

# POST-COMMUNIST DEVELOPMENT OF ADMINISTRATIVE STRUCTURE IN ESTONIA: FROM FRAGMENTATION TO SEGMENTATION\*

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## Abstract

The article focuses on the issue of administrative structure and its development in a post-communist context. The case of the Estonian administrative system is analyzed. The article aims to find out how and why a decentralized administrative structure has formed in Estonia. To fulfill this aim, the current organizational landscape of the Estonian public administration is described and its trajectories of development over the 20-year period are discussed. The analytical framework of the article draws on organization theory and literature on post-communist transition. It is found that during the 20 years of regained independence, factors have combined in favor of specialization over coordination in Estonia. First, the aim of overthrowing the legacy of centralized soviet public administration in combination with pressures of transition and the sectoral character of the EU accession process have contributed to the development of a public administration with strong ministries having a considerable leverage over the issues falling to their areas of governance. Second, the neo-liberal worldview of Estonia's politico-administrative elite and its inclination towards a lean state and down-sizing have led to reluctance towards investing into coordinating functions and administrative development more generally.

**Keywords:** Estonia, administrative structure, coordination, institutionalization, post-communist development.

## 1. Introduction

The focus of this article is on the administrative structure and its development in a post-communist context. The administrative structure has a vital importance in a state for it directs the way public policies are designed and implemented. Organizational forms and their modes of operation create constraints on and possibilities for actors' use of discretion and, as a result, shape their behavior in the policy process (Christensen *et al.*, 2007). Changes in a state's organizational structure may alter the balance between different values, shift the focus on tasks to be performed and increase or diminish the potential for political control (Lægreid *et al.*, 2008; Egeberg, 1999). Consequently, administrative structure has a critical role to play in the functioning of a politico-administrative system.

The last few decades have seen a lot of reform effort directed at changing the administrative structures of states, both in the countries of 'West' and 'East'. In the countries of Central and Eastern Europe (CEE), the structural reforms have been of an overwhelming magnitude. The radical shift of political regime from communism to democracy also necessitated changes in the institutional structures of the states. Especially in the countries that were formerly part of the Soviet Union, the question was not so much about reforming the states' organizations but building them up, as the structures assumed from the communist predecessors were inadequate and in some policy fields even absent. Consequently, the CEE countries faced the challenge of building up administrative institutions that would be able to fulfill their roles in a democratic policy-making and implementation cycle. Among other things, it also meant reforming the mechanisms of cooperation and coordination in a situation where the communist party as a central coordinating power had lost its position. Considering that most of the CEE countries inherited fragmented administrative systems with a high number of individual organizations, many of them designed as single-purpose agencies (Beblavý, 2002; Goetz and Wollmann, 2001), this was not an easy task.

The article at hand focuses on the post-communist development of administrative structure in one of the CEE countries – Estonia. In Estonia, a decentralized administrative system has formed during the 20 years since regaining its independence in 1991. In terms of structural development, Estonia has moved from a fragmented system inherited from the Soviet Republic to a segmented system that relies on strong ministries supervising their areas of governance regarding both policy and structure. The ministries are rather small and their role is mostly confined to policy formulation. The implementation of the policies is carried out by various agencies under their supervision. Such a decentralized arrangement has shown both considerable strengths and considerable weaknesses. On the one hand, there is clear accountability for certain policy fields, accumulation of professional knowledge, the possibility for relatively quick problem-solving and the need to spend fewer resources on central coordinating units. On the other hand, difficulties related to solving problems that engage several areas of governance have arisen as they defy clear responsibility and engage clashes between different agency ideologies. Calls for a better horizontal integration of policy

sectors and for a whole-of-government approach have been voiced by social actors, the National Audit Office and other experts. Most recently, the coordination problems have been underlined by the OECD (2011) review of Estonian governance which resúmed that there is considerable room for development in terms of joined-up policy design and implementation.

The aim of this article is to find out how and why such a decentralized administrative structure has formed in Estonia during the 20 years of regained independence and transition to democracy. Why has Estonia's post-communist administrative development advanced from a fragmented to a segmented system? To fulfill this aim, first, the current organizational landscape of the Estonian public administration is described and analyzed and, second, its trajectories of development over the 20-year period are discussed. The analytical framework of the article draws on organization theory and literature on post-communist transition. The approach applied to the organizational change can be defined as 'transformative' (see Christensen *et al.*, 2007, pp. 165-175) – it is expected that changes in the structure of the public sector are born in a complex interplay between conscious and planned strategies of political and administrative leaders, cultural-historical features and reform pressures originating from the external context of organizations. At the nexus of these diverse factors of influence, transformations occur (Christensen *et al.*, 2007). The goal is to explain how they have combined in the case of Estonian administrative development. The perspective adopted can also be termed institutional. The article attempts to find out how the Estonian administrative structure has institutionalized – what kinds of working practices have become entrenched and why?

