



EUROPEAN SOCIAL POLICY NETWORK (ESPN)

National monitoring frameworks for public social spending

Estonia

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Social Europe

EUROPEAN COMMISSION

Directorate-General for Employment, Social Affairs and Inclusion
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European Social Policy Network (ESPN)

**ESPN Thematic Report on
National monitoring frameworks
for public social spending**

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2022

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Manuscript completed in January 2022

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QUOTING THIS REPORT

Masso, Märt; Laurimäe, Merilen (2022). *ESPN Thematic Report on National monitoring frameworks for public social spending – Estonia*, European Social Policy Network (ESPN), Brussels: European Commission.

Contents

- SUMMARY 4
- 1 COUNTRY-SPECIFIC MONITORING FRAMEWORKS FOR PUBLIC SOCIAL SPENDING..... 5
 - 1.1 Country-specific dedicated monitoring framework(s)..... 5
 - 1.2 Separate monitoring framework(s) linked to schemes provided by employers 6
 - 1.3 Distinction between current expenditure and capital expenditure..... 6
 - 1.4 Type of monitoring: level and outcomes 6
 - 1.5 Level of granularity of public social spending 8
 - 1.6 Breakdown of public social spending 8
 - 1.7 Timing and public accessibility of data..... 8
 - 1.8 Subnational frameworks..... 9
- 2 REPORTING/REVIEW TOOLS FOR PUBLIC SOCIAL SPENDING 9
 - 2.1 The Government 9
 - 2.2 National Audit Office 10
 - 2.3 Ministry of Social Affairs 10
 - 2.4 Insurance boards 11
 - 2.5 Local authorities..... 12
- REFERENCES 13

Summary

In Estonia, the Government drafts and Parliament adopts the budget for all state revenue and expenditure for each year, taking account of the fiscal policy opportunities presented in state financial forecasts and strategic development documents. State budget spending is separated into government functions – the COFOG classification of the functions of government is adopted and implemented as standard in the national accounts, as well as in accounting for and reporting on public expenditure.

Since 2020, Estonia has used performance-based budgeting, which aims at achieving more effective and efficient implementation of public functions, a higher quality of public services and a reduction in general government spending. This is also one of the key strengths of the Estonian system: as well as monitoring the level of spending, performance-based budgeting is linked to results, i.e. it monitors the effectiveness of spending. Thus, the explanatory memorandum of the State Budget Act also presents social indicators (such as poverty rates, the employment rate, gender pay gap, etc.) and their target values for the coming years. However, the National Audit Office has pointed out that implementation of activity and performance-based budgeting is still work in progress, and improvements are needed to make it more informative and of greater practical use in policy making.

The explanatory memorandum of the State Budget Act also contains detailed information on all revenue, expenditure and investment; this information is presented by state authorities, such as ministries, the National Audit Office and the Government Office. In the area of government run by the Ministry of Social Affairs, goals, expenditure, indicators and targets are also set out for eight programmes: the Labour market programme; the Social security programme; the Welfare programme; the Gender equality programme; the Children and families' programme; the Person-centred health programme; the Health-promoting environment programme; and the Healthy choice programme. In addition, a distinction can be drawn between current expenditure and capital expenditure. The explanatory memorandum also sets out public spending on social benefits. For instance, it differentiates the cost of pensions, benefits for accidents at work, disability benefits, maintenance support, pensioners' living-alone allowance, family benefits, unemployment allowance, work ability allowance, parental benefits, subsistence benefits, etc.

The explanatory memorandum of the State Budget Act refers only indirectly to different population groups when differentiating public social spending. However, the main focus is on the *function* of the benefit, rather than on specific population groups. For instance, the cost of old-age pensions and benefits for pensioners living alone refers to older age groups; family benefits are targeted at families with children; and unemployment benefits refer to the unemployed. The annual state budget does not cover employment-related social insurance schemes or the expenditure of employers. Local authorities decide on their own budgets. The explanatory memorandum contains only aggregate indicators of local government revenue and expenditure that are related to the state budget.

Information provided under the national monitoring framework is publicly available in the form of published reports. It is also quite timely, as the state budget and development plans include a financial plan for the coming years.

