Smart city and place-making across regions

Prioritizinginnovation andvitalservice expansionthrough budgetneutral realignments

Executive Summary

OfEstonia's 47 towns, only 5 have a population exceeding 20,000. Municipalities generate only 14% of total revenue with earmarked state grants make up 80% revenue. Any cost savings within the local budget automatically results in cuts within the allocation rather than ease distribution within the budget. The variation in number of healthcare staff and hospital beds across Estonia's regions results in 5- year and 12-year gaps in life expectancy and living disability-free, respectively. Improving quality-of-life with budget reallocations targeted at strengthening existing facilities and services is an identified goal of this report. Facilitating municipal and village cooperation through regional social innovation labs operated by the state/public sector will allow a high degree of ground-up innovation and retain ministry-level transparency and accountability. This place-based approach requires social innovation paired with open government interaction.

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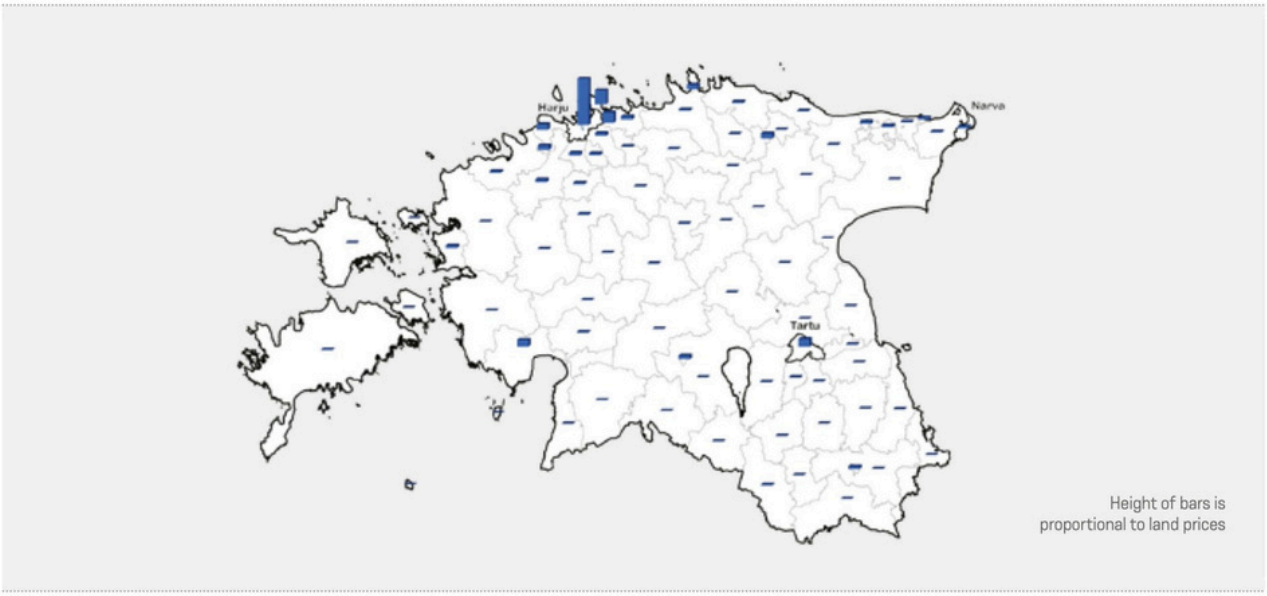
Research and survey findings:

Cyclesof lowpropertyvalues,depopulation,and diminishing tax revenues, ensure continued decline in rural areas without investment interventions. Competition between villages and municipalities at a regional level are habitual due to scare resources. However, survey research indicates a high probability of alignment on identity, desire for cooperation, and openness for scale- appropriate innovation. Cultivating social innovation within the local community through learning lab facilitation will be crucial to retain cultural identity. Pairing community-centered opportunity with funding reallocations managed and disbursed by a public sector or ministry-led innovation-focused body will enable and nurture public trust and civic participation, including intraregional cooperation.

RESIDENTIAL LAND PRICES ACROSS ESTONIAN MUNICIPALITIES



Source: Source: Estonia Land Board (2021[11]), Cadastral Units: Land Board, https://geoportaal.maaamet.ee/eng/Spatial-Data/Cadastral-Data-p310.html (accessed on 8 July 2021).

Recommendations

01 Eliminatetherigidityofearmarked grants whichdisincentives efficiency gains andallow interdepartmental budget transfers at the munipical and regional level.

02 Incentivise the cooperation of municipal and regional government through redress of fiscal autonomy with focus on healthcare and hospital vitality, opening state-owned buildings for co-locations of MedTech, senior and child daycare, or well-being focused organizations

03 Establish a public sector body to serve as the administrative partner of social innovation learning labs to pilot, adapt, and distribute regional practices, cementing permanence and stability for year-over-year innovation

04 Invest in *smart city* initiatives using a regional approach (including clusters of villages) to achieve parity with cities of 20,000 inhabitants and directing state aid to micro and small business by lowering the maximum aid intensity to large enterprises.

Estonian Regional Aid Map: https://www.fin.ee/en/public-procurement-state-aid-and-assets/state-aid

Mari Luukas, Estonian Urbanist Review: urbanNext (October 20, 2025)

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