The empirical part of the analysis is based largely on a research exercise started in 2008 with the aim to achieve an overview of the administrative development by mapping all events whereby full organizations have been established, terminated or reorganized at the center of the Estonian government from 1990 to 2010. The mapping of events relied on the analysis of various documentation (legislative initiatives and their accompanying notes, records of discussion in the parliament *Riigikogu*, newspaper articles, different surveys and analysis etc.) in which the content and explanations of reorganizing Estonian government structures have been conserved. This knowledge has been complimented with information from other secondary sources on the organization of the Estonian public administration and its development (audits by the Estonian National Audit Office, reports by the Ministry of Finance, Public Service Yearbooks etc.). The analysis of documented information has been further supported by informal conversations with key persons who have participated in the change processes at various points in time.

## **2. Theoretical framework**

### **2.1. Administrative structure**

There is a growing amount of international academic discussion on the issues related to the administrative structure of states. A big part of the discourse focuses on the phenomenon of 'agencification', its nature and effects (for a comparative treatment

of CEE and Western European countries see van Thiel, this issue). In their essence, these discussions revolve around the organizational architecture of states and the division of functions between different actors in the system. For the research interest of this article, the concept of ‘specialization’ is of central interest. Agencification has meant increasing specialization of the state structures. Also in the context of CEE, it is relevant to find out how the specialization of administrative structure has been addressed in the process of transition to democracies.

Specialization can be analyzed along two dimensions – vertical and horizontal (Christensen *et al.*, 2007; Egeberg, 1999; Læg Reid *et al.*, 2008). The *vertical specialization* indicates how political and administrative tasks and authorities are allocated among organizations at different levels, i.e. between ministries and their subordinate agencies. In terms of process, it means a conversion of existing state organizations or functions into units that are organizationally further away from the central political authorities or the transfer of tasks to such units. The *horizontal specialization* focuses on how tasks and authorities are distributed among different organizations at the same hierarchical level, i.e. between ministries or among government agencies. Horizontal specialization in terms of process means that existing organizations are split into smaller sub-units or that new organizations are founded at the same hierarchical level.

In the context of a complex administrative structure, there is another side to specialization – it enhances the need for coordination (Verhoest and Bouckaert, 2005, p. 104). Peters (1998, p. 296) refers to coordination as ‘an end-state in which the policies and programmes of government are characterized by minimal redundancy, incoherence and lacunae’. Coordination becomes manifest in ‘instruments and mechanisms that aim to enhance the voluntary or forced alignment of tasks and efforts of organizations’ (Bouckaert *et al.*, 2010, p. 16). In accordance with the two dimensions of specialization, there are also two dimensions to coordination (Bouckaert *et al.*, 2010, p. 24). Horizontal coordination appears between organizations on the same hierarchical tier within government, e.g. between ministries. Vertical coordination takes place when higher-level organizations (e.g. ministries) coordinate lower-level actors’ (agencies) actions.

New Public Management (NPM) type of agencification reforms made manifest the negative effects of specialization. It has been discovered that agencification and NPM’s narrow focus on organization level efficiency resulted in decoupled policy cycles, meta-organizational coordination problems and loss of states’ overall policy capacity (Verhoest and Bouckaert, 2005). ‘Managerial efficiency was displacing political effectiveness’ (Verhoest and Bouckaert, 2005, p. 104). This trade-off led to a renewed emphasis on public-sector coordination. ‘Re-integrating government’, ‘whole-of-government’, ‘joined-up’ and ‘single’ government initiatives have brought attention back to the importance of coordination within the organizational architecture of states and its relevance for governments’ policy capacity (Verhoest and Bouckaert, 2005; see also Christensen and Læg Reid, 2007; Halligan, 2007). Governments’ policy capacity is also something that countries of Central and Eastern Europe have tried to

build up in the process of transition to democratic governance. Among other issues, it has meant the need to deal with instruments and mechanisms that bind their public sectors together in a situation where the communist party as the supreme coordinating centre disappeared. Whatever the results, the change of administrative structure has consisted of many smaller or bigger transformations that have led to the structural configurations present in CEE countries after two decades of development.

## **2.2. Administrative change in CEE**

There are different factors that help to explain the specific trajectories of administrative change. Basically, these explanatory factors can be grouped into three types: first, the conscious strategies of political leaders, second, the administrative culture and its understanding of the appropriate course of development (alias historical-cultural context), and third, environmental pressures, deriving both from international as well as national contexts (see Christensen *et al.*, 2007; Peters, 1992). According to the transformative approach, changes in the structure of public-sector organization can be expected to be born in a complex interplay between these three factors (Christensen *et al.*, 2007, pp. 165-175). Political structure, historical-cultural context and environmental pressures have also been seen to combine for change in the post-communist reforms of the CEE countries (see e.g. Armingeon and Careja, 2008; Crawford and Lijphart, 1995; Eriksen, 2007; Goetz, 2001; Hesse, 1997; Meyer-Sahling, 2009). These combinations have been invariably born in specific points in time – institutional arrangements are usually ‘a product of situation-specific compromises’ (Olsen, 2009, p. 18). The factors combine at different moments in time to produce specific institutional formations.