At the highest level, the effectiveness of public spending – including spending on social protection – is evaluated *ex ante* in the course of drafting and adopting both the four-year state budget strategy and the state budget for the financial year. The Ministry of Finance is obliged to monitor implementation of the state budget, in order to ensure the efficient, effective, legitimate and transparent use of state budget funds. The National Audit Office is the auditor of the state: it verifies that public funds have been used successfully – economically, efficiently, effectively and lawfully. The general effectiveness and efficiency monitoring of social protection and welfare policies is carried out by the Ministry of Social Affairs. Also, that ministry coordinates the design, implementation, monitoring and reporting of strategic policy plans for evaluating the effectiveness and efficiency of public spending on social policy.

1 Country-specific monitoring frameworks for public social spending

1.1 Country-specific dedicated monitoring framework(s)

The general principles for monitoring public spending are outlined in the Constitution (Chapter VIII). It stipulates that Parliament should adopt the budget for all state revenue and expenditure for each year as a law. The Government submits a draft state budget to Parliament no later than three months before the start of the budgetary year. If the Government proposes one, Parliament may also adopt a supplementary budget during the budgetary year.

The fundamental framework for monitoring public spending – including public social spending – is defined by the State Budget Act (2021). A regulation (§1) provides the conditions and procedure for the drafting and passage of the state budget, and for utilisation of the funds in the state budget. It also provides the basis for drafting the state budget: the fiscal policy opportunities presented in state financial forecasts and strategic development documents are followed during the drafting process. The regulation divides the overall government sector into central government, local government and the social security funds sub-sector.

The state budget is the annual financial plan of the state. It records the funds that the state intends to raise, receive in support, pass on and utilise during the budgetary year (§26). Work on the state budget for the following financial year begins at the end of the preceding financial year and continues throughout the current financial year, in parallel with the revision of the state's four-year budget strategy (the most recent is the strategy for 2021-2024 (Ministry of Finance, 2020)). The State Budget Strategy is implemented through annual action plans that cover the development plans for the various government departments. These also serve as the basis for drawing up the state budget.

On the basis of the budget classification, funds are apportioned between the areas of government (Eelarveklassifikaator, 2021). The administrative classification shows which departments (e.g. the Ministry of Social Affairs) accumulate, receive as support, pass on or utilise state budget funds. Based on the State Budget Act (§29), the Ministry of Finance has issued a decree on budget classification. This budget classification comprises a detailed breakdown of the funds and the accounting policies and concepts used in budgeting, financial management and strategic planning.

State budget expenditure is also divided between governing functions – the Classification of the Functions of Government (COFOG) categories are approved and implemented as standard in the national accounts (the classification has been adopted for the national accounts by decree (National Government, 2000)). Also, under §34 of the Accounting Act (2021), the Ministry of Finance has created financial reporting standards – i.e. a raft of financial reporting requirements. A guide to public-sector financial accounting and reporting includes classification codes for various public functions (Rahandusministeerium, 2003) – including for social protection and health care – that are compatible with COFOG. As a result, the budget for social protection is separate from the monitoring of other public spending (see also Rahandusministeerium, 2003).

General effectiveness monitoring of social protection and welfare policies is carried out by the Ministry of Social Affairs. This includes a responsibility to draw up and implement appropriate strategic policy plans (see section 2.3). In the Estonian social protection system, three insurance boards – the Social Insurance Board, Health Insurance Board and Unemployment Insurance Board – are responsible for providing the bulk of social services and benefits. These organisations have their own impact and efficiency evaluation frameworks (section 2.4).

1.2 Separate monitoring framework(s) linked to schemes provided by employers

The annual state budget does not cover employment-related social insurance schemes or the expenditure of employers. The explanatory memorandum of the State Budget Act contains a forecast for tax revenues that includes unemployment insurance contributions and funded pension contributions, but the contributions paid by the employer and the employee are not differentiated within it. There is no official occupational pension, but the employer can contribute to the third pillar. However, the explanatory memorandum of the State Budget Act takes no account of these costs.

