

Executive summary

Estonia's population – 1.33 million inhabitants in 2020 – has shrunk by 15% since 1991 and all available projections indicate that this trend will continue. But shrinkage has been uneven. While larger urban areas have grown, more than half of Estonia's counties experienced population decline greater than 25%. Rural and remote areas have been hardest hit. Shrinkage results in lower density, which increases per head service and infrastructure provision costs. It also results in housing vacancies and deteriorating built environments, problems that require additional municipal resources to maintain suitable living conditions in the face of declining tax revenues. Another effect is a higher share of the elderly population in all regions of Estonia. These older residents require additional services and care, compared to the average citizen.

This study assesses shrinkage in Estonia across key policy sectors and recommends interventions that adapt regions to shrinkage in a smart and sustainable way. It discusses spatial development and planning practices and presents recommendations to make land use more efficient and spatial planning more coherent. It also reviews Estonia's multi-level governance and municipal finance model, highlighting ways to boost inter-municipal co-operation, improve the transfer system and strengthen the municipal revenue base. Finally, it examines education, by far municipalities' largest spending responsibility, presents recommendations that adapt the school network while ensuring access to high-quality education for all students and considers how other services can apply lessons learned from the education sector.

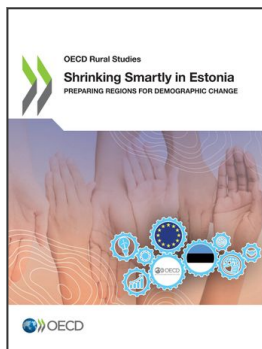
Key findings

- **Despite depopulation, the amount of developed land is increasing.** From 2000 to 2014, Estonia had the sixth-highest growth (18%) among OECD countries in the amount of built-up area per capita. Over the same period, its population decreased by 5%. This, together with increasingly sparse settlement patterns, suggests that land use in Estonia may be becoming increasingly inefficient. As most development occurs in converted farmland and forests, this generates adverse environmental impacts, which can include degradation of land, biodiversity loss and greenhouse gas emissions, as well as economic costs, notably for per capita infrastructure consumption.
- **Depopulation widens and reinforces regional disparities.** Estonia's population is concentrating near urban centres, leading to regional disparities in tax revenues, income, house prices and the quality of built environments. Shrinking regions often do not have functioning real estate markets, which makes it difficult for people to move between regions, reinforcing regional disparities and chronic labour shortages.
- **Providing quality education in shrinking areas is challenging.** Shrinkage has resulted in 50 000 fewer students over the last 20 years. Student numbers will continue to decline in sparsely populated rural areas while numbers in other areas will remain steady or increase. While shrinking municipalities are consolidating schools, they still face 30% greater, unavoidable per capita costs compared to cities. Attracting high-quality teachers is also challenging in these areas.

- **Regional governance is fragmented and inter-municipal co-operation is limited.** Spatial planning, strategic sectoral initiatives and development strategies are all governed separately at the regional level. This leads to a lack of policy coherence, inefficient service and infrastructure networks as well as uncoordinated spending at the national and municipal levels. Voluntary co-operation between municipalities is rare.
- **Planning and legal frameworks are not prepared for shrinkage.** Local Comprehensive Plans (CPs) do not address shrinkage or properly integrate population projections. Thus, re-evaluation of settlement boundaries and densification rarely occurs. Vacant housing requires demolition in order to improve land use efficiency and reduce infrastructure delivery costs, yet expropriation is legislatively time-consuming and challenging, and not integrated into spatial planning.
- **Municipal finance and taxation systems encourage inefficiency and weaken local decision-making capacity.** Eighty percent of central government transfers to municipalities are earmarked. This prevents discretionary decision-making and discourages efficiency gains, as savings cannot be used elsewhere. Greater land tax exemptions exist for residential plots in non-urban areas, adding to distortions harming efficiency. Impact fees, which require developers to bear the cost of development of public infrastructure and services in the vicinity, are not well enforced.

Key recommendations

- **Reduce land consumption and promote densification of central areas.** CPs should steer spatial development by incorporating population projections. Subordinate plans should not allow the CP to be overridden. Plans should adapt to demographic trends and economic opportunities through flexible zoning, temporary uses and upward flexible density regulations.
- **Promote governance spanning sectors and levels of government.** County-wide spatial plans (CSPs) should act as the central platform for regional governance by integrating frameworks for voluntary inter-municipal co-operation across sectors. The central government should encourage co-operation by directing fiscal transfers to inter-municipal bodies rather than municipalities.
- **Increase the quality of services through municipal co-operation.** The central government should direct resources to joint municipal projects with quality-enhancing service goals. This is especially needed for incentives dealing with shortages in teachers, healthcare providers and other key workers in shrinking areas. Aggregated service centres coupled with digital provision should be promoted to increase resource sharing and efficiency while bridging gaps in service quality.
- **Implement demolition and renovation projects within the spatial planning system.** Demolition and renovation should be planned at a larger scale within CSPs and local CPs. Spatial planning should guide the location of these projects. Expropriation should be allowed for the demolition of empty detached housing and be based on land use decisions outlined in spatial plans.
- **Reform fiscal structures to better prepare for shrinkage.** The complex earmarked grants system should be abandoned or at least considerably reduced. Factors in the transfer system that inadvertently foster remoteness should be replaced with indicators such as population density, encouraging efficient settlement structures. Land tax exemptions in rural areas should be abolished and impact fees should be actively utilised. Fiscal incentives addressing teacher shortages in remote areas need to be implemented together with the streamlining of the school network.
- **Provide municipalities with open information systems and administrative support.** Database documenting costs and outcomes of municipal services should be established to support benchmarking of service provision. These databases should be integrated into e-platforms to evaluate and monitor the quality of services across municipalities. The central government should aid local government capacity building by training and maintaining a certified pool of planning and architectural experts to support local governments.



From:

Shrinking Smartly in Estonia Preparing Regions for Demographic Change

Access the complete publication at:

<https://doi.org/10.1787/77cfe25e-en>

Please cite this chapter as:

OECD (2022), "Executive summary", in *Shrinking Smartly in Estonia: Preparing Regions for Demographic Change*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/e7bfbd91-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.