With regard to the historical institutional analysis that this article is in its essence, there are two central conceptions that must be taken into account. These are the concepts of ‘critical junctures’ and ‘developmental pathways’ (Thelen, 1999, p. 387). The first denotes that there are crucial founding moments that send countries along broadly different developmental paths. The second points to the fact that further evolution of the structure is always constrained by past trajectories. For the CEE countries, the end of the 1980s and the early 1990s were a critical juncture – a moment in time where fundamental change was possible and the basic rules of the coming order in the polity, economy and society were set (Armingeon and Careja, 2008). Several authors emphasize the magnitude and complicatedness of the changes undertaken (see e.g. Agh, 2001, p. 238; Schmitter and Santiso, 1998, p. 70). Offe (2004, p. 502) has characterized the initiated transformation as ‘a revolution without a historical model and a revolution without a revolutionary theory’. At that time, a choice of different developmental pathways was possible. However, politico-administrative development has a strong inclination towards ‘path dependency’ (Pierson, 2000), which means that the first years of post-communist transition were a time of critical decisions that established the basis for the future development. Nevertheless, both the transformations of the first years of transition and the changes appearing in the

latter years of development can be expected to be born in the interplay of the three types of factors named above. It is just reasonable to anticipate that in different points in time they have different weight and combinations.

The analysis of the CEE post-communist development offers several periodizations trying to capture the temporal spirit of the transitions (see e.g. Hesse, 1997; Lippert *et al.*, 2001; Nemeč, 2009). Altogether, three general phases are manifest with regard to the content and drivers of administrative change.

First, the initial phase of transformation (starting usually at the end of the 1980s or the beginning of the 1990s) was characterized by a radical break with the old legal, political, social and economic orders and the early formation of new structures. When stability increased, a more systematic approach both to economic and institutional reforms became possible. As Hesse (1997) has convincingly argued, in the initial years of transition, public-sector reform was guided less by an assessment of the new requirements associated with political and economic change than by the intention to overcome the legacy of socialism. The demise of the communist system constituted a massive de-institutionalization of political and economic spheres (Zubek and Goetz, 2010). Especially in the former Soviet states, the question was not so much about reforming the states, but building them up as the structures inherited from communism were both inadequate and inappropriate.

Furthermore, the communist system of ruling left a legacy of institutionally fragmented administration. As Goetz and Wollmann (2001, p. 867) describe the situation in four Central European states (Bulgaria, the Czech Republic, Hungary and Poland):

*The central executives consisted of a very high number of ministries, including the sectoral ministries and other central agencies. Many of the latter were formally attached to the Office of the Council of Ministers, but operated largely autonomously. The central state apparatus was institutionally fragmented and specialized units proliferated.*

The same has been emphasized by Beblavý (2002), who shows that the communist systems bestowed to their democratic heirs highly specialized administrations with a big number of individual organizations that were often based on a single-purpose agency principle. At the same time, these organizations were not part of a centralized, horizontally and vertically well-integrated hierarchy, as is often presumed, but of an amorphous system that endured thanks to accommodating both the Party's organizational and its members' and administrators' individual interests (Beblavý, 2002).

In the first phase of transition, the administrative changes can be expected to be driven most of all by the strategies of political elites with an aim to overcome the legacy of the previous system. In that, they were considerably assisted by different international donors who rushed in with financial help and consultancy right after the collapse of the communist regimes (see e.g. Randma-Liiv, 2005).

Secondly, with their request to join the European Union, CEE countries entered into a new period of development characterized by increasing adaptational pressures

from the EU. The pursuit of the EU membership is usually bound with the notion of ‘conditionality’ (see e.g. Sedelmeier, 2008). Conditionality reflects the presumption that the CEE candidate states had to demonstrate administrative capacity and the ability to effectively apply the ‘*acquis communautaire*’ before accordance of full membership. Conditionality allowed a considerable intervention of the EU in the administrative development of the candidate states. There were several mechanisms for that – besides gate-keeping also the provision of legislative and institutional templates, technical assistance, benchmarking and monitoring, advice and twinning (Grabbe, 2003). However, it should also be noted that there were limitations to the potential impact of these mechanisms, too. These were related to the ‘aspects of uncertainty’ involved in the process (see Grabbe, 2001, 2003). Among others, there were no EU-wide rules or models of public administration, and the influence of the EU on the development of candidates’ governance patterns was limited by its own diffusion, partly owing to the diversity of its existent member states. Nevertheless, as the accession coincided with the general administrative reform and the burden of adopting the *acquis* was significant, there are good reasons to expect the process to have transformative power (Goetz, 2001; Grabbe, 2001). Not only because there was a considerable ‘misfit’ between the EU expectations and candidates’ administrative institutions (Börzel and Risse, 2003), but also because there were political and administrative elites present in CEE motivated to ‘restore’ their country’s place in Europe and to adapt to the EU-level pressures. Drechsler (2005, p. 100) has even argued that the reforms geared to the increase of ‘administrative capacity’ have been primarily EU-driven in CEE.