Nor is employer expenditure on incapacity benefits covered in the state budget, although it does contain indicators and targets related to the number of accidents at work that result in more than three days' incapacity to work (per 100,000 employed) and the number of working days lost through accidents at work (per work accident) (Rahandusministeerium, 2020). Public spending to achieve these objectives is also presented. However, this is not employer expenditure, but spending intended to improve the quality of working life, and it is undertaken by the Ministry of Social Affairs, the Labour Inspectorate and the Social Insurance Board.

Estimates of employer costs can be (at least partially) found in separate documents. Thus, for example, the budget of the Estonian Unemployment Insurance Fund contains estimates for the revenue of the Unemployment Insurance Fund, including employers' unemployment insurance contributions (Eesti Töötukassa, 2021).

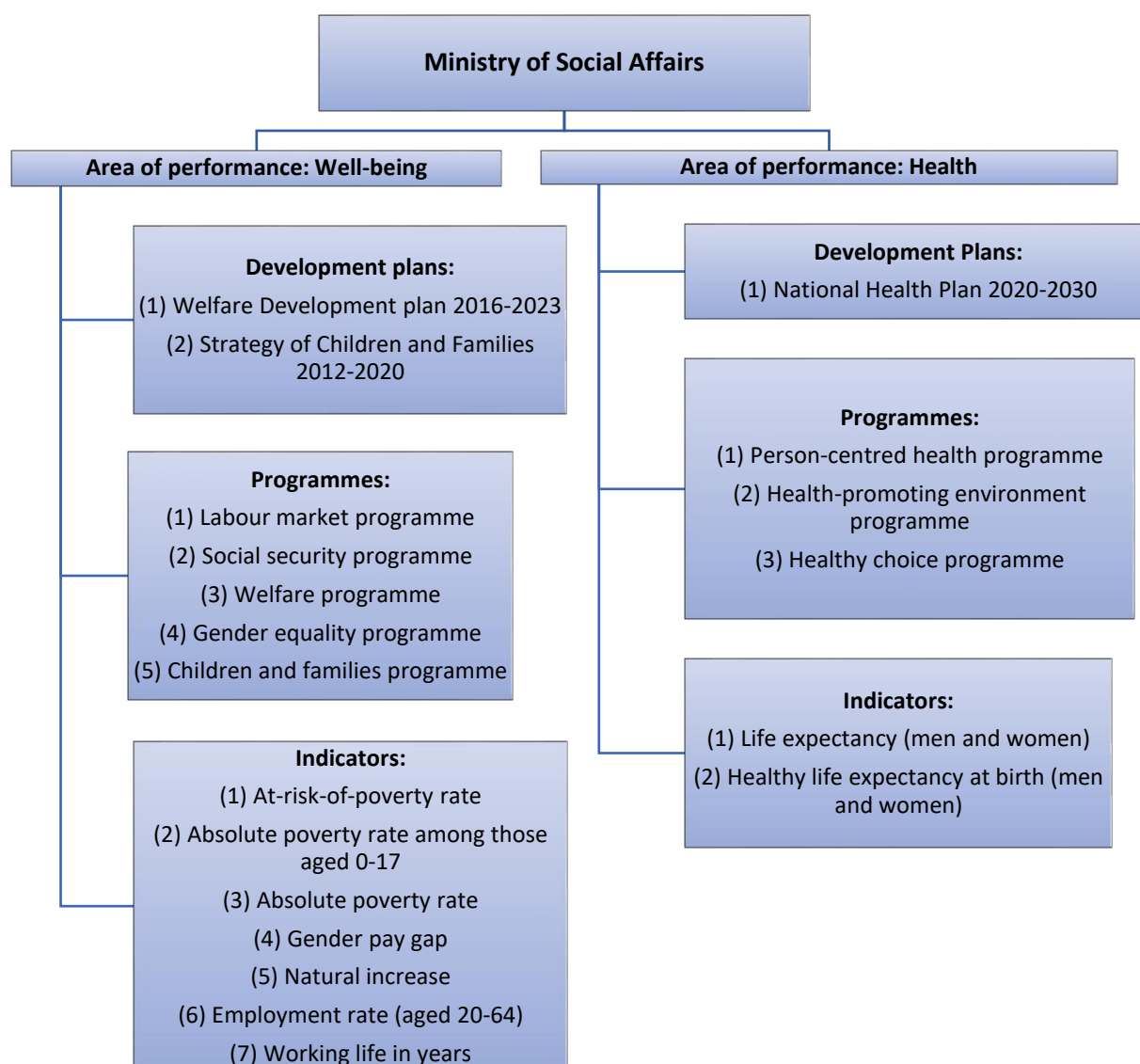
1.3 Distinction between current expenditure and capital expenditure

