and development by the government, higher education, business, and private non-profit sectors.
Household disposable income and poverty rate	is the income generated directly from market transactions, adding all current transfers from the government, except social transfers in kind, and subtracting current transfers, such as income or regular wealth taxes and social contributions. It is expressed in USD Purchasing Power Parities (PPP) at constant prices (year 2010) and using a standard equivalised size for households across the OECD. Due to a lack of data, the indicator is expressed in per capita terms for the Czech Republic, Estonia, Hungary and New Zealand. The poverty rate is here taken as the percentage of people with disposable household income per capita of less than half the country median.
Participation rate, unemployment rate, youth unemployment and NEETs	The (labour force) participation rate is the ratio of the labour force (employed and unemployed) aged 15+ to the population (15+). The gender gap is the difference between the participation rates for women and men. Unemployed persons are defined as those who are without work, are available for work, and have taken active steps to find work in the last four weeks. The unemployment rate is defined as the ratio of unemployed persons to the labour force. Youth unemployment considers the unemployed and the labour force aged between 15 and 24. "NEETs" refers to 18-24 year-olds who are neither in employment nor in education and training (as a percentage of the population of 18-24 year-olds).
Primary and tertiary education	Primary education includes primary education, pre-primary education and lower secondary education (ISCED 0-2). Tertiary education includes both university qualifications and advanced professional programmes (ISCED 5-8). Shares are defined with respect to the labour force aged 15 and over.
Elderly	are those aged 65+. The elderly dependency rate is the ratio of the elderly to the working age population (15-64).
Air pollution	is the 1km ² grid cell population weighted average of satellite-based estimates of small particulate matter (PM _{2.5}).
Life expectancy	measures the number of years a newborn can expect to live, if death rates in each age group remain constant.

Typology of regions with respect to productivity

Frontier	is the region leading its country in terms of labour productivity, measured by the real gross domestic product per employee. In some countries the leading region accounts for a small percentage of the total workforce. Where this is the case, the frontier is the weighted average of regions with the highest labour productivity levels accounting for 10% of the country's total employment.
Catching-up regions, diverging regions and regions keeping pace	is a classification of regions based on their labour productivity growth relative to the frontier. It is based on the growth in labour productivity between 2000 and 2013 (or closest year available). Regions where labour productivity grew/dropped by at least 5 percentage points more/less than in the frontier over the period are classified as catching-up/diverging regions (about 0.4 percentage points annually), with regions that are keeping pace falling within the +/- 5 percentage points band.

Typologies of regions with respect to population or other functions

Regions (TL2 and TL3)	are classified by the OECD into two territorial levels that reflect the administrative organisation of countries. OECD's large regions (TL2) represent the first administrative tier of subnational government. OECD small (TL3) regions are contained within a TL2 region. Reference to the 20% richest/top or poorest/bottom regions, indicates the top/bottom-performing regions according to the indicator accounting for 20% of the (relevant) population.
TL3 typology (urban, intermediate, rural)	TL3 regions have been classified as: predominantly urban (PU), intermediate (IN) and predominantly rural (PR) based on the percentage of regional population living in rural communities, combined with the existence of urban centres where at least one-quarter of the regional population resides. The terms "urban", "intermediate" and "rural" refer to these categories.
Metropolitan area	is a functional urban area with 500 000 or more inhabitants defined by population density and commuting flows.

Further details and information: OECD (2016) *OECD Regions at a Glance 2016*, http://dx.doi.org/10.1787/reg_glance-2016-en.