Third, with joining the EU (in 2004 for most of them), the international adaptive pressures resumed, and CEE states found themselves in a new situation where they were on their own in deciding on the further development of their administrative systems. By that time, it should be possible to talk about CEE countries as ‘normal democracies’. Structural changes of this post-accession time can be expected to be born from a complex interplay between political strategies, historical-cultural convictions and environmental pressures without any of them having such a defining role as they did in the previous two phases. Nevertheless, this last phase of development has seen the arrival of the global financial crisis that has put new and intensive pressure on governments to change, either for economic reasons in order to cut the costs of governing or for political reasons to change the economic policies that have been seen to contribute to the crisis. However, the reactions to the crisis can be presumed to be highly context-specific, and there is no one template for these reforms (Peters *et al.*, 2011). In the international environment, this last phase has also seen the renewed emphasis of coordination and ‘whole-of-government’ initiatives mentioned above. Among other things, this has meant the re-strengthening of the centres of government (both political and administrative) for building coherence in policies and their implementation (Bouckaert *et al.*, 2010, p. 19). Considering that the coordinative capacities of the centres of government were generally weak in CEE (Goetz

and Margetts, 1999), the latter shift in the international rhetoric could be expected also to reverberate in the CEE context.

### **3. The case of Estonian public administration**

#### **3.1. Description of the administrative system**

Estonia is a small country with an area of 45,227 km<sup>2</sup> and a population of 1.34 million. In 2009, the Estonian public sector engaged 26.6% of its employed workforce (Statistics Estonia, available at [www.stat.ee](http://www.stat.ee), accessed on January 11, 2010). Around half of the public-sector employees (51%, 72,410 people) were working in its state institutions and the rest in 227 local governments (Rahandusministeerium, 2010). The workforce of eleven Estonian ministries counted 2,448 employees (civil servants and support staff together), i.e. with the exception of the Ministry of Foreign Affairs, which constitutes one large unitary structure with its foreign representations, there were 200 or less people working in most of the individual ministries. Executive government institutions covered by the civil service employed just fewer than 20,000 employees all together. Civil servants make up around 91% of the workforce of the central government institutions. The remaining 9% are technical support staff employed under labor law (Rahandusministeerium, 2010). The small size of Estonia was reflected in the size of its state structure.

A central trait of the Estonian administrative system is its reliance on ministerial responsibility. Although ministries are small, they represent strong administrative actors that have considerable leverage over the issues belonging to their areas of governance. Other coordinating centers in the system (the Government Office and the Prime Minister's Office, the Ministry of Finance) are equipped with restricted coordinating powers and, in addition, often constrained by limited resources. The role of the ministries is mostly confined to policy formulation while the implementation of the policies is carried out by various agencies under their supervision. In accordance with the ministerial responsibility, all public organizations are more or less directly subordinated to specific ministries, and their communication with the Cabinet goes through the parent departments.

Consequently, it can be said that the Estonian administrative structure is considerably specialized both in vertical and horizontal terms. Agencies play an important role in the Estonian state. They employ the vast majority of the public-sector employees and spend most of the state budget. As Estonia is historically strongly rooted in continental European legal thinking (with a considerable German influence), its public agencies are usually also differentiated and categorized by their legal status. Four types of agencies can be identified – (1) government organizations, (2) state agencies, (3) public institutions, and (4) private law bodies, with a central role for the state foundations. The first two of these can be classified as semi-autonomous bodies without legal independence, public institutions are legally independent organizations with managerial autonomy, and foundations fall into the category of private law-based not-for-profit organizations established on behalf of the government (van Thiel and CRIPO team, 2009). See Table 1 for an overview.



**Table 1:** Organization of Estonian public administration 2010

Type of organization	Number <sup>1</sup>	Legal status	Employment relationships	Staff/share <sup>2</sup>	List/examples	
Government institutions	Ministries	11	No legal personality	Civil service	2,448/3.4%	Education and Research, Justice, Defence, the Environment, Culture, Economic Affairs and Communications, Agriculture, Finance, Internal Affairs, Social Affairs, Foreign Affairs
	Government organizations (boards, inspectorates)	27	No legal personality	Civil service	10,438/14.4%	Defence Resources Agency, Data Protection Inspectorate, National Heritage Board, Consumer Protection Board, Civil Aviation Administration, Veterinary and Food Board, Police and Border Guard Board, Language Inspectorate
	County governments	15	No legal personality	Civil service	608/0.8%	Harju, Hiiu, Ida-Viru, Jõgeva, Järva, Lääne, Lääne-Viru, Põlva, Pärnu, Rapla, Saare, Tartu, Valga, Viljandi, Võru
	Other government institutions	9	No legal personality	Civil service	6,406/8.8%	State Chancellery, Estonian National Archives, Prosecutor's Office, Estonian Defence Forces, prisons (5 units)
State agencies	150	No legal personality	Labor law	8,672/12%	Estonian Children's Literature Centre, Räpina Gardening School, Pärnumaa Centre for Vocational Education, Estonian Literary Museum, Agricultural Research Centre, Veterinary and Food Laboratory, Haapsalu Orphanage	
Public institutions	21	Legal persons, public law	Labor law	10,257/14.2%	Health Insurance Fund, Unemployment Insurance Fund, Defence League, Auditing Board, Public Broadcasting, National Opera, National Library, Academy of Sciences, public universities (6)	
Foundations	66	Legal persons, private law	Labor law	9,547/13.2%	Environmental Investment Center, Estonian Film Foundation, Estonian Science Foundation, Enterprise Estonia, North Estonia Medical Center, Russian Theatre	