The annual state budget consists of all revenue, expenditure and investment presented by the state authorities (all ministries, but also the National Audit Office, the Government Office, etc.). The budget of the Ministry of Social Affairs is presented under eight programmes (see section 1.5). The presentation of expenditure can vary slightly from one year to the next. For instance, in the explanatory memorandum of the State Budget Act for 2021 (and previously), each programme draws a distinction between current expenditure (social benefits paid; other benefits; wages and salaries of public-sector employees; operating expenses) and capital expenditure (investments; depreciation of fixed assets). For 2022, however, each programme has been further divided into activities, and expenditure is differentiated according to these activities. In addition, for 2022, investment is presented not by programme, but as total investment by investment type (IT investment, machinery and equipment, means of transport, renovation, other investment). Overall, however, in both versions it is possible to draw a distinction between current expenditure and capital expenditure (Rahandusministeerium, 2020; Rahandusministeerium, 2021a).

1.4 Type of monitoring: level and outcomes

In May 2019, along with the state budget for 2020, the Government approved Estonia's first performance-based State Budget Strategy 2020-2023. Performance-based budgeting aims to achieve more effective and efficient implementation of public-sector functions, a higher quality of public services, and a reduction in general government expenditure and staff costs (Rahandusministeerium, 2021b). Thus, performance-based budgeting not only seeks to monitor the level of spending, but – being linked to results – also monitors social outcomes (e.g. poverty rate, employment rate, gender pay gap, etc.) (Figure 1). The performance-based budgeting in the area of governance handled by the Ministry of Social Affairs is described below.

Figure 1: The structure of the performance-based budgeting in the area of government handled by the Ministry of Social Affairs, 2021



Source: Rahandusministeerium (2020).

The Ministry of Social Affairs operates in two domains – well-being and health (Figure 1). There are currently three national plans for the development of these two domains that provide a strategic direction: the National Health Plan 2009-2020; the Strategy for Children and Families 2012-2020; and the Welfare Development Plan 2016-2023. To reach the objectives set out in these plans, eight programmes have been prepared, through which the necessary activities are planned, budgeted for and implemented (Sotsiaalministeerium, 2021c). In addition to the planned expenditure, the explanatory memorandum of the State Budget Act presents the current and expected values of the general social indicators (such as poverty rates, employment rate, gender pay gap, etc.) (Figure 1) (Rahandusministeerium, 2020). More specific indicators and targets for the next four years are set for each programme separately.

The performance report of the Ministry of Social Affairs provides an overview of the most important activities by programme, as well as information on performance against the targets (Sotsiaalministeerium, 2021b). The annual work plan of the Ministry of Social Affairs provides an overview of the most important and costly activities and tasks, together with the organisations responsible and the deadlines (Sotsiaalministeerium, 2021c).

1.5 Level of granularity of public social spending

The classification of the state budget expenditure on social protection is based on COFOG. As already mentioned above (section 1.4), the explanatory memorandum of the State Budget Act presents the goals, expenditure, indicators and targets for eight programmes in the area of government handled by the Ministry of Social Affairs (Labour market programme; Social security programme; Welfare programme; Gender equality programme; Children and families' programme; Person-centred health programme; Health-promoting environment programme; Healthy choice programme). Thus, first of all, the information on public social spending is disaggregated by these eight programmes, but also by measures (in the event that more than one measure is being implemented to achieve the overall programme goal). Secondly, this document also presents public spending on social benefits by institution (e.g. ministries, government, etc.). The cost of subsidies in the area of government handled by the Ministry of Social Affairs is presented for the following sectors: pensions; benefits for accidents at work; disability benefits; maintenance support; pensioners' living-alone allowance; family benefits; unemployment allowance; work ability allowance; parental benefits; etc.

The information on public social spending is presented in nominal terms for each year, as well as year-on-year growth rates (changes) in nominal terms. The total budget of the Ministry of Social Affairs is also expressed as a percentage of GDP (Rahandusministeerium, 2020).

