

➔ **ESTONIA:**
THE INNOVATIVE USE OF FOUNDATIONS TO IMPLEMENT NATIONAL POLICIES

In a Nutshell

Since 1996, Estonia has been using foundations as a legal and institutional mechanism to support national policies and programmes in areas as diverse as the environment, infrastructure development, facilitation of exports, entrepreneurship and foreign investment, educational reform, social integration, information technology, and preservation of art and culture.

While the jury is still out on the impact of foundations on national development, the case does offer food for thought, both in terms of the merits of providing targeted capacity development support to them, and, more importantly, in considering how they can strengthen a government and beneficiary groups.

The Story

In 1996, Estonia's Ministry of Culture and Education undertook a European Union funded programme for the reform of vocational education and training. The Union provided \$4 million to work according to its system for decentralized implementation of programmes. This involved setting up an institution outside of the ministry. It was agreed to establish a mechanism that resembled a programme implementation unit, but ultimately was something more and different: a separate legal body.

The programme was able to do this through new legislation that regulated Estonia's non-governmental and non-profit sector. The Foundations Act, one of several laws regulating the non-profit sector, had come into force in 1996. It states that a foundation is a legal entity under private law. It has no members and administers assets to achieve the objectives specified in its articles of association. A foundation is not necessarily a mere endowment or a grant-bestowing institution, although the act allows it to serve these functions.

While the Foundations Act was not passed explicitly for the purpose of implementing national development programmes, foundations were soon adopted as a tool for funding and carrying out certain key state programmes, whether financed primarily from government funds, or, as was more likely, from a multitude of sources, including donors, the private sector and municipal governments. Foundations' legal and financial liability framework, the possibility of enhanced partnerships and stakeholder involvement, and the flexibility to determine foundation activities made them an increasingly popular choice.

From 1996 to 2002, about 500 foundations were registered, of which 74 were founded by the government or municipalities to implement development-related programmes. Of these, 30 have the government as a primary or only founder; 17

have the government as an indirect founder (i.e. through county governments, which are administratively beholden to the national level), and 27 have a municipality as a founder.

The membership of supervisory boards for development-related foundations is broad-based and ensures strong stakeholder participation and consensus. Typically, the boards include representatives of various government and sometimes municipal bodies, non-governmental organizations, the private sector, research institutes and universities, and beneficiaries. The right to membership brings with it legal and financial liabilities and responsibilities, which are shouldered by both the supervisory boards and the managing directors. Sectoral government ministers remain accountable to the Cabinet and the public for results.

The foundation approach is semi-governmental in nature. While legally the foundations are non-governmental bodies, the government by default has a more prominent role as either a primary founder or a co-funder in most cases. Depending on the particulars of a foundation's articles of association, a primary founder may possess certain entitlements that other partners do not have, such as the right to appoint members to the supervisory boards, even if boards have remained well harmonized and representative of stakeholders. Thus a balance can ultimately be achieved between alignment with national priorities and broad participation.

Results and Critical Factors

As an alternative model for national programme implementation, the Estonian experience could, with certain reservations, be considered positive. The approach has contributed greatly to national capacities and public administration in selected sectors: the Tiger Leap Foundation, for example, is sensitizing the Estonian education system on ICT, while the Integration Foundation addresses the social integration of ethnic minorities. Specific benefits have included:

- Close alignment with national priorities resulting from the relationship between the programme and the policy framework, and the fact that ultimate accountability rests with national authorities
- A government focus on policy and oversight as opposed to implementation, which has improved programme continuity and accommodated adjustments across changes in leadership
- Active stakeholder participation and broad consensus on policy and programme directions
- The pooling of resources and the ability to achieve cross-programme synergies in cases where a particular donor is unwilling or unable to take this approach

The use of foundations in Estonia is not without its challenges. The process of improving links between programmes and policies can slip into a heavy focus on outcome results, while the nature of cooperation between ministry, agency and

foundation staff needs to be better delineated, especially where several sectors and/or beneficiary groups are involved. In spite of shared participation on supervisory boards, some perceptions exist that beneficiary influence should be enhanced and the government role reduced; otherwise, there is a risk that supervisory boards will cede to political whims. There is also a need to better integrate the financial management systems of foundations with those of national agencies. Concerns persist as well that there are too many foundations, raising fears of inefficiency and lack of coordination.

Further information

Jerzy Celichowski. 2001. *Estonian e-Democracy Report* (www.osi.hu/infoprogram/e-government%20in%20estonia%20proof%20read.htm).

The Foundations Act (www.legaltext.ee/text/en/X1014K3.htm).

The Integration Foundation (www.meis.ee).

Integration of Non-Estonians into Estonian Society: Setting the Course. UNDP integration-themed discussion paper (www.undp.ee/integrat/).

The Tiger Leap Foundation (www.tiigrihype.ee).

The authors gratefully acknowledge the contributions of Robert Juhkam, UNDP.