<sup>1</sup> Sources: Ministry of Finance; Register of State and Local Government Organizations, Ministry of Finance, available at <http://register.fin.ee/register/index.php>, accessed on December 30, 2010.

<sup>2</sup> Staff: total number of employees on December 31, 2009; in government institutions both civil servants and support staff are included. Share: % of total workforce employed by the state institutions (72,410, including judiciary and legislative branch). Source: Rahandusministeerium 2010.

First, *government organizations* are agencies that are financed from the state budget, operate under the direct supervision of ministries and do not have a legal personality of their own. Together with ministries, county governments and a few other organizations, they form the group of 'government institutions'. According

to the Government of the Republic Act (GRA), their main function is to exercise executive power – to perform state supervision and to apply the state’s power of enforcement. Most of the government organizations have regulatory tasks, both in the fields of economic and social regulation. A list of these agencies is provided in the GRA, in which also two specific types of organizations are described – boards (*ametid*) and inspectorates (*inspektsioonid*). The latter are supposed to have more limited tasks, concentrating on regulation and law enforcement, whereas boards can also have a role in policy elaboration. Ministries with their subordinate government organizations form a well-defined core of public administration in Estonia that is critical from the perspective of policy-making and using the state’s power of execution. The size of government organizations varies considerably (from 17 to 1,800 officials and an exceptional 7,000 in the Police and Border Guard Board), and they are often considerably larger than their parent departments. The government organizations are the only type of agencies in Estonia covered by civil-service legislation. As the government organizations operate closest to the ministries, their autonomy is restricted more than is true for other types of agencies. The policy autonomy of government organizations is first of all determined by the legislation regulating their field of functioning. In some cases, there is a very high policy autonomy prescribed by law, especially for the economic regulators (e.g. Competition Board).

Second, *state agencies* (with the full name of ‘state agencies under supervision of government institutions’) are financed from the state budget, but their main function is not to exercise public authority (GRA). These agencies are basically policy-implementation organizations that serve government institutions in the fields of culture, education, research and others. Except for eleven social-service units (mostly orphanages) that are supervised by the county governments, all state agencies report directly to the ministries. Although the scale of activities in this group is rather wide, there are some tasks that dominate; there are 33 museums, 69 educational institutions (secondary schools, vocational schools, institutions for pupils with disabilities etc.), several research institutes and a number of agencies providing support services to the ministries (IT, accounting). State agencies form a very mixed group, and there is no common management structure prescribed. The autonomy of the state agencies can vary quite a lot depending on their task; there is more independence for some (e.g. schools) and less for others that operate closer to the parent ministries.

Third, *public institutions* are public organizations created by law (i.e. parliamentary decision) to serve public interests. Issues related to their tasks, financing and functioning are normally addressed on a case-by-case basis. Several institutions that have traditionally possessed considerable autonomy (e.g. public universities) or whose profession presumes the right to self-government (e.g. the Estonian Bar Association, the Estonian Chamber of Bailiffs and Trustees in Bankruptcy) belong to this category. Besides these, four public foundations managing the assets of a specific purpose (e.g. Health Insurance Fund, Unemployment Insurance Fund) also have the status of public institutions. In accordance with the diverse nature of this type of agencies, their

steering and supervision varies considerably and is prescribed by the individual case laws. However, this category includes organizations that have traditionally enjoyed high autonomy.

Fourth, the state can establish or have shares in three types of *private law bodies*: enterprises, not-for-profit associations and foundations. The last-mentioned have an important role to play in the Estonian public administration. Foundations are not-for-profit entities whose purpose is ‘to administer and use assets to achieve the objectives specified in their articles of association’ (Foundations Act). Of the 66 foundations established by the state, 45 are operating under ministry supervision. Besides a few theaters and a couple of small research institutes and several medical institutions, there are a number of influential bodies in this group that the state uses to channel EU structural support to the Estonian economy, infrastructure, environment and higher education (e.g. Enterprise Estonia, Environmental Investment Center, Foundation Archimedes). In 2008, they managed 668 million EUR in total assets. Foundations have their basis in private law. Differently from the other agencies, they are treated as a distinctive group and annually reviewed by the Ministry of Finance, which is responsible for administering the state’s assets. Foundations’ management structure is prescribed in law; they have a supervisory board and a chief executive or a management board appointed by the supervisory board.

