



Proposals of the Estonian Employers' Confederation to political associations and parties participating in local elections.

Local government council elections will take place on 17 October 2021. Employers see improving of the local business environment and attracting investments with high added value to municipalities as the priority for developing local life¹. The services provided by both the state and local governments will be too much for society to bear if Estonia does not have a sufficient number of viable businesses, valuable jobs and taxpayers. People need paying jobs in every corner of Estonia to ensure a high standard of living.

Municipalities need tax revenues in their budgets, which can only come from entrepreneurship. This is why municipalities must compete for new investments and jobs, and not lightly turn them away. In recent years, excessive restrictions and protests have made it extremely difficult to expand any kind of business and construction activity in rural areas, jeopardising Estonia's economic development and accelerating peripheralisation. When investments disappear, jobs, schools and kindergartens disappear as well.

Not all decisions improving the local living and business environment are in the exclusive competence of local governments. The majority of these changes require effective cooperation between national and local governments. The proposals of the Estonian Employers' Confederation are divided between the state and the local governments as follows.

1) Proposals for heads of local government:

- Give priority to attracting investments with high added value and job creation in the municipality. Establish a strategy for the development of entrepreneurship in the municipality and regularly monitor the results thereof.
- Speed up and simplify the planning process so that new investments do not get bogged down in excessive bureaucracy. Attracting new investments starts with an open and flexible attitude from the heads of local government.
- When introducing restrictions and limitations, assess their impact on the preservation of local life and involve representatives of the sector at the earliest

¹ See also the [Employers' Manifesto!](#)



planning stage to mitigate risks. Use objective research to support knowledge-based and transparent decision-making.

- Continue privatisation and the transfer of public services to the private sector, such as public transport, catering in educational institutions, ICT services, etc. In 2019, 6,500 people were employed in companies owned by local governments, i.e., one in ten local government employees². There are still services in local governments that could also be provided by local businesses.
- Increase public procurement capacity and harmonise the quality of services to businesses, through centralisation or in cooperation with public authorities, where necessary. The main criterion for procurements should not be the lowest initial price, but the whole life cycle cost and quality. Smart procurements facilitate innovation and environmentally friendly solutions.

2) Proposals for cooperation between local governments and national leaders:

- **Optimising the school network** is of the utmost importance in the cooperation of the state and local governments. The quality of general education could be significantly improved and teachers' salaries increased by optimising the school network, using recommendations such as those of the [OECD](#) and [PRAXIS](#). High-quality education depends more on good teachers than on distance.
- Start implementing the state reform, including the reform of local government services. Through the innovation of public services, outsourcing to the private sector and centralisation of services, the delivery of public services in local governments will become more sustainable. Some local government services need to be kept close to residents and businesses, but many services can also be provided in county centres, online, periodically, or by businesses.
- The development of industrial parks and incubators can deliver good results for the development of jobs and entrepreneurship in peripheral areas. This also needs to be pursued further in Estonia, while avoiding market distortions and unnecessary competition with the private sector.
- Harmonise the quality and accessibility of social services as treatment services across municipalities. Again, privatisation, centralisation and greater mobility are possibilities.
- Ensure a fair transition in Ida-Viru County in cooperation with local governments. The state, municipalities, employers and workers all have an important role to play in this.

² [Civil Service Yearbook 2019](#).



- Continue to build a high-speed internet connection and a high-quality network of main roads to increase local labour mobility and develop the business environment. High-quality infrastructure encourages new investments.

3) Proposals to national leaders:

- Define the development of the business environment as a mandatory task for local governments in the Local Government Organisation Act³.
- We recommend creating a direct financial incentive for local governments to develop the business environment and attract foreign investments:
 - Allocating a larger share of environmental charges directly to the municipality where the environmental damage occurred, to increase the interest to tolerate.
 - Partial redistribution of personal or corporate income tax on the basis of jobs or registered address.
 - Revising the principles of the equalisation fund. The redistribution of revenues through the equalisation fund should be based, among other things, on the financing of services provided to businesses and consider, for example, the ratio of new jobs created.
- Create a legal basis for a compensation mechanism to boost the interest to tolerate relating to entrepreneurship⁴.
- Create a financial incentive for small municipalities to continue to merge, to ensure their greater capacity and the high quality of their core functions and services.
- Simplify the municipalisation of public land for local governments, for the development of productive land for businesses. Design the fast and transparent conduct of affairs in relation to land ownership by developing flexible rules and solutions.
- Make the Public Procurement Act more flexible to reduce market failures and allow local businesses to compete more for the local provision of services and products.
- Develop a methodology for assessing the most entrepreneur-friendly local governments and commence regular annual measurement. Include the measurement of entrepreneurship activities on the list of services provided by

³ The recommendation is also referred to in an analysis commissioned by the Ministry of Finance: [The benefits of local governments from entrepreneurship and activities developing the business environment](#), Geomedia OÜ 2020.

⁴ Also see the related analysis: [Analysis of community benefit instruments \(impact assessment of interest to tolerate\)](#), PRAXIS 2020.



municipalities in the Minuomavalitsus.ee portal, and develop appropriate criteria for this⁵.

- Set up an enterprise cooperation council in each county that makes proposals on entrepreneurship and related issues (labour market, vocational training, etc.) and regional policy.

Lastly, we recommend involving both local entrepreneurs and national business organisations in the development of local life, as they are the best sources of information on the development needs and possible solutions for the local business environment.

⁵ The activity is partly underway. Among other places, the recommendation included in the analysis: [The benefits of local governments from entrepreneurship and activities developing the business environment](#)