1.6 Breakdown of public social spending

Indirectly, the explanatory memorandum of the State Budget Act refers to different population groups when differentiating public social spending categories. However, the focus for the breakdown of public social spending is the function of the benefit, rather than specific population groups. Thus, for instance, the expenditure of the Ministry of Social Affairs includes the costs of old-age pensions (targeted at older age groups), benefits for pensioners living alone (targeted at older age groups), social benefits for people with disabilities, family benefits and parental benefits (targeted at families with children), unemployment benefits (targeted at the unemployed), incapacity benefits, etc. (Rahandusministeerium, 2020). Spending by the Government includes, for example, subsistence allowance (targeted at those on lower incomes). The numbers of beneficiaries are not provided in the explanatory memorandum.

In addition, there are target indicators set for specific population groups. However, social spending is not broken down by those. Such indicators include, for example, the unemployment rate of young people (15-24 years); the employment rate of older people (55-64 years); relative and absolute poverty among men and women; the gender pay gap; absolute poverty rates, by age group; the ratio of non-employed pensioners to employed population, etc. (Rahandusministeerium, 2020). In addition, the explanatory memorandum of the State Budget Act refers to the Government's action plan and sets out indicators in this regard (e.g. absolute poverty rate among children; relative poverty) (Rahandusministeerium, 2020).

1.7 Timing and public accessibility of data

Each year, central government submits a financial plan that covers the current year, the preceding year and the next four budgetary years (State Budget Act §12). The Government must submit a draft state budget to Parliament not later than three months before the beginning of the budgetary year. If the Government proposes one, Parliament may adopt a supplementary budget during the budgetary year, but no later than three months before the end of the budgetary year (State Budget Act §44). The development plans of government departments form the basis for state budget revenue and expenditure calculations; the programmes contained in these plans are approved for the coming four years.

In general, the programmes in the area of government handled by the Ministry of Social Affairs are monitored at least once every six months (in February and August). The performance report of the Ministry of Social Affairs is prepared annually.

As the state budget and the development plans include financial planning for the coming years, the information they offer is more timely than the COFOG and ESSPROS requirements. In addition, the Ministry of Finance's actual expenditure overviews are published earlier than the figures published by Eurostat.

Information provided under the national monitoring framework is publicly accessible as published reports (see, for instance, Rahandusministeerium, 2020 for the explanatory memorandum of the State Budget Act; Sotsiaalministeerium, 2021b for the performance report of the Ministry of Social Affairs; Sotsiaalministeerium, 2021c for the annual work plan of the Ministry of Social Affairs).

1.8 Subnational frameworks

Local authorities decide on their own budget, and the procedure for its adoption is set out in the Local Government Financial Management Act (KOFS, 2021). Furthermore, the national-level regulation requires that local authorities draft and adopt their budgets in accordance with the same general principles as the national state budget, including the same classification/nomenclature of the functions used by the Government. The explanatory memorandum of the State Budget Act contains only aggregate indicators of local government revenue and expenditure that are related to the state budget (Rahandusministeerium, 2020). The main revenue of local authorities is income tax, which accounts for more than half of total revenue. In addition, the state budget grants support to local authorities from the equalisation fund, and it supports specific activities or investment on a case-by-case basis (State Budget Act, 2021, §46).

Several functions of social protection and provision of social services are the responsibility of local government (e.g. social services and minimum income support). That said, the policy rules of these (e.g. the subsistence benefit) are often drawn up by central government, and consequently evaluation of their implementation, impact and efficiency is also undertaken by central government (i.e. the Ministry of Social Affairs). Also, as the provision of social services is delegated to local authorities, central government has drawn up the general quality guidelines for social services that local authorities have to abide by (Sotsiaalkindlustusamet, 2021).