The four types of agencies described above – government organizations, state agencies, public institutions and foundations – are not evenly distributed between different policy areas and ministries. The most populous field of governance falls to the Estonian Ministry of Education and Research; the high number of state schools make up for more than one third of all agencies (91 all together). The second largest policy field when it comes to agencification is culture, because of the high number of state agencies (mostly museums) and a considerable number of different foundations (60 agencies all together). Together, the fields of education and culture oversee almost two thirds of all Estonian agencies. In other areas of governance, the number of agencies is considerably smaller. For example, the ministry that by itself spent 45% of the whole Estonian state budget in 2010 – the Ministry of Social Affairs – supervises 17 agencies. Nevertheless, with a few exceptions, in most policy fields, there are agencies from all four legal types.

### **3.2. Functioning of the system**

As already argued above, Estonia operates a decentralized administrative system where the responsibility for public policies and programmes lies with individual ministries, and such an arrangement is also supported by budgetary and strategic planning frameworks. However, the ministries are rather small and in everyday work rely very much on their subordinate agencies, where most of the professional knowledge is located. Due to the constraints on resources (money, people, expertise), the ministries’ capacity to supervise and steer their subordinate agencies’ daily functioning is limited. From the ministries’ point of view, most mechanisms for steering

the performance of subordinate organizations are managerial ones; the annual budget of government organizations and state agencies is negotiated for and determined by the parent ministry, strategic workplans are coordinated by the ministries as well as the management of support functions. The general framework of vertical coordination relies strongly on ex-ante control mechanisms. Regardless of the investments made into developing the strategic planning, ex-post control tools are often used as an ad-hoc reaction to specific problems. Due to the complexity of the issues handled by the agencies (especially government organizations), their frequent monopoly of expert knowledge and limited resources of the ministries, the influence of agencies on policies can be very high. For example, in terms of vertical specialization, there are a number of organizations in operation with specific tasks allocated to them, but the mechanisms for vertical coordination are limited.

In terms of horizontal coordination, problems due to the segmented system of public administration have become more and more evident. Most of all, these are related to the decentralized arrangement of policy design and implementation. Coordinating centers in the system are equipped with restricted coordinating powers and, in addition, often constrained by limited resources. The Government Office is mostly a technical support unit to the Cabinet (although hosting units for EU coordination and strategic planning), and the Prime Minister's Office consists of a handful of people. The strongest mechanisms of coordination in the system belong to the Ministry of Finance, which is responsible for the budgetary process. Such a decentralized system has effectively reproduced itself and has been reluctant in according coordinating powers to some central units. Horizontal coordination mechanisms that have been built into the system (e.g. consultation of draft regulations, management of EU affairs) are based on network-type cooperation and in that way reinforce the central role of ministries in deciding over the policies falling to their areas of governance.

Decentralized decision-making also applies to the administrative policy. The limited central coordination of structural development has resulted in heterogeneity of organizational solutions, often not comparable or compatible with each other. For example, one of the latest issues taken up by the Estonian National Audit Office (Riigikontroll, 2010) addressed the regional representations of the government organizations, whose reform has been largely un-coordinated and has resulted in different definitions of the 'regions' (combinations of the counties) and region centers. Similar heterogeneity is also manifest among the private law bodies of the state. The Ministry of Finance has attempted to use its coordinating power to foster the steering of the foundations according to the performance-management principles. Individual ministries are expected to define specific goals that the foundations operating in their areas of governance have to pursue, to evaluate their achievement on a yearly basis as well as give their opinion in every annual report on the necessity of the foundations to be continued. However, the success of this attempt has been dependent on the line ministries' capacity and willingness to do it and has varied to a great extent.

Consequently, there is a call for better horizontal integration of policy sectors and for a whole-of-government approach. As has been recently pointed out by OECD (2011), the Estonian administrative system has demonstrated ability to work in a 'joined-up fashion'. However, it has shined more in times of crisis or when a more immediate policy response is needed than in 'business-as-usual' activities (OECD, 2011, p. 26). Furthermore, the cooperation on these occasions has relied very much on personal contacts and informal networks. In order to transform the joined-up way of working into an every-day mode of operation, there is the need to make it part of the administrative culture (OECD, 2011). However, it takes the issues back to the administrative policy. The whole-of-government approach presumes that there are some shared values in the system, some standardization and a shared administrative culture. As Peters (1998, pp. 298-299) has pointed out, shared values and organizational logics support coordination and make it more likely to appear without using authority or disrupting organizational routines. Nevertheless, in Estonia, also the civil-service system is decentralized, and there are few mechanisms that bind the cultures of different organizations together (e.g. the civil-service code of ethics could be mentioned here). The initiatives of creating more unity within the system have met with institutional resistance and have moved on only very slowly. So, the issues related to the coordination of sectoral policies cannot be solved without dealing also with the management of the administrative organization itself.

To conclude, Estonia operates an administrative system where the vertical and horizontal specialization has helped to enhance the micro-level policy capacity of single organizations, both ministries and their subordinate agencies. However, this specialization has not been balanced with coordination mechanisms that would foster the macro-level policy capacity of the government as a whole. Why such a decentralized administrative structure has evolved in Estonia and what have been the factors behind its development will be analyzed in the next section.