2 Reporting/review tools for public social spending

2.1 The Government

At the highest level, the effectiveness of public spending – including spending on social protection – is evaluated ex ante during the drafting and adoption of both the state's four-year budget strategy and the state budget for the financial year (see also above). Budget strategy and approval of the state budget is also accompanied by a spending review (State Budget Act, §34). According to legislation, to ensure the productive and efficient use of public funds and to enhance the flexibility of the functioning of the state, the Government may prepare a spending review in the course of planning the state budget funds. The spending review shall make specific proposals for more effective, efficient and economical use of the state budget funds. Also, the Ministry of Finance is obliged to monitor implementation of the state budget and to provide an overview thereof to the Government of the Republic at least twice a year. The objective of the financial control system is to ensure the efficient, effective, legitimate and transparent use of state budget funds.

2.2 National Audit Office

The Ministry of Finance shall submit the consolidated annual report of the state to the National Audit Office not later than 30 June of the year following the accounting year (State Budget Act, §79). The National Audit Office is the auditor of the state and verifies whether public funds have been used successfully – economically, efficiently, effectively and lawfully. Each year, the Office evaluates the accuracy of the annual accounts and the conformity of the state’s transactions.

The results of the last audit concluded that the 2020 annual accounts of the state generally present a true picture of the state’s financial position, financial performance and cash flows during the relevant accounting period across accounts and resources (Riigikontroll, 2021). More crucially, it concluded that, for the fourth year in a row, the Social Insurance Board had not carried out an inventory of claims and liabilities related to social benefits and allowances correctly and on time. As a consequence, the Ministry of Social Affairs introduced an amendment to the internal rules and operating model, in order to ensure the timely submission of the inventory in future.

In previous audits, the Office had drawn attention to the fact that the use of the reserves of the Health Insurance Fund and the Unemployment Insurance Fund to solve the liquidity problems¹ facing public funds generally is not in accordance with the Estonian Health Insurance Fund Act or the Unemployment Insurance Act (Riigikontroll, 2020b). Therefore, the Office recommended that the Minister of Finance introduce amendments to the Estonian Health Insurance Fund Act and the Unemployment Insurance Act to legalise the use of funds in managing the state’s liquidity.

Currently, the Government is implementing performance-based budgeting (official name: activity-based budgeting) in Estonia. As discussed above, the reform aims to achieve a more effective and efficient implementation of public functions, a higher quality of public services, a reduction in general government expenditure and staff costs, and greater flexibility of the government sector, with less-bureaucratic management. In May 2019, the Government approved Estonia’s first activity-based State Budget Strategy 2020-2023 and state budget of 2020, but the transition is still work in progress. The Audit Office has pointed out that, in its current form, the structure of the annual budget is uninformative, which presents the risk that the various bodies – most importantly Parliament – might not participate fully in policy making. As a result, the Ministry of Finance, in cooperation with other ministries, has to introduce substantive and analytical monitoring of state budget expenditure continuously, throughout the financial year, and has to improve the structure of budgeting in terms of transparency and auditing.

2.3 Ministry of Social Affairs

General effectiveness monitoring of social protection and welfare policies is carried out by the Ministry of Social Affairs. That includes responsibility for drawing up and implementing relevant strategic policy plans. The Welfare Development Plan focuses on the strategic objectives of the labour market, social protection, gender equality and equal treatment policies for 2016-2023. It provides a thorough overview of the main objectives, courses of action and problems regarding those policies. The Ministry of Social Affairs coordinates implementation of the plan, overall monitoring of implementation of the plan, organisation of the reporting and revision of the plan.

The development plan includes performance indicators for impact and efficiency assessment (e.g. indicators of social inequality, poverty, employment) and requirements for implementation, including estimating the necessary financial resources and planning the budget and the proposed measures for the duration of the state budget strategy. The

¹ According to Statistics Estonia the budgetary position of the general government was in a surplus of 0.1 per cent of GDP (i.e. EUR 21 million) in 2019. Central government and local government were in deficit (both 0.1 per cent of GDP), which was covered by a surplus from social security funds (0.3 per cent of GDP).

development plan does not directly evaluate – either ex ante or ex post – the performance of social protection measures or the effectiveness and efficiency of the relevant public spending. However, the Ministry of Social Affairs has started the process of developing a new Welfare Development Plan for 2023-2030 (Sotsiaalministeerium, 2021a), that also includes ex-post evaluation of the previous strategy. The new plan is the first strategic plan in the field of social policy/social protection since the introduction of the European Pillar of Social Rights (EPSR) and the relevant Action Plan. In this regard, the development plan is also expected to reflect the indicators and the Social Scoreboard developed to monitor the pillar. In addition, the strategic action plan Estonia 2035, adopted by Parliament in 2021, also reflects a number of the EPSR principles. For instance, it emphasises that the key factor in the provision of people-centred welfare services is integration of the health and social services. The strategic action plan is also crucial for the Ministry of Social Affairs, insofar as it contributes to budgeting and reviewing the efficiency of public spending on social protection.