### ***3.3. Development of the system***

The research undertaken for analyzing the institutional development of the Estonian administrative system shows that such a decentralized system has emerged and taken root in a combination of different factors. Over the two decades of development, specific factors have combined in favor of specialization over coordination. The three general phases of CEE development described above are also visible in the development of the Estonian administrative structure (see also Lauristin and Vihalemm, 1997; Tõnnisson and Randma-Liiv, 2009; Viks and Randma-Liiv, 2005). In different phases, specific dominating drivers and motives for change appear.

First of all, it is important to look at the basis from which the structural reforms started. Estonia re-gained independence formally in August 1991. However, a major reform of administrative structure was already initiated at the end of 1989 as a part of aspirations to gain more independence within the Soviet Union. With the December 1989 Act on the government of the Soviet Republic of Estonia, a new ministry-agency

structure was created. The law stated that there were 17 ministries, a State Chancellery and state boards and inspectorates under the steering of the government. To arrive at such a structure, in the first half of 1990, two existing ministries were abolished and ten ministries were established based on the previously existing state committees. Many existing units were given new labels of 'boards' or 'inspectorates'. The official restoration of independence in the following year led to a massive restructuring of the public administration. However, these reforms were already building on the changes initiated in 1990.

Structure-wise, the early reformers faced two central problems. First, the system inherited from the Soviet Republic was highly fragmented and consisted of a large number of executive organizations with no clear system of organization and subordination. Second, several core functions of the state needed to be built from scratch (foreign affairs, defence) or reorganized completely (economic affairs). For example, at the beginning of 1990, there were only 12 people working at the Ministry of Foreign Affairs (Välisministeerium, 2002). Furthermore, the division of functions between the local, regional and state levels had to be decided again. The regional level ceased to exist as a tier of self-government, and several of its functions were given to the central government agencies (see Sepp and Veemaa, 2010 for a further discussion).

With respect to the organization of the executive branch, very basic questions came out from the discussions of that time – the debate revolved very much around optimal number and task portfolios of ministries and government organizations, as well as the subordination relationships between them (Riigikogu, 1992a; 1992b; 1992c). Problems were mostly seen to lie with various government agencies that, in spite of being placed in specific areas of governance, functioned rather independently and were formally subordinated to the Cabinet, not individual ministers. At the beginning of the 1990s, both ministries and government organizations were reorganized actively, most of all through mergers and different kinds of successions.

In this first phase of transition, critical decisions for the further administrative development were taken. For this article, reliance on a decentralized arrangement of policy design and implementation is of prime interest. It becomes clear from the research that the foundations to a segmented administrative system were already laid down in the initial stage of transition and the further development has followed this path. Reasons for that can be found in the strategies of political leaders, the historical-cultural context as well as environmental pressures. The next sections discuss how they have combined in time.

To begin with, there were several reasons for the choice of a decentralized system and reliance on the responsibility of individual ministries at the outset of the administrative reforms. First, in a situation where the communist party as a coordinating center had disappeared and a new state structure had been established formally with the adoption of the democratic constitution in June 1992, the whole system of governance was in its essence de-institutionalized. In such a context, the inception of new democratic coordination mechanisms and decision-making procedures was

necessary but extremely complicated. It was difficult to decide what was needed. Furthermore, the high uncertainty, enormous workload and intensive time pressure of the early transition made the decentralized problem-solving approach seem like the only working solution. There was no time for coordination and consultation. Last but not least, the aim of overthrowing the legacy of centralized and overwhelming soviet public administration meant that the political elite were very cautious towards all manifestations of centralization. Consequently, a decentralized arrangement was deemed a proper solution.

By the time Estonia started to move towards the membership of the European Union (the application was submitted in November 1995), initial stability had been achieved and the basic ministry-agency structure was agreed on. Nevertheless, 'simplifying' and 'downsizing' the government machinery still stood high on the to-do list of the Government (Explanatory note to the draft act on the Government of the Republic, 1995), and, most of all, it was supposed to appear in the form of reducing the number of government organizations, as these were perceived to lead to a doubling of the number of centers of executive power next to the ministries. The aim was to reduce the vertical specialization of the administrative structure. On January 1, 1996, the new Government of the Republic Act came into force that prescribed a decentralized administrative system with strong ministries responsible for specific areas of governance. Although ministries were accorded more power for steering agencies in their areas of governance, the strengthening of the horizontal coordination mechanisms was much more modest and the attribution of coordinating power to some central units was avoided. The decentralized system had already institutionalized enough in order to reproduce itself.

The latter was also reflected in the organization of the Estonian national accession process, where the issues were divided between ministries according to their mandates and the coordination was based on the network type of cooperation instruments. Such a solution strengthened again the position of individual ministries. Furthermore, the sectoral approach of the EU itself cannot be underestimated. On the one hand, the EU's competence in different sectors varies, so do the legislative procedures and decision rules applied (Kassim, 2003, p. 87). On the other, the EU's reliance on a sectoral approach in evaluating and supporting administrative development in CEE has been noted (see e.g. Jacobs, 2004, p. 322; Dimitrova, 2002, p. 179). As a consequence, the Estonian decentralized administrative structure was further institutionalized in the process of the EU accession. Nevertheless, it is important to note that at the same time, it was also increasingly discerned in Estonia that its public administration needs better mechanisms for coordination. Therefore, although accession to the EU strengthened the decentralized architecture of the Estonian state, it also helped to institutionalize coordination that is needed in a functioning democratic state. Last but not least, due to the EU pressure, the previous policy of terminating government organizations (mostly through mergers to the parent ministries) was abolished and reversed in order to accommodate regulatory responsibilities in accordance with

the EU rules. Also several new agencies were created in the form of private-law foundations. The accession process also increased the vertical specialization of the structure potentially creating new problems of coordination (see also Suurna and Kattel, 2010, for a more general CEE discussion).

Such a decentralized administrative system as is present in Estonia could not develop if it was not supported by the historical-cultural context or, in other words, prevailing values within the organization and its environment. The initial aim to overcome the legacy of a centralized Soviet system was already mentioned. Nevertheless, there is another aspect that deserves attention. The post-communist structural reorganization started at a time in history when the international environment was dominated by neo-liberal definitions of problems and solutions for democratic governing. Bruszt (2002) has brought out that in the initial years of economic reforms in the CEE countries, the policies were basically shaped by the 'Washington consensus', and the building up of regulative state capacities began long after the introduction of liberalizing measures. In the case of Estonia, the seed of neo-liberalism fell on fertile ground and took strong roots. Its reign has been supported by the political structure with two main parties carrying the worldview – Pro Patria Union and the Reform Party – firmly institutionalized in the political landscape and with a long record of being in power. In their comparative analysis of administrative traditions of the three Baltic States in 1993 and 2001-2002, Nørgaard and Winding (2005) concluded that out of the three, Estonia was leaning the most towards the contractual state epitomized by the Anglo-Saxon countries. Furthermore, Lauristin *et al.* (2005, p. 6) claim that also the Estonian media have been oriented towards the liberal market economy and individualistic values. Drechsler (2000, p. 269) finds that the 'somewhat extreme libertarianism' to be found in Estonia is an 'unsurprising reaction against the soviet past and finds resonance in Estonian's predisposition to individualism and to a historical distrust of the state'.

Although this neo-liberal mindset of the politico-administrative elite has also meant a high receptiveness to the ideas of NPM (Drechsler (2004, p. 391) even claims that Estonia is 'one of the CEE countries closest to NPM models'), with regard to the administrative structure the impact is not so straightforward. The reforms undertaken can rather be summarized as down-sizing and trimming of the system with agencification appearing mostly as a response to the pressures of acceding to the EU. Nevertheless, this dominating neo-liberal worldview has had a strong influence on the way the state and its development have been perceived in Estonia. The elite's belief in the 'lean' state and the narrow focus on micro-level efficiency have led to the reluctance towards investing into coordinating functions (often discerned as 'doubling' the work) and administrative development more generally. As resumed recently by OECD (2011), 'the apparent ambivalence of politicians and administrative leaders regarding reforms seems to reveal a lack of shared understanding about the role of the public administration for ensuring Estonia's future'.



#### 4. Conclusion

Estonia operates a decentralized administrative system. A central trait of it is its reliance on ministerial responsibility. Such a decentralized arrangement has shown both considerable strengths and considerable weaknesses. On the one hand, there is clear accountability for certain policy fields, accumulation of professional knowledge and less need to spend resources on coordination. On the other hand, problems related to a segmented administrative system have become more and more evident – there are difficulties related to solving problems that engage several areas of governance, policies are not coherent, and solutions to the ‘wicked issues’ get postponed.

The aim of this article was to find out how and why such a decentralized administrative structure has formed in Estonia during the 20 years of regained independence and transition to democracy. The applied approach to the organizational change can be defined as ‘transformative’ – it was expected that changes in the structure of the public sector were born in a complex interplay between conscious and planned strategies of political and administrative leaders, cultural-historical features and reform pressures originating from the external context of organizations. The goal was to explain how they have combined in the case of Estonian administrative development.

It was found out that over the two decades of development, specific factors have combined in favor of specialization over coordination. This can be summed up in two points. First, the aim of overthrowing the legacy of centralized soviet public administration by introducing considerable decentralization, the following institutionalization of the decentralized system in combination with the sectoral approach of the EU and the organization of the Estonian accession process in a way of dividing the issues between ministries according to their mandate have contributed to the development of a public administration with strong ministries having considerable leverage over the issues falling to their areas of governance. Second, the neo-liberal worldview of Estonia’s politico-administrative elite and its inclination towards a lean state and down-sizing as a measure to promote performance have led to the reluctance towards investing into coordinating functions and administrative development more generally. Nevertheless, understanding the need for coordination has been accumulating in time, and with ‘whole-of-government’ initiatives being the international vogue, there is growing attention to it also in Estonia.

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