Ex-ante or ex-post reviews of the different pillars of social protection and social protection policy programmes are mostly carried out ad hoc, during the review or redrafting of social policy measures. Administratively, an impact assessment must by law be carried out during the planning and drafting of any legislation. Ad-hoc analysis often uses standard tools. Most relevantly, the tax-benefit microsimulation model EUROMOD is used to estimate the effects of taxes and benefits on household incomes and work incentives, and to simulate the cost of policy changes.

2.4 Insurance boards

In the Estonian social protection system, the three insurance boards – the Social Insurance Board, Health Insurance Board and Unemployment Insurance Board – are responsible for providing the bulk of social services and benefits. Each of these organisations has an impact and efficiency evaluation framework.

The Social Insurance Board has a four-year strategy and an annual action plan. These are evaluated three times a year. The Social Insurance Board also has evaluation methodology based on Net Promoter Score. This method evaluates services and service delivery from the client's perspective. The Social Insurance Board also evaluates the organisation's performance in public service delivery. Overall, the indicators include both customer experience metric/feedback (e.g. customer service recommendation index, proportion of timely payments), resource usage and utilisation (e.g. percentage of online customer inquiries) and impact (e.g. severe material deprivation rate). These indicators also form the pillar of effectiveness and efficiency evaluation.

Similarly, the Estonian Health Insurance Fund adopts its strategic plans and evaluates their implementation with respect to performance indicators and financial indicators. In addition, it has been developing a healthcare service development plan and regular evaluation. The framework outlines a set of rules for an organisation that aims to enhance customer satisfaction through the effective application of risk and process management. The practices and standards frame the performance evaluation and commit the organisation to its principles.

Employment protection policy is executed and implemented by the Unemployment Insurance Board. This includes administration of the unemployment allowance. The board adopts development plans: the most recent is the Estonian Unemployment Insurance Fund Development Plan for 2020-2023. The execution of the development plan is also approved and monitored by the Supervisory Board of the Estonian Unemployment Insurance Fund, which includes the representatives of social partners. The performance indicators contained within the development plan describe outcomes and outputs related to the labour market, rather than directly to poverty or income deprivation; however, the presumption is that quality employment helps prevent poverty (e.g. the indicators also describe moving to a better-paid job).

2.5 Local authorities

Systematic information on the evaluation practices of local authorities is lacking. However, the Ministry of Finance, which is responsible for regional cohesion and development, evaluates the performance and efficiency of local governments. For instance, they provide a systematised overview of the state of local authorities' social services, with the aim of improving local authority services across Estonia. A public dashboard *Minu omavalitsus* (My Local Government)² covers 16 areas that are the responsibility of local authorities: pre-school education, youth work, basic education, housing and heating, mobility, waste management, water management, children's welfare, social services for adults, public health and safety, crisis management, libraries, sport, culture, museums and governance. Assessment of the level of service covers the fulfilment of sector-specific criteria, which are assessed at up to three levels. The performance of local authorities is also evaluated, based on their income and wealth. Financial data on the activities of local government sectors is also published on a public dashboard *Riigi raha* (Public Money)³ by the Ministry of Finance. The performance and efficiency of local authorities is also evaluated by the National Audit Office. For instance, it has suggested that the provision of primary public services outside Harju and Tartu counties needs restructuring (Riigikontroll, 2020a). Lack of financial resources and, even more importantly, the growing labour shortage in the regions (a result of workforce ageing and migration) constrain access to public services and have an impact on their quality.

² Available at: <https://minuomavalitsus.fin.ee/en/local-government-units>

³ Available at: <https://riigiraha.fin.ee/QvAJAXZfc/opendoc.htm?document=riigiraha.qvw&lang=en-US&host=local&anonymous=true/>

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